ANNUAL REPORT AND FINANCIAL STATEMENTS 2009

United Utilities

UNITED UTILITIES GROUP PLC ANNUAL REPORT AND FINANCIAL STATEMENTS 2009

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Annual Report and Financial Statements 2009

Vision: to be a world class operator of utility infrastructure.

Strategy: to focus on the group's core skills of operating water, wastewater, gas and electricity networks.

The regulated business provides water and wastewater services to a population of around seven million people in North West England. The non-regulated business takes that expertise and experience and applies it in competitive utility infrastructure markets in the UK and overseas.

IMPORTANT INFORMATION

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 right provide an overall picture of our business. Additional non-financial KPIs are provided in our online corporate responsibility report at **unitedutilities.com/crreport2009**

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

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

FINANCIAL HIGHLIGHTS

Revenue

£2,434.7m

2008: £2,362.9m

Operating profit

£735.2m

2008: £663.2m

Returned to shareholders

£1.5bn

Business review

Governance

Financial statements

PERFORMANCE AGAINST KPIs

	2008/09	2007/08	Change	Page reference
Financial				
Revenue from continuing operations	£2,434.7m	£2,362.9m	+3%	55
Operating profit from continuing operations	£735.2m	£663.2m	+11%	55
Underlying(1) operating profit from continuing operations	£741.8m	£677.2m	+10%	10
Profit before taxation from continuing operations	£529.8m	£478.3m	+11%	55
Underlying(1) profit before taxation from continuing operations	£531.8m	£475.6m	+12%	10
Total dividend per ordinary share	32.67p	46.67p		62
Basic earnings per share from continuing operations	26.5p	61.2p		62
Basic earnings per share from continuing and discontinued operations	26.3p	133.6p		62
Environment				
Pollution incidents	11	9		11
Water quality – mean zonal compliance	99.92%	99.94%		11
Renewable energy generated	100GWh	93GWh		14
Employees				
Employee engagement – employee opinion survey	76%	63%		15
Health and safety – incident rate per 100,000 employees	778	1,101		15
Customers				
Water – relative efficiency banding(2)	Band B (2007/08)	Band B (2006/07)		
Wastewater – relative efficiency banding(2)	Band C (2007/08)	Band C (2006/07)		
Leakage – rolling annual average leakage	462 Ml/d	462 Ml/d		
Overall customer satisfaction – water (in response to enquiries)	76%	73%		

Notes:

(1) See page 10 for explanation.
(2) 2008/09 assessment due to be published by Ofwat later in the year.

Business description

United Utilities Group PLC is the UK's largest listed water business. The group owns and manages the regulated water and wastewater network in the North West of England and also applies its core skills to operate water, wastewater, electricity and gas networks in competitive markets, principally in the UK.

United Utilities reports through three business segments:

- regulated activities;
- non-regulated activities; and
- other activities (includes the group's central costs and property business).

REGULATED ACTIVITIES

Key facts

- 95 water treatment works
- 184 reservoirs
- Over 1,400 kilometres of aqueducts
- Over 40,000 kilometres of water pipes
- Over 57,000 hectares of catchment land
- 582 wastewater treatment works
- Over 43,000 kilometres of sewers
- Serving a population of seven million people

UUW holds licenses 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 sourced from catchment land and is collected 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.

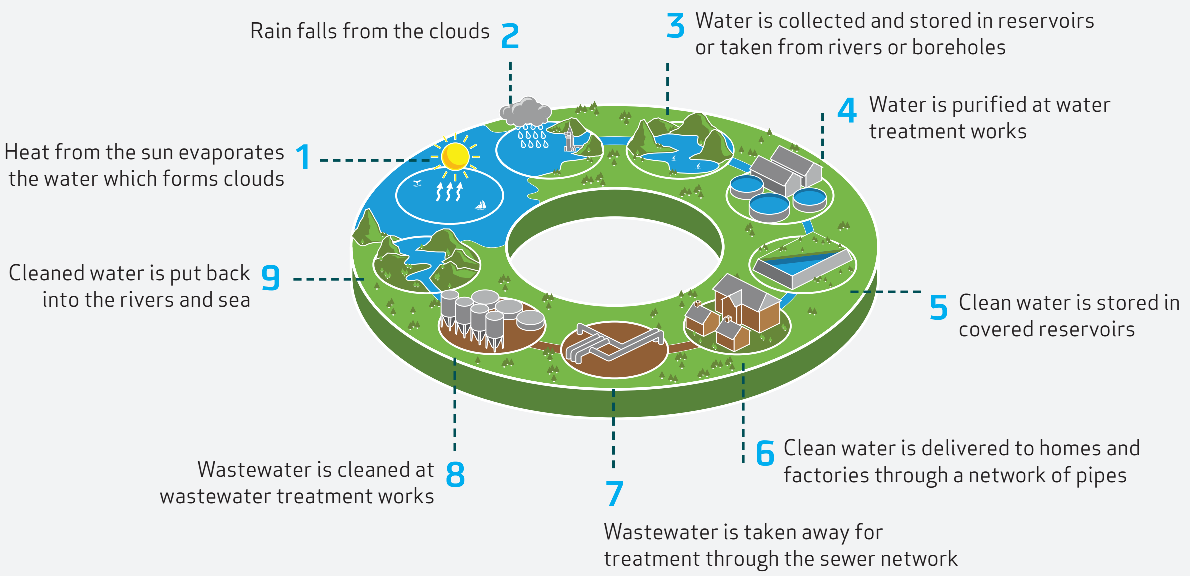
Wastewater is collected using a network of sewers and treated before being returned safely to the environment. A by-product of the treatment of wastewater is sewage sludge, which is treated further to produce an end product suitable for recycling.

UUW is regulated in terms of both price and performance by an independent body, Ofwat, which sets price limits every five years for the water sector in England and Wales. Current price limits were fixed in 2004. Ofwat is due to publish its final determination of price limits for the period 1 April 2010 to 31 March 2015 in November 2009. Once Ofwat has published its final determination, water companies have two months to decide whether to accept the determination or instead to have price limits referred to and set by the Competition Commission.

Consistent with the group's approach to longer-term asset planning, the needs of the North West region to 2035 were considered in UUW's strategic direction statement, 'where we are heading', which sets out its plans for the next price review period (2010-15) in a longer-term context. The six 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.

HOW THE REGULATED BUSINESS OPERATES



In the 2005-2010 period, UUW is investing 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, the Drinking Water Directive and the Environmental Liability Directive).

Since privatisation in 1990:

- Water quality in the North West region 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.

NON-REGULATED ACTIVITIES

Major contracts – description

- British Gas Trading – meter installation services
- Dŵr Cymru Welsh Water – water and wastewater services
- Electricity North West – operational and maintenance services
- Northern Gas Networks – operational and maintenance services and supporting its capital investment programme
- Scottish Water – supporting its capital investment programme
- Southern Water – supporting its capital investment programme

As well as owning and managing the water and wastewater network in the North West of England, United Utilities also applies those core skills through outsourced utility contracts, now serving more than 20 million people, principally in the UK.

The group has major contracts with Dŵr Cymru Welsh Water, Electricity North West, Northern Gas Networks, Scottish Water and Southern Water. In addition, United Utilities has a meter installation contract with British Gas Trading, as well as three Scottish private finance initiative operations, relating to water and wastewater infrastructure.

Existing overseas water and wastewater operations are managed through a number of subsidiaries and joint ventures in parts of Australia, Bulgaria, Estonia, the Philippines and Poland.

United Utilities continues to seek asset-light opportunities by leveraging its core skills in areas that generate additional shareholder value with little impact on the risk profile of the group.

UNITED UTILITIES' UK COVERAGE

Regulated activities

Non-regulated activities

NB: Work on behalf of Electricity North West and Northern Gas Networks covers parts of the North West.

CHAIRMAN'S STATEMENT

Performance on track

We are well positioned to meet the challenges ahead.

On behalf of the board, I am pleased to report a strong set of results, in this my first year as chairman. These have been delivered in a difficult economic climate.

I was delighted to have been given the opportunity to join the board and I am looking forward to being involved in helping deliver the group's strategy, which is to focus on its core capabilities of managing utility infrastructure. The progress United Utilities is making in the areas of operational performance and customer service is encouraging, but there is more to do. The group's ambition is to achieve world class performance. Amongst other matters, this will mean that our safety record will be exemplary, our reputation as a good corporate citizen will be enhanced and we will continue to develop goodwill with our customers and other key stakeholders.

This year is, of course, a very important year for the water industry, with Ofwat making its price review decisions for the 2010-15 period. We are pleased with the quality of our final business plan, which we submitted to the regulator in April 2009 and which we believe balances the needs of all our stakeholders.

The board is proposing a final dividend for the year of 22.03 pence per ordinary share – in line with our policy following the sale of United Utilities Electricity and the £1.5 billion return to shareholders, as we outlined in last year's report.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Focus on core skills

We have delivered a strong set of results, despite the difficult economic climate.

This has been another year of good progress for United Utilities. We continue to benefit from a robust financing position and have headroom to cover our projected financing needs through to mid-2011.

We continue to concentrate on the four key areas that I highlighted last year: improving operational performance; successfully delivering our 2005-10 regulatory contract; the 2009 water price review; and delivering our non-regulated strategy. We believe that our strategy and objectives are aligned with our overall goal of delivering shareholder value and benefits for all stakeholders.

IMPROVING OPERATIONAL PERFORMANCE

We continue to work hard on improving operational performance and have made good progress during the year. Although we are measured on many things, we have highlighted five key performance indicators against which our operational performance can be assessed. These are: relative efficiency; security of water supply (leakage); serious pollution incidents; sewer flooding; and overall customer satisfaction in response to enquiries.

We are pleased to report that overall customer satisfaction is at its highest level for many years and that we met our leakage target for the third consecutive year, despite this year's harsher winter which made the target more challenging. 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 strongly focused on making further improvements.

SUCCESSFULLY DELIVERING OUR 2005-10 REGULATORY CONTRACT

We have now completed four years out of our current five-year regulated water and wastewater contract in the North West of England. We are investing over £3 billion in our infrastructure between 2005 and 2010, which allows us to maintain and improve the service we provide to our customers and to meet tough environmental standards. We have a clear plan for the final year of this price review period and are confident of meeting our regulatory targets.

THE 2009 WATER PRICE REVIEW

2009 is an important year for the group as the economic regulator, Ofwat, will set price limits for the regulated business for the five years from 1 April 2010 to 31 March 2015. We submitted our draft business plan to Ofwat in August 2008 and our final plan in April 2009, which was welcomed by the Consumer Council for Water. The plan is the first step in our long-term vision for our business as it adapts to the changing climate and demographics in the North West.

The proposed capital investment programme in our plan aims to safeguard existing standards of service, address new, higher quality standards and make provision for the challenge of climate change. We do recognise that we need to maintain the affordability of customer bills, especially in what is a tough economic environment, and this was a key feature of the business plan we submitted to Ofwat. Whilst we expect to continue to fund significant levels of capital investment beyond 2010, we believe that our service, which on average costs domestic households around £1 per day for high quality drinking water and environmentally responsible wastewater collection and treatment, represents excellent value for money. We are also increasing the funding of our Charitable Trust by 67 per cent to £5 million per year to help more customers who are struggling to pay their water bills.

With the proposals in our business plan, independent research indicates that we will support some 15,000 jobs in the North West region and approximately 20,000 jobs across the UK.

Together with the interim dividend of 10.64 pence per ordinary share, the total ordinary dividend relating to the year is 32.67 pence. The final dividend is expected to be paid to shareholders on 3 August 2009.

With a consistent strategy in place, I believe we are well positioned to meet the challenges ahead. I would like to thank our shareholders, employees and customers who have given us strong support and I hope they will continue to share in United Utilities' success.

Dr John McAdam, Chairman

Total dividend per ordinary share

32.67p

Ofwat is expected to set out its initial thoughts on price limits in July 2009 and its final determination is scheduled for November 2009.

DELIVERING OUR NON-REGULATED STRATEGY

We have continued to look for opportunities to apply our core skills on an asset-light basis. These opportunities can generate additional shareholder value with little impact on the group's risk profile.

Early in the year we extended the contract with Southern Water to 2015, which consolidates our position as the leading utility infrastructure outsourcing company in the UK. We are also pleased to have been selected as the preferred bidder for a 27-year municipal solid waste treatment contract in Derbyshire. In Australia, we have been awarded a 20-year desalination operations and maintenance contract in Adelaide.

Further details on how we are performing on our key priorities are provided in the business review section on page 6.

OUR EMPLOYEES

I believe that a committed and motivated workforce is central to delivering our objectives. Clear goals, appropriate reward structures and good leadership are all important ways to increase employee motivation and companies with high employee engagement tend to be high performing companies. We survey our employees each year to ascertain the level of employee engagement and to understand the areas where we can improve. For example, after last year's survey, we took action to increase the accessibility and visibility of senior management within the business. We are benefiting from improvements in employee engagement but, like our operational performance, we still think that more can be achieved.

OUR ENVIRONMENT

Another key theme that is embedded throughout the business is the goal to operate in a more sustainable manner. As you would expect, we take a long-term view of our operations and we are committed to seeking to achieve a 26 per cent reduction in our carbon emissions by 2012. We have also factored into our business plan ways in which we can adapt to climate change with a strong focus on ensuring the continuity of water supplies for our customers.

OUTLOOK

We expect to deliver a sound underlying financial performance in the final year of this price review period, although the group is experiencing ongoing revenue and cost pressures. United Utilities continues to benefit from a robust financing position and has headroom to cover its projected financing needs through to mid-2011. In line with the group's policy, the board expects to grow dividends for 2009/10 by five per cent.

We will continue to implement our strategy of focusing on our core skills, with the aim of delivering benefits for all of our stakeholders. I am encouraged by the progress we have made and confident that we can build on this in the year ahead.

Philip Green, Chief executive officer

Delivering strong group results

PERFORMANCE SUMMARY

£m (continuing operations)	Year ended 31 March 2009	Year ended 31 March 2008	Change
Operating profit	**735.2**	663.2	+11%
Underlying operating profit(1)	**741.8**	677.2	+10%
Profit before taxation	**529.8**	478.3	+11%
Underlying profit before taxation(1)	**531.8**	475.6	+12%

Pence (continuing operations)	Year ended 31 March 2009	Year ended 31 March 2008
Basic earnings per share(2)	**26.5**	61.2
Total dividend per ordinary share(3)	**32.67**	46.67

- **Strong results in a challenging environment: underlying operating profit(1) up 10 per cent to £742 million**
- **Financing position remains robust: headroom through to mid-2011**
- **£740 million invested in regulated water and wastewater infrastructure during the year**
- **Regulatory leakage target achieved for third consecutive year**
- **Customer satisfaction continues to improve**
- **Final business plan for 2010-15 submitted to Ofwat in April 2009**
- **Final dividend of 22.03 pence per share in line with policy**

Notes:

(1) Underlying operating profit and underlying profit before taxation are defined in the underlying profit measure table on page 10.

(2) Basic EPS for the year ended 31 March 2009 was negatively impacted by a one-off deferred tax charge of £206.4 million (equivalent to 30.3 pence per share) and basic EPS for the comparative period (re-presented) was positively impacted by a one-off deferred tax credit of £81.7 million (equivalent to 12.0 pence per share), as explained in the earnings per share section on page 62.

(3) 2008/09 dividends per share reduced by 30 per cent, as initially outlined in United Utilities' half yearly financial report published on 29 November 2007, in light of the revised composition of the group following the sale of United Utilities Electricity and the £1.5 billion return to shareholders.

FINANCIAL REVIEW

United Utilities has delivered a strong set of financial results for the year ended 31 March 2009. Revenue from continuing operations rose three per cent to £2,435 million. Underlying profit before tax[1] increased by 12 per cent to £532 million and underlying operating profit[1] was up by 10 per cent to £742 million.

Regulated activities have delivered strong growth this year with operating profit up 11 per cent. This result primarily reflects the price increase allowed by the regulator and tight cost control. This price increase helps fund the high levels of essential investment in our assets, which allows the business to meet strict environmental standards and deliver an improved service for customers.

Capital expenditure in the regulated water and wastewater business amounted to £740 million during the year, including infrastructure renewals expenditure. This high level of spend is consistent with the planned investment profile and reflects the peak phase of the current 2005-10 capital expenditure programme. Overall, the group remains in line with regulatory assumptions on both expenditure and outputs.

United Utilities' business improvement initiatives are delivering benefits and the group remains broadly on track to meet regulatory efficiency targets across this price review period, although cost pressures in areas such as power and bad debts are expected to continue through 2009/10. In particular, the early progress of the workforce management project, which has been successfully implemented on time and below budget, is encouraging. This integrated system is a key initiative in increasing productivity by using real time data across the workforce to enable more effective work scheduling. The system should improve both efficiency and customer service. Cost savings in the order of £7 million per annum are expected by 2010.

Non-regulated activities have delivered good underlying operating profit growth of nine per cent. This principally reflects the planned increase in activity on the Scottish Water contract, an increase in contribution from the group's international operations and a benefit realised from foreign exchange rate movements. Overall, the performance across our non-regulated contract portfolio is pleasing. The group's order book remains strong at over £6 billion in revenue and United Utilities continues to be the leading utility infrastructure outsourcing business in the UK.

The group has returned £1.5 billion to shareholders as planned and continues to benefit from a robust financing position, with headroom to cover its projected financing needs through to mid-2011. During the year the group enhanced its liquidity, raising over £1 billion of debt finance, via a £400 million 12-year term loan facility with the European Investment Bank, a £375 million 6.125 per cent, seven-year bond and a £275 million 5.75 per cent, 13-year bond. In addition, this was supplemented through the arrangement of additional bank facilities and renewal of core relationship banking facilities which matured during the period. This provides good flexibility in terms of when and how to raise further debt finance.

INVESTMENT INCOME AND FINANCE EXPENSE

Finance expense of £271 million was £61 million lower than the prior year. This expense included a £24 million net fair value loss on debt and derivative instruments, compared with a £43 million net fair value loss in the previous year. This 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 the majority of its debt using interest rate swaps. IAS 39 limits the use of hedge accounting for these commercial hedges, thereby increasing the potential volatility of the income statement. In addition, the impact of changes in credit spread on debt accounted for at fair value through profit or loss can result in significant additional volatility. However, this volatility in fair values has no cashflow impact. Interest expense on swaps and debt under the fair value option was £8 million, £33 million lower than the comparative period, primarily due to the derivative contracts associated with a €1 billion 6.625 per cent bond, which matured in November 2007.

Investment income was £66 million, compared with £147 million in the previous year, principally reflecting a reduction in cash following the return of approximately £1.5 billion to shareholders and repayment of debt, including the repayment of a $500 million bond on 1 April 2008. The underlying cost of net borrowings for continuing operations of £196 million was £11 million lower than the prior year. This reflects a reduction in the group's average net borrowing rate from around 5.8 per cent to 4.7 per cent partly offset by a higher average net debt, primarily due to the return of approximately £1.5 billion to shareholders in August 2008. The group's redemption of a €1 billion 6.625 per cent bond in November 2007 contributed to the reduction in the underlying cost of net borrowings. RPI inflation during the previous year and the first half of 2008/09 initially increased the cost of the group's index-linked debt. However, the benefit of lower RPI began to impact the group's interest expense during the second half of the year, with further benefits on interest expense expected in 2009/10. In the event of RPI deflation, the principal amount of the index-linked debt would be adjusted downwards, reducing interest expense in the income statement. During 2008/09 indexation of the principal of index-linked debt amounted to a charge of £28 million compared with a charge of £55 million in 2007/08.

PROFIT BEFORE TAXATION

Profit before taxation increased by 11 per cent to £530 million. Underlying profit before taxation[1] was £532 million, 12 per cent ahead of the results for the year ended 31 March 2008. This underlying measure adjusts for the impact of one-off items, fair value movements in respect of debt and derivative instruments, interest on swaps and debt under fair value option and the short-term interest benefit associated with the cash proceeds from the sale of United Utilities Electricity (UUE) prior to the £1.5 billion return to shareholders.

TAXATION

The current tax charge relating to continuing operations was £139 million and the current tax effective rate was 26 per cent compared with 19 per cent in the previous year. The increase in the current tax rate principally relates to fair value movement in derivatives, the cessation of deductions for the 2005 pension prepayment and a net reduction in capital allowances claimed, partly offset by the reduction in the corporation tax rate from 30 per cent to 28 per cent. These timing differences are matched by equal and opposite movements in deferred tax.

Group results
continued

The group has recognised a one-off deferred tax charge of £206 million relating to the abolition of industrial buildings allowances. This one-off item has resulted in a significant increase in the effective tax rate for the year ended 31 March 2009. However, the cash impact will be spread over a period of approximately 20 years.

The total deferred tax charge relating to continuing operations is £210 million compared with a deferred tax credit in the prior year of £27 million, which reflected the restatement of the opening deferred tax liability following the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from April 2008.

An overall tax charge of £349 million relating to continuing operations has been recognised for the year ended 31 March 2009. Excluding the impact of the abolition of industrial buildings allowances and the change in corporation tax rate in the prior year, the total tax charge relating to continuing operations would be £143 million or 27 per cent compared with a £144 million charge or 30 per cent in the prior year. It is expected that the group's effective tax rate for 2009/10 will be broadly in line with the mainstream UK corporation tax rate of 28 per cent.

EARNINGS PER SHARE

Basic earnings per share relating to continuing operations decreased from 61.2 pence to 26.5 pence, principally reflecting the one-off deferred tax charge of £206 million relating to the abolition of industrial buildings allowances (equivalent to 30.3 pence per share). Basic earnings per share in the previous year were positively impacted by a one-off deferred tax credit of £82 million (equivalent to 12.0 pence per share), reflecting the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from April 2008.

Basic earnings per share are calculated based upon 681 million ordinary shares (the prior year has been re-presented based upon 680 million ordinary shares), reflecting the group's capital reorganisation implemented on 28 July 2008.

DIVIDENDS PER SHARE

The board has proposed a final dividend of 22.03 pence per ordinary share in respect of the year ended 31 March 2009. Including the interim dividend of 10.64 pence per share, which has already been paid, the total dividend for 2008/09 is 32.67 pence per share. As explained previously, this is a 30 per cent reduction compared with the 2007/08 dividend per share, to reflect the revised composition of the group following the sale of UUE and the return of £1.5 billion to shareholders.

The group's revised dividend policy is intended to target a sustainable and growing level of dividends. The new target real growth rate of RPI+2 per cent will be applied from 2009/10 to the 2008/09 dividend per share. In line with this policy, the board expects to grow dividends for 2009/10 by five per cent. This incorporates an inflationary increase of three per cent, which is based on the RPI element included within the allowed regulated price increase for UUW for the 2009/10 financial year (i.e. the movement in RPI between November 2007 and November 2008).

The final dividend in respect of 2008/09 is expected to be paid on 3 August 2009 to shareholders on the register at the close of business on 19 June 2009. The ex-dividend date for the final dividend is 17 June 2009.

CASHFLOW

Cash generated from the group's continuing operations for the year ended 31 March 2009 was £911 million, compared with £877 million in the prior year. High levels of capital expenditure have continued, principally in the regulated water and wastewater investment programmes. The group's capital expenditure on property, plant and equipment for the year was £675 million, excluding infrastructure renewals expenditure which is treated as an operating cost under IFRS.

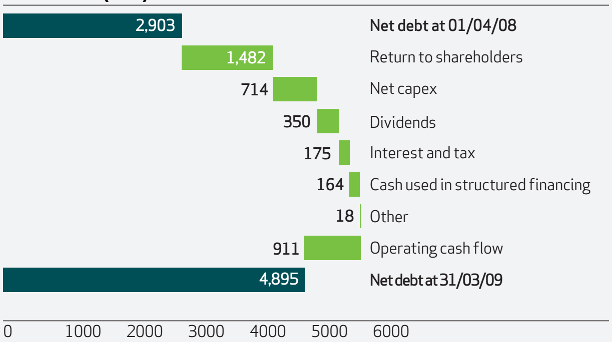
Net debt, including derivatives, at 31 March 2009 was £4,895 million, an increase of £1,992 million compared with 31 March 2008. This movement principally reflects the return to shareholders of approximately £1.5 billion, along with expenditure on the regulatory capital investment programme, payment of dividends and payments of interest and tax, partly offset by operational cashflows.

DEBT FINANCING AND INTEREST RATE MANAGEMENT

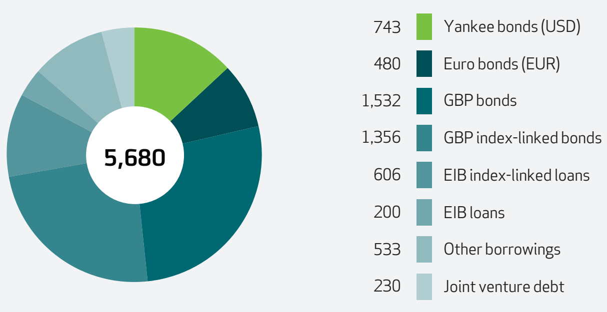
As expected, gearing (measured as group net borrowings divided by UUW's regulatory capital value) increased to 66 per cent at 31 March 2009, compared with 39 per cent at 31 March 2008, following the return of approximately £1.5 billion to shareholders in August 2008. Adjusting for the group's non-recourse joint venture debt of £230 million, gearing is 63 per cent. The board continues to target an A3 credit rating for United Utilities Water PLC. At the year end, United Utilities Water PLC had stable long-term credit ratings of A3/A- and United Utilities PLC had stable long-term credit ratings of Baa1/BBB+ from Moody's Investor Services and Standard and Poor's Ratings Services respectively.

During the year, United Utilities repaid a $500 million 6.45 per cent bond and a €600 million 4.875 per cent bond from existing

Cashflow (£m)



Gross debt (£m)



cash resources. Cash and short-term deposits on the balance sheet at 31 March 2009 amounted to £299 million. United Utilities has a long-standing relationship with the European Investment Bank and during the year enhanced its liquidity further via a new £400 million term loan facility for UUW to support the remainder of the company's current capital investment programme. In addition, UUW issued a £375 million 6.125 per cent, seven-year bond, a £275 million 5.75 per cent, 13-year bond and £35 million of floating rate Japanese Yen notes, maturing in 2017. In total, the group raised over £1 billion of term funding during the financial year.

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 on the successful issue of the debt securities.

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to earnings and assets. At the year-end, approximately 40 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 debt is raised in a currency other than sterling and/or with a fixed interest rate it is generally swapped to create a floating rate sterling liability for the term of the liability. The group's policy is to seek to match the debt service costs to regulatory cashflow which is impacted by the general interest rate environment at the time of each price control determination and is then fixed for the five-year period of that price control. To hedge the exposure to each price control determination, the group enters into interest rate swaps, around the time of each price control determination, to fix interest costs for a substantial proportion of the group's debt for the duration of that price control period. 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.

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, United Utilities aims to maintain a healthy headroom position. Available headroom at 31 March 2009 was £935 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 mid-2011.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. The group does not have any cash (or cash equivalents) invested in money market funds. Its cash is held in the form of short-term (generally no longer than three months) money market deposits with prime commercial banks.

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

Headroom = £935m	£m
Cash and short-term deposits	299
Medium-term committed undrawn bank facilities(1)	1,076
Short-term debt(2)	(262)
Term debt maturing within one year(3)	(178)
Total headroom	**935**

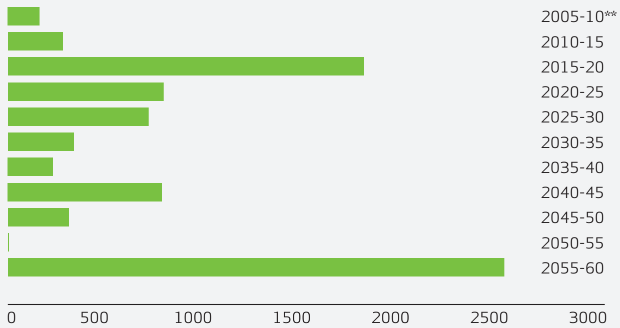
Notes:

(1) Excludes £335 million facilities maturing within one year.

(2) Includes £15 million of drawings on short-term committed facilities.

(3) Includes amounts relating to joint ventures of £17 million.

Term debt maturity per regulatory period* (£m)



* Assumed indexation uplift of 2.65% per annum
** Maturities falling from Mar 2009 – Mar 2010

Group results
continued

UNDERLYING PROFIT

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

Continuing operations

Operating profit/(loss) for the year ended 31 March 2009	Regulated activities £m	Non-regulated activities £m	Other activities £m	Total £m
Operating profit/(loss) per published results	**678.4**	**69.1**	**(12.3)**	**735.2**
One-off items[4]	1.0	(1.0)	6.6	6.6
Underlying operating profit/(loss)	**679.4**	**68.1**	**(5.7)**	**741.8**

Continuing operations

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

Continuing operations

Profit before taxation	**Year ended 31 March 2009 £m**	Year ended 31 March 2008 £m
Profit before taxation per published results	**529.8**	478.3
Operating profit adjustments (see above)	**6.6**	14.0
Net fair value losses on debt and derivative instruments	**24.3**	42.7
Interest on swaps and debt under fair value option	**(8.3)**	(41.7)
Interest associated with cash proceeds from UUE sale[5]	**(20.6)**	(17.7)
Underlying profit before taxation	**531.8**	475.6

Continuing operations

Underlying cost of net borrowings	**Year ended 31 March 2009 £m**	Year ended 31 March 2008 £m
Finance expense	**270.9**	331.6
Net fair value losses	**(24.3)**	(42.7)
Interest on swaps and debt under fair value option	**8.3**	41.7
Underlying interest payable	**254.9**	330.6
Investment income	**(65.5)**	(146.7)
Adjustment for net pension interest income	**6.8**	23.5
Underlying cost of net borrowings	**196.2**	207.4
Add back adjustment for net pension interest income	**(6.8)**	(23.5)
Interest associated with cash proceeds from UUE sale[5]	**20.6**	17.7
Underlying net interest payable	**210.0**	201.6

Notes:

(4) Principally relates to the capital restructuring associated with the £1.5 billion return to shareholders (contained within the other activities segment) and restructuring within the business.

(5) 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 return to shareholders of approximately £1.5 billion in August 2008, this resulted in a short-term net debt and interest reduction.

Regulated activities

FINANCIAL HIGHLIGHTS

Regulated revenue increased by

6% to £1,500 million

Regulated underlying operating profit increased by

11% to £679 million

Revenue from regulated activities increased by six per cent to £1,500 million, principally as a result of an allowed price increase of 7.8 per cent (including inflation), partially offset by lower water demand. As expected and indicated previously, this level of growth is consistent with the position at the half year. The regulated price increase supports significant investment in UUW's infrastructure which provides vital clean water and wastewater services to customers.

Operating profit for the year increased by 11 per cent on an underlying basis, primarily reflecting the allowed price increase and tight cost control, partly offset by higher depreciation and power costs. The higher depreciation charge reflects the high levels of capital spend, in line with the planned profile of the investment programme. In line with UUW's policy, the business has entered into forward contracts for the bulk of its power requirements for 2009/10. This means that unit power costs in the forthcoming financial year are expected to be in the order of 10 per cent higher than in 2008/09. Bad debt expense is similar to the prior year, although this represents a marginally lower proportion of regulated revenue at 3.4 per cent compared with 3.6 per cent in 2007/08. However, cash collection continues to be challenging.

Capital investment in the year, including £118 million of infrastructure renewals expenditure, was £740 million. This high level of spend reflects the capital investment profile, as UUW completes the peak phase of its 2005-10 regulatory programme. After adjusting for the revised sewage sludge strategy, as agreed with Ofwat, cumulative capital expenditure on water and wastewater assets remains broadly in line with agreed regulatory assumptions. Overall, the business remains on course to meet its capital expenditure regulatory efficiency targets and deliver its outputs across the 2005-10 period.

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 227 kilometres of water mains during the year. UUW continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance for the year of 99.92 per cent.

UUW is making good progress against its key performance indicators:

- Relative efficiency – UUW has closed the operational efficiency gap to the most efficient water companies over the last three years. This is reflected in Ofwat's most recent (2007/08) assessment of United Utilities as band B for the water service and band C for the wastewater service and represents a one band improvement for both services over the three-year period.
- Security of water supply – UUW met its economic level of leakage rolling target for the third consecutive year in 2008/09, despite unfavourable winter weather conditions which made this target more challenging. This follows a period where the company had not met this target for five years. In addition, no water restrictions were required during the year.
- 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 three years. One water and 10 wastewater Category 1&2 incidents were recorded in 2008 compared with the base position of two water and 21 wastewater incidents in 2005. In addition, UUW has more than halved the number of failing wastewater treatment works from 18 works in 2007 to seven works in 2008, and performance so far this year has been encouraging.
- Sewer flooding – UUW continues to remove properties from the sewer flooding register. Ofwat has published a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. UUW is currently in discussion with Ofwat regarding its methodology and processes in this area. This is expected to result in a restatement of the number of properties on UUW's sewer flooding registers, with a resulting increase in these numbers in terms of both the start point in 2005/06 and the current position. However, it is envisaged that the restated numbers will still demonstrate progress over this period. UUW aims to build on the progress achieved over the last three years and will provide a further update when its sewer flooding registers have been reassessed. Following completion of this review, UUW expects to restate its historical overall performance assessment (OPA) scores for the three years 2004/05 through 2006/07 in relation to 'flooding other causes' and is in discussion with Ofwat regarding the extent of these restatements.
- Overall customer satisfaction – significant improvements have been delivered. Overall customer satisfaction, in response to enquiries, has improved from less than 50 per cent in 2005 to consistently over 70 per cent. These satisfaction levels are based upon a comprehensive independent survey conducted on behalf of UUW each month. Further progress has been achieved and customer satisfaction is now at its highest levels for many years, with a satisfaction rating of 76 per cent for 2008/09. The rating for the final month of the year was 80 per cent. 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, influenced by adverse weather, together with environmental underperformance at Fleetwood wastewater treatment works are expected to continue to impact the 2008/09 OPA score. A funded capital investment programme has already been initiated at the Fleetwood works and an improvement in performance is expected in the medium-term.

Regulated activities
continued

EFFICIENCY INITIATIVES

UUW is broadly on track to meet its regulatory efficiency targets across the 2005-10 period, although the business is facing ongoing cost pressures in areas such as power and bad debts.

The company's principal efficiency initiatives include an integrated performance management project, which increases remote operational site management and optimises chemical and power usage, and its asset improvement programme which is improving the efficiency of operational pumps. These schemes are key elements of United Utilities' plan to mitigate its carbon emissions, alongside its combined heat and power assets which recycle energy generated from wastewater treatment processes. UUW has been awarded the Carbon Trust standard; and the business has developed the technology to convert biogas, a by-product of the sludge treatment process, into bio-methane for vehicle fuel and potentially to export into the natural gas distribution network.

Other key initiatives include supply chain management, which has been centralised and is delivering procurement economies, and a workforce management project. There is a strong drive to improve customer service and the business is focusing on reducing the number of customer queries, improving staff productivity and implementing improved cash collection procedures.

The workforce management system is a key initiative in increasing the efficiency of frontline staff, by using real time data across the workforce to enable more effective work scheduling. This project has been successfully implemented on time and below budget; early progress is encouraging. The system should provide the dual benefits of reducing the cost to serve and improving customer satisfaction. Cost savings of approximately £7 million per annum are expected by 2010.

2009 WATER PRICE REVIEW

UUW submitted its draft water and wastewater business plan, covering the 2010-15 period, to Ofwat in August 2008 and submitted its final plan on 7 April 2009, entitled 'Planning for the future'.These submissions form part of the 2009 water price review process and build on the company's strategic direction statement published in December 2007. The business has worked hard to strike the right balance between improvements in the network and the impact on the bills paid by its customers. The final plan was welcomed by the Consumer Council for Water and supported by UUW's independent engineering Reporter, Halcrow, which described the capital investment assessment as well considered, comprehensive and robust.

The total capital investment programme contained within the final plan, including infrastructure renewals expenditure, is approximately £3.7 billion (2007/08 prices), comprising £1.3 billion for the water service and £2.4 billion for the wastewater service. This compares with a programme of just over £3 billion in the 2005-10 period. Investment to meet regulatory quality standards, enhance the service to customers and maintain the supply/demand balance is forecast at around £1.8 billion. The remainder relates to essential maintenance of the water and wastewater infrastructure. Having raised over £1 billion of debt finance in the last year, the business would expect to borrow £1.6 billion across the five-year period 2010-15 to finance this plan.

The planned 2010-15 capital investment programme takes account of the geography and industrial legacy of the North West of England. It aims to maintain and improve current service standards and address new tighter quality standards as well as making provision for the challenge of climate change. The total proposed capital expenditure programme in the final plan is £3,704 million, compared with £4,035 million in the draft plan. The principal reductions are the deferral and removal of outputs (£433 million), the impact of recession on growth (£119 million) and greater future efficiency (£130 million), partly offset by the inclusion of further projects relating to sewer overflows/ unsatisfactory intermittent discharges (£351 million).

UUW expects to improve its efficiency further across the 2010-15 period. The business is aiming for a 1.5 per cent annual improvement in its underlying operating efficiency, although operating expenditure is likely to increase overall due to cost pressures in areas such as property rates and pensions. UUW is also targeting an average improvement in efficiency of between four per cent and eight per cent across the five-year period in respect of its capital investment programme.

UUW estimates that to finance this plan an average real, fully post-tax return of 4.85 per cent is required, which it believes would support an A3 credit rating. This compares with a cost of capital of 5.1 per cent assumed by Ofwat at the last price review in 2004, reflecting the reduction in the cost of debt finance available to the water sector during the early part of the 2005-10 period. However, this return represents an increase of approximately 0.2 per cent compared with the required return in the draft business plan, following UUW's reassessment of its financing costs in light of recent financial market conditions. This reassessment is supported by NERA Economic Consulting's (NERA) recently updated independent research ('Cost of Capital for PR09 – A Final Report for Water UK', January 2009) which has concluded that a higher cost of capital in the range of 4.6 per cent to 5.1 per cent (fully post-tax, real) would be appropriate for the UK water industry. NERA intends to reassess this cost of capital range later in the year.

United Utilities believes that Ofwat should ensure that water companies can at least maintain an A3 credit rating and should consider recent developments in the credit markets. The raising of debt finance is particularly important given the likely scale of investment that is still required in the water industry to replace and refurbish ageing infrastructure, make provision for climate change and deliver further statutory environmental obligations and customer priorities. The board believes this to be an appropriate investment grade rating to allow UUW to raise finance to fund its substantial capital investment programmes, particularly in light of conditions in the debt markets over the last 12 months.

UUW believes that its services, which on average costs households around £1 per day for the supply of high quality drinking water and for environmentally responsible wastewater collection and treatment, represents excellent value for money. Within this plan, average household bills would increase by seven pence per day in real terms by 2015. This equates to an average real price increase of 1.8 per cent across UUW's customer base during the 2010-15 period. The business believes this plan is consistent with its aim that bills, on average, should rise no faster than medium-term household income growth.

The next stage of the price review process is publication of the draft determination by Ofwat in July 2009, with the final determination due in November 2009.

Planning for the future

Business plan 2010-2015

UUW's final business plan sets out how it intends to invest in and improve its service over the five years from 2010 to bring about even better drinking water quality and environmental performance, and what that means for customer bills.

Non-regulated activities and other activities

FINANCIAL HIGHLIGHTS

Non-regulated revenue

3% lower at £919 million

Non-regulated underlying operating profit increased by

9% to £68 million

Non-regulated revenue was marginally lower at £919 million, reflecting the impact of the slowdown in the UK property market on the group's utility connections business. However, underlying operating profit increased by nine per cent compared with the prior year. This principally reflects the planned increase in activity on the Scottish Water contract and an increase in contribution from the company's international operations, including the benefit of foreign exchange rate movements which amounted to £2.9 million.

BUSINESS UPDATE

United Utilities is the leading utility infrastructure outsourcing business in the UK, applying the core utility skills from its regulated activities. United Utilities holds major outsourcing contracts working on behalf of Dŵr Cymru Welsh Water, Southern Water, Scottish Water, Electricity North West, Northern Gas Networks and British Gas Trading (meter installation).

United Utilities also has a meter ownership contract with British Gas Trading which provides a revenue stream to the group through rental income once the meters have been installed. In addition, United Utilities has a 15 per cent stake in Northern Gas Networks, three Scottish PFI operations and operations in Bulgaria, Estonia, Poland, the Philippines and Australia which provide a steady income stream.

In December 2008, United Utilities was selected as preferred bidder for a municipal solid waste treatment contract in Derbyshire, via a joint venture with Interserve. The contract is due to commence in April 2010 with an expected duration of 27 years. Subsequently, United Utilities also secured a 20-year desalination operations and maintenance contract in Adelaide, through its joint venture with Acciona Agua. It is expected that this contract will commence in mid-2011.

United Utilities continues to benefit from a strong order book worth over £6 billion in revenue, which provides long-term income streams for the group. Overall, the business is pleased with performance across its non-regulated contract portfolio.

United Utilities continues to seek asset-light opportunities by leveraging its core skills in areas that generate additional shareholder value with little impact on the risk profile of the group.

OTHER ACTIVITIES

As expected, other activities delivered a small underlying operating loss of £6 million during the year, as central costs were partly offset by a small contribution from United Utilities Property Solutions (UUPS). UUPS is the property sales and management business of the group and, as indicated previously, has been affected by the slowdown in the UK property market.

One-off costs of £7 million were incurred in 2008/09. These costs principally relate to the capital restructuring associated with the £1.5 billion return to shareholders.

Corporate responsibility

At United Utilities, corporate responsibility (CR) is how the group assesses, manages and measures its economic, environmental and social impact and this embraces all aspects of its performance. Taking a balanced approach between medium and longer-term benefits in pursuing CR means that in the current difficult economic circumstances, the group will continue to have regard to ensuring its services are meeting the needs of its customers, including addressing the issues of affordability, and to contributing to the communities it serves. For instance, to help vulnerable customers, the group's contribution to the United Utilities Trust Fund will increase by 67 per cent to £5 million per year from 2009.

The group assesses its CR impact in the following key areas: conserving natural resources; protecting and enhancing the environment; supporting communities; and maintaining economic growth. Particular focus is on climate change and skills development in engineering, science and technology as both have the greatest impact on the group's ability to operate now and in the future. The group's community investment committee and CR panel continue to provide strategic governance and challenge to this approach.

Given the importance the group places on CR, a dedicated report has been produced online at **unitedutilities.com/crreport2009**

THE ENVIRONMENT

The group continues to deliver the plans it set out in 2007 for tackling climate change. Activities have focused on the carbon reduction potential associated with expanding renewable energy generation using sewage gas as a source of energy. In 2008/09 100 GWh of renewable energy was generated, the equivalent of 53,788 tonnes of carbon dioxide.

The UK Government's forthcoming Carbon Reduction Commitment will present a significant challenge to the water industry to deliver carbon reductions against an increasing requirement to improve water and wastewater quality. To drive further reductions, the group is continuing to research and invest in more efficient treatment processes and additional renewable energy resources. In recognition of its efforts, United Utilities was awarded the Carbon Trust standard.

Sustainable management of water resources is vital in protecting the environment and ensuring reliable supplies of drinking water. In January the group launched its draft 25-year Water Resources Management Plan and continues to reduce the amount of water needed to be taken from the environment through programmes on leakage, water efficiency and metering. Customers are encouraged to take part in reducing demand. For example, installing a meter typically reduces household water consumption by 10 per cent. Last year 58,240 meters were installed under UUW's free meter scheme.

2009 is the final year of a £10 million programme to improve the condition of the Peak District and Trough of Bowland estates. Nearly a third of the land is designated Sites of Special Scientific Interest, with over 96 per cent now rated as 'favourable' or 'favourable recovery', ahead of national targets. The scheme is bringing considerable benefits to wildlife habitats, as well as improvements to raw water quality.

The group has improved its management of waste, working with partners to ensure compliance with the Site Waste Management Plan regulations that came into force in April 2008. Innovative ways to manage waste, using recycled products, including aggregate and transformer oil, continue to reduce the amount sent to landfill.

A new method of charging for surface and highway drainage services on a site area basis, rather than rateable value, for metered non-household customers was introduced. This method, preferred by Ofwat, spreads the cost of providing this service more fairly across the whole customer base and is designed to encourage more environmental ways of dealing with surface water, for instance by installing 'soakaways'. However, even with a phased introduction, some customer groups have experienced significant increases in their charges. The group has therefore imposed a moratorium for faith buildings, scout and guide associations and community amateur sports clubs pending review of this charging approach, and community partner Groundwork is helping to promote actions that organisations can take to reduce bills.

COMMUNITY

The group's education programme supports the focus on climate change and engineering skills, and promotes water and energy efficiency in schools. Since September 2008, 50 schools have signed up to the programme, which aims to have a measurable impact on how they tackle climate change issues.

2009 brings the final year of the group's 25-year partnership with the Mersey Basin Campaign. This has seen improvement in water quality across the region; an example which is now being replicated in Europe.

Partnerships with Hope through Action, Youth Sport Trust and a further commitment to WaterAid have evolved as a result of the Executive Leadership Team's Changing Lives Challenge. Around £660,000 was raised by employees, suppliers and partners in support of a team challenge that helped to improve sanitation in Zambia in collaboration with WaterAid.

Last year the group invested around £3 million in the communities in which it operates, including cash, time and in-kind contributions. It increased support to employees involved in community activity by linking volunteering activity to personal development and supporting them through community grants and matched funding.

Detail on the group's corporate responsibility performance is available at **unitedutilities.com/crreport2009**

Dow Jones Sustainability Indexes Member 2007/08

FTSE4Good

Business in the Community

Business in the Community AWARDS 2009 Big Tick re-accreditation

Employees

BENEFITS AND LIFESTYLE

United Utilities recognises the importance of work-life balance and the group provides a range of benefits in support of that balance. Policies on maternity, paternity, adoption, personal and special leave go beyond its requisite legal obligations as an employer. Pension provision is a particularly valued core benefit and more than 92 per cent of employees are members of pension schemes. A flexible benefits scheme is also open to all employees.

DIGNITY AND EQUALITY

United Utilities' business principles make it clear that in everything it does, the group seeks to act with integrity and fairness and observe legal requirements. Any employee with serious concerns that the group may not be adhering to these principles is encouraged to speak up via their line manager or by using a contact number that can be called in confidence. A copy of United Utilities' business principles document is available at **unitedutilities.com**

DISABILITIES

United Utilities is committed to fulfiling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, it gives equal consideration to applicants with disabilities in the employment criteria and will modify equipment and working practices wherever it is safe and practical to do so. The group has retained the 'double tick' positive disabled people award.

EMPLOYEE RELATIONS

United Utilities and its trade unions continue to strive towards developing an approach of working together under an employee relations framework. This looks not just at what needs to be done but how to enable the development of positive working relationships. Both parties share a commitment to the success of United Utilities and are committed to developing positive working relationships.

ENGAGEMENT

The continued engagement of employees is a key factor to the success of United Utilities. Through independently verified annual employee surveys and 'pulse' surveys, progress with engagement and employee feedback upon management's response to it are measured. The factors assessed include: how employees think about the group; how they fit in; how they feel in terms of pride and attachment to the group; and are they motivated to go beyond the requirements of their day job.

A record number of employees had their say in the 2008/09 survey, with a response rate of 93 per cent. The group achieved an employee engagement score of 76 per cent, exceeding the target of 70 per cent, building towards a target of 85 per cent engagement by 2010.

HEALTH AND SAFETY

In 2008/09, United Utilities enhanced its approach to health and safety, integrating a new management framework into its business operations, allowing a focus on measuring and reducing risks proactively and improving corporate governance.

The reported accident incident rate per 100,000 employees (injuries causing more than one day's absence) decreased significantly from 1,101 to 778. In recognising that this can be improved, a 10 per cent reduction has been targeted by 2010.

There have also been two major successes through working in partnership with two key clients. In our contract with Northern Gas Networks, United Utilities achieved a 40 per cent reduction in lost time injuries. It also won the IGEM/SBGI 2008 gas industry safety award. The 4D consortium, of which United Utilities is a part, in its contract with Southern Water, worked for more than a year without a single accident; equivalent to more than 4.2 million man hours without incident.

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

	2009	2008
Regulated activities	**3,925**	3,888
Non-regulated activities	**4,364**	4,517
Other activities	**677**	268

RECRUITMENT AND DEVELOPMENT

In 2008, 40 people joined the graduate development programme. They undertake four placements of six months, working across diverse areas to support the group's objective of providing a world class graduate scheme, which will provide a talent pool for future leaders. In addition, 90 apprentices joined the business following accredited training frameworks.

United Utilities has identified and developed strong partnerships with selected universities that support the graduate pipeline. Particularly successful is the work with Liverpool John Moores University and their World of Work programme, supporting students' preparation for the move from study to the working environment.

Investment in skills development, together with the introduction of a performance scorecard across the business, seeks to ensure that there is the capability and focus necessary to continue to drive high performance through people. To this end, a new leadership competence framework has been launched together with the 'learning zone', an online portal which supports employees in driving their own personal development.

More detail on the subjects covered on this page is available on our online corporate responsibility report at **unitedutilities.com/crreport2009**

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, its share price or the pricing and liquidity of its debt securities. The principal ones are summarised below.

The group maintains an internal control framework that seeks to identify, assess and manage exposures to internal and external risks. This requires management to assess the nature and magnitude of risks consistently and, in the absence of appropriate controls, to implement risk mitigation strategies in a prioritised manner. The framework's effectiveness is reviewed by the audit committee.

RISK	MITIGATION
UNFAVOURABLE PRICE DETERMINATION The regulated business operates in an industry which is substantially influenced by the service levels, regulatory targets and price determinations set by its primary regulator, Ofwat, as well as Ofwat's assessment of its delivery against these. An adverse outcome to the price determination process (which limits the income the regulated business can receive from its customers) could occur for a number of reasons. These include an inadequate allowed cost of capital, turnover forecasts proving not to be sufficiently accurate, or unforeseen or unforeseeable costs which arise after the determination that cannot be recovered from customers. After a price determination, there is a right of appeal to the Competition Commission, but otherwise the scope to review the outcome within the relevant five-year period is limited. Review mechanisms can also be invoked by Ofwat to reduce the prices for customers. Furthermore, implicit within the price determination are assumptions by Ofwat concerning the group's future operating expenditure and the achievement of operating cost savings. If these efficiencies are not achieved this may be reflected in less favourable outcomes in Ofwat's future price determinations.	In April this year, the group submitted its final business plan to Ofwat for the 2009 price review for the regulated business, which will set prices for the five-year period from April 2010. This plan endeavours to ensure that the assumptions and projections underlying Ofwat's price determination are accurate and achievable. The group has committed substantive and qualified resource to ensuring the quality of its submissions throughout the price determination process to give it the best prospect of receiving a satisfactory determination. The submission process includes an assessment of the risks associated with each component of the business to assist Ofwat's understanding of these. Ofwat's draft determination will be published in July 2009 and its final determination of allowable prices is expected to be published in November 2009.
CAPITAL INVESTMENT PROGRAMMES 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 or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the group's ability to meet regulatory and other environmental performance standards, which may result in fines imposed by Ofwat of an amount of up to 10 per cent of regulated business turnover or other sanctions.	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 out-performance. Development of the programme for 2010-15 is progressing in line with expectations, as is delivery of the current capital investment programme.

RISK	MITIGATION

CURRENT CAPITAL MARKET CONDITIONS

The global banking crisis continues to impact the debt and equity capital markets. It has resulted in the cost of capital increasing significantly and has made the issuance of new equity and debt capital more expensive and more difficult to secure. A compounding challenge arises from the relationship between the Regulatory Capital Value (RCV) of the regulated business and the Retail Price 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 the gearing ratios and credit ratings of the regulated business and the group as a whole and increase the cost or limit the availability of credit in an already difficult market. 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 crisis has also created difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to the group.

The group closely monitors 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

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. Reflecting the global economic environment, the group's current schemes had a combined IAS 19 deficit of £213 million as at 31 March 2009, compared with a deficit of £101 million as at 31 March 2008 and a deficit of £253 million as at 30 September 2008.

Increases to pension deficits may result in an increased liability for the group, the size of which depends upon the extent to which additional deficits are recoverable through the regulatory price determination process. The regulated business is in ongoing dialogue with Ofwat concerning the allowances for increased pension scheme deficits within the price determination process for the 2010-2015 period. The group monitors the scheme's investment strategy implementation and assesses changes in the group's exposure to liability.

FAILURE TO COMPLY WITH APPLICABLE LAW OR REGULATIONS

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 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.

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 regulated business is certified to both ISO 9001 and 14001 standards and 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.

Principal risks and uncertainties
continued

RISK	MITIGATION
INCREASED COMPETITION IN THE WATER AND WASTEWATER INDUSTRY The Cave review of competition and innovation in water markets was published in April 2009. If its recommendations are implemented, this would eventually expand the competitive market allowing retail competition to all non-household customers. Ofwat has also 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, two of which are within UUW's region. Further inset appointments may be made in the future, resulting in increased competition.	The group has been fully engaged in the Ofwat consultations on the Cave review, although a relatively small proportion of the group's profits derives directly from non-household retail activities. If competition is expanded, there would be opportunities for the group to participate in a wider market in England and Wales. As far as inset appointments are concerned, these generally relate to new developments or large industrial customers. Furthermore, the regulated business has not received any applications from holders of water supply licences to supply any premises within its region.
EVENTS, SERVICE INTERRUPTIONS, SYSTEMS FAILURES, WATER SHORTAGES OR CONTAMINATION OF WATER SUPPLIES The group controls and operates utility networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, electricity, gas or water shortages or the failure of an asset, an element of a network or supporting plant and equipment could result in the interruption of service provision or catastrophic damage resulting in significant loss of life and/or environmental damage and/or economic and social disruption. 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 on the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under its control.	The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures. The processes continue to be refined, together with risk management and business continuity procedures, recognising that possible events have varying 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 regulated business's licence also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat in the event of a major incident.
RISKS IN THE GROUP'S NON-REGULATED BUSINESS 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 electricity, gas and water networks, the design and construction of new assets, the design and construction of new connections to the relevant network and the provision of ancillary services. 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.	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.

RISK	MITIGATION
MATERIAL LITIGATION NOSS Consortium (NOSS), of which North West Water International Limited, a wholly owned subsidiary of United Utilities Group 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 counter claimed 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 multi-party '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 who allegedly lost money. 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.	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 balance sheet, 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.

Clear and steadfast governance principles

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

Dr John McAdam (61)
Non-executive chairman

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

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

Committee membership: Nomination (chairman) (audit and remuneration until his appointment as chairman of the company in July 2008)

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

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

Philip Green (56)
Chief executive officer

Qualifications: BA (Hons) Economics and Politics, MBA

Appointment to the board: February 2006

Committee membership: Nomination

Current directorships/business interests: Non-executive director of Lloyds Banking Group plc. A director of Business in the Community and a Trustee of the Philharmonia Orchestra Trust

Career experience: Chief Executive of Royal P&O Nedlloyd until its acquisition by AP Moller-Maersk A/S. Previously a director and chief operating officer at Reuters Group PLC and chief operating officer at DHL for Europe and Africa.

Dr Catherine Bell CB (58)
Independent non-executive director

Qualifications: MA Geography, PhD Economic History

Appointment to the board: March 2007

Committee membership: Nomination, audit and community investment

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

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

Paul Heiden (52)
Independent non-executive director

Qualifications: BSc (Hons) Biology, Chartered Accountant ACA

Appointment to the board: October 2005

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

Current directorships/business interests: Executive chairman of Talaris Topco Limited

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

David Jones CBE (67)
Independent non-executive director

Qualifications: MSc Control System Engineering, BSc Electrical Engineering

Appointment to the board: January 2005

Committee membership: Audit, nomination and remuneration (chairman)

Current directorships/business interests: Chairman of UK Coal plc

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

Tim Weller (45)
Chief financial officer

Qualifications: BSc (Hons) Engineering Science, Chartered Accountant, FCA

Appointment to the board: August 2006

Committee membership: Community investment and treasury

Current directorships/business interests: Director of The Carbon Trust

Career experience: Previously group finance director at RWE Thames Water plc and prior to that group finance director of Innogy Holdings plc. Previously a partner at KPMG and director of financial control with the Granada group of companies and a non-executive director of Stanley Leisure plc.

Charlie Cornish (49)
Managing director, business development and international

Qualifications: BA (Hons) Economics/Business Studies

Appointment to the board: January 2004

Committee membership: None

Current directorships/business interests: None

Career experience: Previously chief operating officer with Thames Water UK and Ireland and chief executive of West of Scotland Water Authority. Positions also held with British Aerospace, Plessey Telecommunications, Associated British Foods and the NHS.

Andrew Pinder CBE (62)
Independent non-executive director

Qualifications: BA (Hons) Economics and Geography

Appointment to the board: September 2001

Committee membership: Nomination and remuneration

Current directorships/business interests: Senior independent non-executive director of Spring Group plc, director of Entrust (Europe) Limited, and a member of the Intel Global Advisory Board

Career experience: Formerly e-Envoy to the UK Government and chairman of British Educational Communications and Technology Agency and prior to that a partner in a venture capital firm. Previous senior operations and technology roles at Citibank and Prudential and Director of IT at the Inland Revenue (now HMRC).

Nick Salmon (56)
Senior independent non-executive director

Qualifications: BSc (Hons) Mechanical Engineering

Appointment to the board: April 2005

Committee membership: Nomination and remuneration

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

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

Directors' report

The directors present their report and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2009.

Principal activities and business review

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

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

The business review (pages 2 to 19), which includes the chairman's and chief executive's statements and the financial review (pages 4 to 13), 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 1. A summary of the principal risks and uncertainties can be found on page 16. An indication of likely future developments of the group can be found on page 4. The company's principal subsidiary undertakings, and the associated companies and joint ventures in which the group participates, are listed in note 14 to the consolidated financial statements.

£1.5 billion return to shareholders and creation of new parent company

As a result of the sale of United Utilities Electricity and the review of the group's capital structure, outlined in its half year results published on 29 November 2007, the board reported its intention to return to shareholders a total of £1.5 billion or 170 pence per share. The vast majority of the planned £1.5 billion return to shareholders took place in August 2008 via a B share scheme. The residual balance of approximately £17 million was returned in April 2009 to shareholders that had elected to receive the return in the next financial year.

In order to implement the B share scheme and return of value and increase distributable reserves, the group proposed a change to its corporate structure. The change was subject to court and shareholder approval and involved a scheme of arrangement to introduce a new parent company above United Utilities PLC.

The scheme of arrangement has now taken place and involved the new parent company, United Utilities Group PLC, acquiring all of the shares in United Utilities PLC and issuing new shares. This comprised the issue of new ordinary shares and redeemable B shares to facilitate the £1.5 billion return. The number of new ordinary shares issued was reduced on the basis of 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC ordinary shares in issue prior to the capital reorganisation. This reduction in shares was commensurate with the £1.5 billion return to shareholders. The last day of trading for United Utilities PLC shares was 25 July 2008 and United Utilities Group PLC shares commenced trading on 28 July 2008. United Utilities Group PLC has adopted an analogous memorandum and articles of association (with transitionary arrangements) to those of United Utilities PLC. Accordingly, the comments made in this report that relate to United Utilities Group PLC are equally applicable to United Utilities PLC whilst it was publically listed.

Dividends

The directors are recommending a final dividend of 22.03 pence for each ordinary share for the year ended 31 March 2009, which together with the interim dividend of 10.64 pence, gives a total dividend for the year of 32.67 pence for each ordinary share (the interim and final dividends paid in respect of the 2008 financial year were 15.20 pence and 31.47 pence respectively). The B share continuing dividend was paid on 20 April 2009 at a rate of 5.175225 pence per B share, calculated in respect of the period from 11 August 2008 to (and including) 13 April 2009 on the basis of a 365 day year. B shares were redeemed in full on 14 April 2009.

Subject to approval by shareholders at the annual general meeting, the final dividend will be paid on 3 August 2009 to shareholders on the register at the close of business on 19 June 2009. United Utilities Employee Share Trust Limited has waived its rights to dividends, including dividends paid in respect of the year ended 31 March 2009 and future dividends, in respect of the 41,418 ordinary shares held by it as at 27 May 2009.

Directors

The names of the current directors and summary biographical details are given on pages 20 and 21.

During the year, Sir Richard Evans, non-executive chairman and Norman Broadhurst, non-executive director stood down from the board at the annual general meeting on 25 July 2008 and Dr John McAdam was appointed as non-executive chairman at that meeting.

The articles of association provide that a director must retire at the third annual general meeting following his or her last appointment or re-appointment by shareholders. For the annual general meetings held in 2009 and 2010, the articles have transitional provisions in relation to the retirement of directors by rotation. In accordance with these provisions Philip Green, Paul Heiden and Andrew Pinder are therefore retiring and offering themselves for reappointment at the 2009 annual general meeting.

Details of the board's policies and procedures regarding the appointment of directors are included in the corporate governance report on pages 25 to 31. Details of the interests in the company's shares held by the directors and persons connected with them are set out in the directors' remuneration report on pages 32 to 40.

Corporate governance statement

Further details of the company's compliance with the Combined Code on Corporate Governance as published by the Financial Reporting Council in June 2006 (the code) are given on pages 25 to 27. The statement includes a description of the main features of the group's internal control and risk management systems in relation to the financial reporting process. A copy of the code, published in June 2006 as applicable to the company for the year ended 31 March 2009, can be found at the Financial Reporting Council's website **frc.org.uk** Copies of the matters reserved to the board and the terms of reference for each of the main board committees can be found on the company's website at **unitedutilities.com** The corporate governance statement also includes the consideration given by the directors to the factors relevant to the adoption of the going concern basis.

The annual general meeting

The annual general meeting of the company will be held on 24 July 2009 at The Midland Hotel, Peter Street, Manchester M2 3NQ. Full details of the resolutions to be proposed to shareholders, and explanatory notes in respect of these resolutions, can be found in the notice of annual general meeting. Copies can be found on the company's website.

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

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

Share capital, transfers of shares and voting rights

At 31 March 2009 the authorised share capital of the company was £1,580,050,000, divided into 1,000,000,000 ordinary shares of five pence each, 626,043,820 B shares of 170 pence each, 273,956,180 deferred shares of 170 pence each and 50,000 non-voting redeemable preference shares of £1 each, and the issued share capital of the company was £516,524,906 divided into 681,485,632 ordinary shares of five pence each, 9,838,305 B shares of 170 pence each, and 273,956,180 deferred shares of 170 pence each. Details of the share capital and movements in the issued share capital are shown in note 25 to the financial statements on page 86. The ordinary shares represented 70.6 per cent and the B shares together with the deferred shares represented 29.4 per cent respectively of the total issued share capital as at 31 March 2009.

All ordinary shares have the same rights, including the right to one vote at a general meeting, the right to an equal proportion of any dividend declared and payable, and to an equal amount of any surplus assets which are distributed in the event of a winding up. All the outstanding B shares were redeemed and cancelled on 14 April 2009. The deferred shares convey no right to income and no appreciable right to participate in any surplus capital in the event of a winding up.

The rights attaching to shares in the company are provided by the articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company annually renews its power to issue and buy back shares at its annual general meeting and such resolutions will be proposed at the 2009 annual general meeting. The directors' powers are conferred on them by UK legislation and by the company's articles. At the annual general meeting of United Utilities PLC on 25 July 2008, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £293,902,939, and were empowered to allot equity securities for cash on a non pre-emptive basis to an aggregate nominal amount of £44,085,440. Electronic and paper proxy appointment and voting instructions must be received by the company's registrars not less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.

There are no restrictions on the transfer of ordinary shares in the company, nor were there on the B shares whilst they were in issue, nor any limitations on the holding of shares in the company, save (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the Financial Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

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

Major interests in shares

At 20 May 2009, the directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

Shareholder	% of issued share capital	Direct or indirect nature of holding
AXA S.A	4.999	direct and indirect
Capital Group International Inc.	4.951	indirect
Tradewinds Global Investors, LLC	4.12	indirect

Purchase of own shares

At the annual general meeting of United Utilities PLC held on 25 July 2008, shareholders authorised that company to purchase, in the market, up to 88,170,881 of its own ordinary shares of £1 each. No shares were purchased pursuant to that authority during the year. Such authority from shareholders is normally sought annually. Authorisation will be sought from shareholders of the company at the 2009 annual general meeting to grant authority to purchase up to 68,148,563 of its own ordinary shares of five pence each, such authority to expire at the conclusion of the company's annual general meeting in 2010 or if earlier on 30 September 2010.

Change of control

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

Directors' indemnities and insurance

The company has in place contractual entitlements for directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. Further details of these indemnities can be found in the corporate governance report on page 27. The company also maintains an appropriate level of directors' and officers' liability insurance.

Political and charitable donations

The group's policy is not to make any donations for political purposes. However, the Companies Act 2006 requires certain types of expenditure on political events to be pre-approved by shareholders. At the 2008 annual general meeting, an authority was taken to cover such expenditure. Pursuant to that authority, in the year, the group incurred expenditure of £27,702 (2008: £5,314) as part of the process of engaging in dialogue with government regionally and nationally. A similar resolution will be put to the shareholders at the 2009 annual general meeting to authorise the company and its subsidiaries to make such expenditure.

Charitable donations by the group in the year amounted to £4,262,520 (2008: £3,790,569).

Employees

The company's policies on employee consultation and on equal opportunities for disabled employees are contained within the Employees section of the business review on page 15. The board encourages employees to own shares in the company. Details of employee share schemes are in the remuneration report on page 40.

Directors' report
continued

Environmental, social and community matters
Details of the company's approach to corporate responsibility, relating to the environment and social and community issues, can be found in the corporate responsibility section on page 14.

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

As at 31 March 2009, the average credit period taken for trade purchases was 34 days for the group (2008: 29 days). The company has no trade and other payables.

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

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

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

Events occurring after the balance sheet date
Details of events after the balance sheet date are included in note 31 to the consolidated financial statements on page 92.

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
On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. 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 27 May 2009 and signed on its behalf by:

Tom Keevil
Company secretary

Corporate governance report

The Combined Code

This corporate governance statement forms part of and should be read in conjunction with the directors' report set out on pages 22 to 24.

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

During the financial year ended 31 March 2009, the company (since its listing on the London Stock Exchange, and the previously listed entity, United Utilities PLC, see page 22 for details), complied fully with the provisions of Section 1 of the code.

This report (which incorporates a report from the audit committee, see pages 29 to 31), together with the remuneration report on pages 32 to 40, gives details of how the main principles of the code have been applied during the year.

The board of directors

The names of the current directors who served during the year, and their biographical details, are set out on pages 20 and 21 (and details of those who retired are contained on page 22). Ten board meetings are scheduled each year and it will meet more or less frequently as required. During the year nine meetings were held (2008:10). The following table shows the attendance of each of the directors at meetings of the board and the principal board committees, which are subject to code requirements during the year. The figures in brackets show the maximum number of meetings which the directors could have attended.

	Board	Audit committee	Nomination committee	Remuneration committee
Philip Green	9(9)	n/a	4(4)	n/a
Charlie Cornish	9(9)	n/a	n/a	n/a
Tim Weller	9(9)	n/a	n/a	n/a
Sir Richard Evans	4(4)	n/a	1(1)	n/a
Dr Catherine Bell	9(9)	4(4)	4(4)	n/a
Norman Broadhurst	4(4)	2(2)	1(1)	n/a
Paul Heiden	9(9)	4(4)	4(4)	n/a
David Jones	9(9)	4(4)	4(4)	5(5)
Dr John McAdam	9(9)	2(2)	4(4)	2(2)
Andrew Pinder	9(9)	n/a	4(4)	5(5)
Nick Salmon	8(9)	n/a	3(4)	3(5)

Notes:

- n/a in the above table denotes that the director is not a member of that committee.
- Dr John McAdam stood down from the audit and remuneration committees following his appointment as chairman at the annual general meeting held on 25 July 2008.

Summary of approach to governance

The board members are fully aware of their responsibilities, both individually and collectively, to promote the long-term success of the company. The board is responsible for devising the strategy of the group and has responsibility for the internal control systems operated across the group, allowing assessment and management of the key issues and risks impacting the business. In addition to its scheduled meetings, the board met during the year specifically to consider and develop the company's strategy and long-term plan. The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. Accordingly, the board sets the company's overall strategic direction, reviews management performance and assesses whether the company has the necessary financial and human resources in place to meet its objectives. It also reviews the company's business planning, approach to risk management and development of policies. Via the remuneration committee (whose report is set out on pages 32 to 40) it is responsible for the directors' and senior managers' remuneration.

The board is responsible for promoting the long-term success of the company and ensuring that the principal goal of the company is to create shareholder value, while having regard to other stakeholder interests. The board takes responsibility for setting the company's values and standards. Accordingly, the long-term interests of shareholders, together with consideration of the wider interests of stakeholders represented by employees, customers, suppliers, the community and the environment are factored into the group's management processes. Appropriate consideration is also given, within the company's control and risk assessment processes, to social, environmental and ethical issues.

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

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

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

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

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

Principal committees of the board (summary)

The board has formally delegated specific responsibilities to certain committees, including the following: approvals; audit (see page 29); community investment; nomination (see page 26); remuneration (see page 32); and treasury. All board committees are provided with sufficient resources to undertake their duties, have authority to seek independent advice, if appropriate, and are supported by the company's secretariat. In addition to the board committees featured in the code, the board has delegated certain of its powers and functions to the following committees:

Corporate governance report
continued

Approvals committee This considers and approves expenditure and investment proposals within limits determined by the board. Its members are the executive directors and the company secretary.

Community investment committee This has responsibility for developing and overseeing the corporate responsibility strategy of the company and for approving its charitable donations. Its members are certain board directors and such executive leadership team members as may be appointed by the board from time to time. Two employee representatives are also invited to attend meetings and participate in its assessment of items of business. Its current chair is Tim Weller, with Dr Catherine Bell and Gaynor Kenyon being its other members.

Executive leadership team The team met monthly during the year, under the chairmanship of Philip Green, and provided, amongst other matters, a regular forum for discussing group-wide operational and strategic issues impacting the business. Its members during the year were the company's executive directors, along with: Martin Bradbury, chief information officer; Alison Clarke, human resources director; Clive Elphick, managing director asset management and regulation; Tom Keevil, company secretary and general counsel; Gaynor Kenyon, communications director; Ian McAulay, managing director capital programmes; and Matthew Wright, managing director operations. Moving forward, the responsibilities of senior management are to be aligned more closely with the regulated and non-regulated business units.

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

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

Board balance and independence
The board aims to maintain a balance of executive and non-executive directors and, at the date of adoption of this statement, comprises the non-executive chairman, three executive directors and five non-executive directors.

All five of the non-executive directors are determined by the board to be independent in accordance with the code and free from any business or other relationship which could compromise their independent judgement. The chairman is not deemed to be independent under the code (following appointment to that role) although Dr John McAdam was deemed to be independent at the time of his initial appointment to the board. During the year, Dr John McAdam was appointed as non-executive chairman of Rentokil Initial PLC and as a non-executive director of Sara Lee Corporation. The board was informed in advance of the appointments and did not consider that such appointments would compromise Dr John McAdam in his role as chairman of the company.

Senior independent director
Nick Salmon was appointed as senior independent director on 27 July 2007. The senior independent director is available to shareholders if they have concerns that dialogue with management representatives has failed to resolve. The terms of reference for the senior independent director are available on the company's website. They include the authority to call a meeting of the non-executive directors if, in his opinion, it is necessary; the convening of a meeting of the non-executive directors without the chairman present at least annually to appraise the chairman's performance; and to be available if required to attend meetings with major shareholders to listen to their views, in order to assist the process of the company having a balanced understanding of their issues and concerns.

Conflicts of interest
Since 1 October 2008, directors have been under a statutory duty to avoid any situation in which they have, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. The duty is not infringed where a conflict situation has been authorised in advance by the unconflicted directors or the shareholders of the company or where the situation cannot reasonably be regarded as likely to give rise to a conflict of interest. For a public company, the unconflicted directors can only authorise conflict situations if permitted to do so by the company's articles of association.

The company's articles of association contain provisions which permit the unconflicted directors to authorise conflict situations and procedures have been put in place for the disclosure of any conflicts by the directors to the board and for the consideration and, if appropriate, authorisation of such conflicts. The procedures permit any authorisation to be subject to any terms and/or conditions that the unconflicted directors think fit.

Prior to 1 October 2008, each board member (together with the directors of the principal operating subsidiary) completed a comprehensive questionnaire to establish if any director had a conflict of interest under the Companies Act 2006. The results were then assessed by the chairman and the board, which concluded that no director had a conflict that required authorisation. Moving forward, directors are required to notify the chairman and/or company secretary if they believe that a conflict might arise. If so, it would be referred to the board. Conflicts of interest in general will be reviewed annually by the board. Any potential issue of conflict relating to prospective directors is addressed by the nomination committee, with a recommendation to the board.

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

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

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

During the financial year ended 31 March 2009, amongst other matters, the nomination committee reviewed the succession planning arrangements for the senior executive management population.

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

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

Re-appointment of directors

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

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

Information, support and advice

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

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

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

In 2008, the company established arrangements for the provision of indemnities for the benefit of its current directors and officers and those of its subsidiaries. These arrangements, which constitute qualifying third party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006. 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.

Induction and training

New directors receive appropriate induction on joining the board, typically including meeting with members of the senior management team and visits to operational sites. During the year, Dr John McAdam's induction continued. Directors are provided with details of seminars and training courses relevant to their role and are encouraged to attend those that meet their development needs. Additionally, training is provided to the whole board on topics such as the Companies Act 2006. Major shareholders are also invited to meet with new non-executive directors and shareholders will have the opportunity to meet directors at the annual general meeting in July.

Performance evaluation

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

The company secretary analysed the completed questionnaires and summarised the findings in a report for the chairman, which highlighted and prioritised the key areas of feedback and provided a comparison with the previous year's evaluation. The chairman subsequently conducted one-to-one discussions with each of the board members based upon the summary report about the board's performance and their own as directors, after which he reported back to the whole board on the evaluation process. The responses to the questionnaires demonstrated a high degree of consistency and the evaluation process affirmed the board's confidence in the group's system of corporate governance. Nevertheless there is always room for improvement and, arising from the 2008/09 exercise, the board has asked that the structure of the strategic review process be enhanced. The members of the audit, nomination and remuneration committees, together with the managers and advisers who attend those committees, completed separate confidential questionnaires upon the effectiveness of the principal committees. Similarly, the chairs of those committees undertake evaluation based upon the feedback that is received.

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

Internal controls

The board has overall responsibility for the company's system of risk management and internal controls and for reviewing its

Corporate governance report
continued

effectiveness. The schedule of written matters reserved to the board ensures that the directors are responsible for the control of, amongst other matters, all significant strategic, financial and organisational risks.

An overview of some of the principal risks surrounding the company is contained in the business review section on pages 16 to 19. To manage these and other commercial and operational risks the company has an established risk management programme that assists management in identifying, assessing and mitigating business, financial, operational and compliance risks on a continual basis. The board views management of risk as integral to good business practice. The programme is designed to support management's decision-making, improve the reliability of business performance, and assist in the preparation of the company's consolidated accounts. It is supported by the dedicated team of internal risk specialists and internal auditors who report to the director of audit and risk, who in turn reports directly to the audit committee and the chief executive officer.

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

Control systems

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

Function of controls

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

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

Annual review of risk management and internal control systems

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

In the event that any significant losses were incurred during any year as a result of the failure of internal controls, an analysis would be reported to the audit committee and the board. A plan would also be implemented to take the necessary action to remedy any significant weaknesses. In the year ended 31 March 2009, there were no such losses and the board was satisfied with:

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

Financial reporting and going concern

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

The directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. This approach, taking into account the relatively stable and regulated nature of the business, is based, amongst other matters, upon a review of the group's budget for 2009/10, the group's proposed five-year business plan and investment programme (in line with the plans submitted for the 2009 water price review), together with a review of the cash and committed borrowing facilities available to the group (discussed in further detail in the liquidity section on page 9) and the debt financing and interest rate management section on page 8. This review shows that the group, at 31 March 2009, had a headroom of £935 million based on cash and short-term deposits, medium-term committed bank facilities and net of short-term debt, which is sufficient to cover the group's projected financing needs through to mid 2011.

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

Audit committee

Members

The audit committee's members are Paul Heiden (chairman), Dr Catherine Bell, Norman Broadhurst (until 25 July 2008), David Jones and Dr John McAdam (until he took up the position as chairman of the board on 25 July 2008). The board is satisfied that Paul Heiden has recent and relevant financial experience and that all members have extensive commercial experience and are independent within the meaning of the code. Appointments to the committee are made by the board, on the recommendation of the nomination committee in consultation with the audit committee chairman. Appointments are initially for a period of up to three years, extendable by no more than two additional three-year periods, so long as committee members continue to be deemed to be independent. The terms of reference of the audit committee are available to shareholders on request and are also available on the company's website.

Attendees at meetings

The chairman, chief executive officer and chief financial officer of the group and other senior management attend committee meetings by invitation of the committee. Representatives of the group's external auditors and the director of audit and risk (whose responsibilities include internal audit, risk and security) also attend meetings by invitation. During the year ended 31 March 2009, the external and internal auditors attended all audit committee meetings, had direct access to the committee during the meetings and time was also set aside for them to have private discussions with the committee, in the absence of management.

Audit committee compliance with the code

The audit committee's terms of reference comply with the code and were revised during the year to reflect the guidance published by the Financial Reporting Council in October 2008.

During the year ended 31 March 2009, the formal calendar of matters considered by the committee embraced, amongst other matters, the code requirements to:

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

Corporate governance report
continued

Audit committee activities

An overview of the work undertaken by the audit committee during the year ended 31 March 2009 is described within the following sections of this report.

The audit committee met four times during the financial year ended 31 March 2009. It has a formal policy, endorsed by the board, to keep under review the independence and objectivity of the external auditors. The audit committee determined that it was satisfied that the independence of the external auditors had been maintained, having taken into account the external auditors' written representations and the committee's own enquiries. These were facilitated by a private meeting with the external auditors without executive management being present. The independence policy sets out certain disclosure requirements by the external auditors to the audit committee, including restrictions on mutual hiring of personnel, rules for rotation of audit partners and procedures for the approval of non-audit services provided by the external auditors. The audit committee has monitored the application of the policy both during the year ended 31 March 2009 and up to the date of this report.

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

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

The policy relating to the provision of non-audit services by the external auditors specifies the types of work from which the external auditors are excluded; for which the external auditors can be engaged without referral to the audit committee; and for which a case-by-case decision is required. The ratio of non-audit fees to audit fees was monitored by the committee throughout the year ended 31 March 2009. The audit committee is satisfied that this policy in respect of the provision of non-audit services was applied during the year ended 31 March 2009 and up to the date of this report.

Fees

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

Non-audit services are allowed under the procurement of an audit and non-audit services policy, where they do not affect the independence of the external auditors, but do require the pre-approval of the audit committee prior to the engagement. Specific approval may be delegated to a designated member of the audit committee, with such approvals to be reported at the next audit committee meeting. In granting such approval, the designated member of the audit committee is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees. In the financial year ended 31 March 2009, all such services were approved by the audit committee.

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

The fees paid or payable to the auditors in the year ended 31 March 2009 and the preceding year were as follows:

Year ended 31 March	**2009 £m**	2008 £m
Statutory audit of the financial statements	0.4	0.5
Other fees to the auditors:		
Local statutory audits for subsidiaries	0.3	0.4
Other audit related	0.1	0.1
Regulatory reporting	0.4	0.2
Due diligence and transaction support	1.2	3.6
	2.4	4.8

Included in the above statutory audit fee is £50,000 in relation to the company for the period ended 31 March 2009.

For the year ended 31 March 2009, the substantial majority of non-audit related fees relate to the services provided by Deloitte LLP in their advisory capacity in relation to their provision of due diligence services to United Utilities PLC to support the creation and listing of a new holding company to facilitate the necessary distributable reserves to allow the proposed return of capital to shareholders.

Having undertaken a review of the nature and the amount of non-audit related work, the audit committee has satisfied itself that the services undertaken during the financial year ended 31 March 2009 did not prejudice the auditors' independence.

Other activities

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

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

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

Disclosure policy

The committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of matters raised in confidence and for appropriate follow-up action. Accordingly, the audit committee reviews, at least annually, the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Historically, a confidential voicemail box was provided for employees to report any concerns anonymously. The disclosure arrangements are, however, in the process of being enhanced with the appointment of an independent service provider, whom employees can contact at any time.

Significant holdings of securities

Information can be found in the directors' report at page 23.

Communication with shareholders

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

Additionally, there is a programme of regular investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, the board met or offered to meet with 114 different funds, representing 54 per cent of the company's issued share capital. Such briefings, together with regular announcements of significant events affecting the group and frequent updates on current trading, are part of a dedicated investor relations programme undertaken to keep the company's equity and debt investors informed of developments affecting the group. The board regards this programme as an important contribution to seek continually to improve investors' awareness of the business and for the board to maintain an understanding of investors' priorities. Board members also receive regular updates in their board papers about investor relations and reports from sector analysts. Additionally, the board commissions an annual survey of shareholders by Makinson Cowell. Non-executive directors also have the opportunity to attend meetings with major shareholders at either party's request.

Constructive use of the annual general meeting

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

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

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

The corporate governance statement and report of the audit committee were approved by the board on 27 May 2009.

Directors' remuneration report

I am pleased to provide the directors' remuneration report for 2009 which sets out the information required by the Directors' Remuneration Report Regulations 2002 and the Combined Code (2006) on Corporate Governance. This report is un-audited except where stated. An ordinary resolution to approve this report will be put to the annual general meeting on 24 July 2009.

Approach to reward

The company's remuneration arrangements are designed so that the overall level of remuneration including salary, benefits, short and long-term incentive opportunities are competitive when compared with other companies that the company may need to recruit from, provide an effective retention mechanism and have an appropriate balance between fixed and variable reward. Annual and long-term incentive remuneration arrangements are designed in a way that reflects a balance of measures including financial performance, operational performance, customer service, employee engagement and corporate responsibility. Executives are incentivised to deliver stretching results with an acceptable level of risk.

Executives are encouraged to accumulate personal holdings in United Utilities Group shares thereby ensuring that their interests are fully aligned with shareholders.

Aggregate remuneration

During the financial year, the aggregate remuneration paid to all directors was £3,230,380 (2008: £4,039,062). This includes salaries, benefits in kind (excluding pensions), annual bonuses earned and accrued in the year ended 31 March 2009 but paid after the year end and the value of long-term incentives paid in the period ended 31 March 2009.

Executive directors

The remuneration committee

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

The committee's members are comprised solely of independent non-executive directors. During 2008/09 the members of the committee were David Jones, Andrew Pinder and Nick Salmon. Dr John McAdam was a member until his appointment as chairman on 25 July 2008. The committee's members have no personal financial interest in the company, other than as shareholders and the fees paid to them as non-executive directors. The committee's terms of reference are available to shareholders on request from the company secretary and are on the group's website: **unitedutilities.com**

The committee has appointed the independent consultants Hewitt New Bridge Street to advise it on executive remuneration. They also advise the group on the remuneration of a limited number of senior executive managers whose specific terms of employment do not fall within the remit of the remuneration committee. This is to ensure consistency in the application of the board's policies on executive remuneration and the general terms of employment approved by the remuneration committee. Mercer Human Resource Consulting are the appointed advisors to the committee on pensions matters. They are also the actuaries to one of the group's pension schemes (United Utilities Pension Scheme) and advise the group on matters relating to its operation. Eversheds LLP has been appointed to provide legal advice on the operation of the company's share incentive and share option plans and also provide general legal advice to the company. Slaughter and May were appointed to provide advice on the share plan implications arising from the creation of the new holding company structure.

Remuneration committee meetings are also attended by the chairman of the company (Sir Richard Evans prior to 25 July 2008 and Dr John McAdam thereafter), the chief executive officer (Philip Green), the human resources director (Alison Clarke) and the reward director (Brendan Fahey) who are consulted on proposals relating to the remuneration of the senior executive directors and senior executives (other than in respect of their own remuneration). The committee can and does seek advice or information directly from other employees where the committee feels that such additional contributions will assist the committee in its decision-making. The company secretary (Tom Keevil) acts as secretary to the committee which met five times in the year ended 31 March 2009.

Policy statement on executive directors' remuneration

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

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

In deciding the executive directors' total remuneration package and the individual elements of it, the remuneration committee considers both the performance of the individual and the company, as well as the range of pay in similar companies. The company aims to pay within a range of the mid-market rate over time but may pay higher salaries and total remuneration for out-performing individuals (or to attract or retain executives of the right calibre) and where the company itself out-performs. Account is also taken of a range of other factors, including the general increases in base salaries taking place within the company.

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

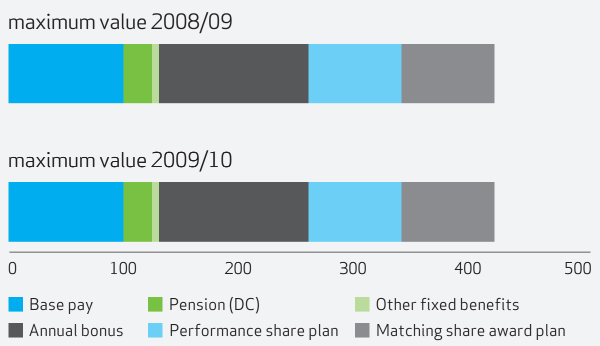
The committee aims to achieve an appropriate balance between fixed and variable rewards. It recognises that the group operates in both a regulated and non-regulated environment and therefore needs to ensure that the structure of executive remuneration reflects the practices of the markets in which its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

The group operates a defined contribution pension scheme which newly appointed directors (and senior executives) can join. Further details of pension benefits provided for executive directors are provided on page 34 of this report.

As noted in last year's report, the remuneration structure for 2008/09 reflected a greater emphasis on operational performance measures, an increase in maximum annual bonus opportunity and a reduction in levels of long-term incentive awards, so that the overall levels of remuneration did not increase. The committee consulted major shareholders and corporate governance advisory organisations prior to making this change. The committee reviewed the remuneration structure for 2009/10 and have decided not to make any changes for this year.

The chart below sets out the summary of the composition of reward that shows that at maximum performance the proportion of an executive's total face value remuneration that is 'at risk' is 69 per cent.

Executive directors' maximum annual total reward



Notes:

- The shading represents the value of each element of the reward package relative to base pay (base pay = 100).
- Pension refers to the defined contribution benefit provided with a group contribution of 25 per cent of basic pay.
- The maximum values apply only where maximum annual bonus is achieved and the PSP and MSAP have paid out fully.
- The values for the performance share plan and matching share award plan assume a dividend re-investment value of five per cent a year for each of the three years of the performance period and, in the case of the MSAP, that a director has invested to the maximum extent allowed with a maximum company match of 70 per cent of base salary.

Executive directors' shareholdings

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

Executive directors' remuneration 2008/09

Executive directors' emoluments and the value of long-term incentive vesting during 2008/09 are set out in table 1.

Base salaries

The remuneration committee reviews salaries each year taking account of both company and personal performance and the level of pay in similar and, where possible, comparable companies. There will be no salary increase for executive directors in 2009 and the next review date will be 1 September 2010. The following changes were made to the annual salaries of executive directors during the year and reflect the last review date of 1 September 2008.

Table 2: Executive directors' salaries

	Salary at 31 March 2009 £'000	Salary at 31 March 2008 £'000	Date of change
Philip Green	**798.0**	748.0	1 September 2008
Charlie Cornish	**386.0**	362.0	1 September 2008
Tim Weller	**464.0**	430.0	1 September 2008

Annual bonus

The annual bonus plan is designed to motivate and reward executives for the achievement of a range of measures that represent a balance of stakeholder interests. Performance measures established by the committee are designed to be stretching while recognising the nature and risk profile of the business. Financial performance represents one half of the total maximum opportunity. One quarter of the maximum award for each financial measure is payable for reaching a threshold target, approximately half for reaching what is broadly an on-target result and the maximum for achieving a demanding stretch target. Operational objectives reflect targets that are critical for improvements in operational performance, customer service, employee engagement and corporate social responsibility. Personal objectives reflect the individual targets and personal performance that an individual achieves during the year based upon key role specific objectives.

As reported in the remuneration report last year, the maximum bonus opportunity was increased for 2008/09 from 100 per cent to 130 per cent of salary with a corresponding reduction in long-term incentive awards.

Executives are encouraged to elect to take a significant part of their bonus in the form of company shares through the MSAP, thereby further aligning their interests with the long-term interests of shareholders. Participation in the plan is voluntary and for 2008, executives who were invited to and applied to join were able to elect to receive up to 50 per cent of their bonus in the form of United Utilities shares.

There is a corresponding match from the company whereby the first 20 per cent of bonus elected to be taken in the form of shares has a two-for-one match by the company and the remaining 30 per cent in an additional one-for-one match.

Future MSAP awards will be made on a basis that encourages executives to receive the increase in annual bonus opportunity in shares; the maximum matching share award will be limited to 70 per cent of salary and in order to participate fully the executive will be required to elect to receive a greater proportion of bonus earned (up to 61 per cent) in shares.

The matching shares are released after three years subject to the achievement of performance conditions. Details of the performance conditions and further information on the terms of the matching share awards are described in the section that relates to long-term incentives.

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

	Gross salary		Annual bonus		Other benefits		Compensation for loss of office		Total emoluments		Long-term incentive vesting during the year ended 31 March	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Philip Green	**777.2**	725.9	**471.4**	654.7	**24.8**	26.0	**–**	–	**1,273.4**	1,406.6	**–**	–
Paul Capell	**–**	145.8	**–**	–	**–**	7.4	**–**	341.5	**–**	494.7	**–**	–
Charlie Cornish	**376.0**	352.8	**220.5**	305.0	**24.1**	20.2	**–**	–	**620.6**	678.0	**–**	–
Tim Weller	**449.8**	417.5	**280.0**	417.5	**31.7**	33.6	**–**	–	**761.5**	868.6	**–**	–
Total	**1,603.0**	1,642.0	**971.9**	1,377.2	**80.6**	87.2	**–**	341.5	**2,655.5**	3,447.9	**–**	–

Governance

Directors' remuneration report
continued

Table 3: Annual bonus plan outcome for 2008/09 (% of salary)

	Financial				Operational											
	Group PBEIT		Group PBET		Operational targets		Employee engagement		Customer service		Corporate responsibility		Personal		Total	
	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual	Max	Actual
Philip Green	32.5	11.3	32.5	9.1	10.0	0.0	10.0	10.0	10.0	6.3	5.0	0.0	30.0	24.0	130.0	60.7
Charlie Cornish	32.5	11.3	32.5	9.1	10.0	0.0	10.0	10.0	10.0	6.3	5.0	0.0	30.0	22.0	130.0	58.7
Tim Weller	32.5	11.3	32.5	9.1	10.0	0.0	10.0	10.0	10.0	6.3	5.0	0.0	30.0	25.6	130.0	62.3

The measures and weightings to be used in respect of the bonus for 2009/10 are unchanged from those for 2008/09 as shown above.

Pensions
All executive directors were members of the defined contribution section of the company's pension scheme during the year. The plan is operated on a salary sacrifice arrangement whereby a salary reduction applies in return for a corresponding increase in company pension contributions. The salary reduction rate for Philip Green is equivalent to three per cent of basic salary and the rate for Charlie Cornish and Tim Weller is seven per cent. The company's contribution rate prior to including the executive's salary reduction rate is 25 per cent for Charlie Cornish and Tim Weller. The contribution rate for Philip Green is six per cent of basic salary to the pension scheme and an additional 19 per cent to his private pension plan. The normal pension age is 65.

During the year ended 31 March 2009, the group paid contributions totalling £401,492 (2008: £376,950) in respect of pension contributions for the current executive directors. This represents payments for Philip Green totalling £194,292 (2008: £181,480), for Charlie Cornish £93,999 (2008: £88,209) and for Tim Weller £113,201 (2008: £107,261). These figures exclude the contributions relating to the individual salary reductions.

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

Long-term incentives
The group currently operates a PSP and an MSAP to provide long-term incentives.

The performance conditions for long-term incentive awards comprise two measures: total shareholder return; and key operational performance measures. The weighting of each measure in respect of each of the two plans and for each year is shown overleaf in table 6.

Total shareholder return (TSR): represents share price growth and re-invested dividends compared with a comparator group of companies. Grants made from 2007/08 onwards are based upon a performance condition which measures the group's comparative TSR performance against a TSR index (index) rather than a comparator group ranking. Using an index allows for a meaningful comparison of performance to be made and a smoother sliding scale of vesting of awards. The index is constructed by assessing the TSR performance of the companies in the index, with its influence on the index being weighted according to their relevance and size. When a company is acquired or taken over their performance is reflected in the calculation of the index's performance up until the point that a public announcement is made. Any new company that joined the index would be treated in a comparable pro-rata manner.

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

The composition and weighting of the index for awards made during 2008/09 is shown below.

Table 4: Weighting of comparator companies 2008/09

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

The companies and weightings shown above are the same as for 2007/08, with the exception that Kelda PLC was a constituent of the index with a weighting of 100 per cent until it announced that it had received a takeover bid on 22 November 2007.

Table 5: Operational performance measures 2008/09

Operational area	Targets selected	No of targets	Weighting per each area	Vesting scale (no of targets achieved per each area)
Quality and environment	OPI water quality index, number of bacteriological failures, wastewater compliance, number of Category 1,2 and 3 pollution incidents, leakage.	5	25%	5 measures = 100% 4 measures = 50% 3 measures = 25% <3 measures = 0%
Finance and efficiency	Water relative efficiency ranking, wastewater relative efficiency ranking, achievement of capital delivery programme, gas relative efficiency ranking.	4	25%	4 measures = 100% 3 measures = 50% 2 measures = 25% <2 measures = 0%
Customer service	Customer minutes lost (electricity), customer satisfaction (electricity), customer satisfaction (water), customer service performance (water).	4	25%	4 measures = 100% 3 measures = 50% 2 measures = 25% <2 measures = 0%
People	Targets related to questions in the company's externally conducted employee opinion survey around job satisfaction, demonstration of values, employee engagement.	4	25%	4 measures = 100% 3 measures = 50% 2 measures = 25% <2 measures = 0%

Operational performance measures: the TSR performance measure is complemented by a range of operational performance targets in the categories of quality and environment, finance and efficiency, customer service and people.

These operational performance measures were chosen to reflect a balance of targets, achievement of which would demonstrate sustained and improving company performance over a three-year period in areas that would, if achieved, clearly support an increase in shareholder value, as well as being within areas that were clearly within management's accountability. The vesting scale shown for achievement of these measures is demanding. Failure to meet one of the targets in any area results in only 50 per cent vesting for that particular area.

i) Performance share plan

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

As disclosed in last year's remuneration report, awards during 2008/09 were reduced from 100 per cent to 70 per cent of salary for executive directors and from 60 per cent to 50 per cent of salary for other members of the executive leadership team. The same level of awards are planned for 2009/10.

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

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

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

Table 6: Summary of performance conditions applicable to awards under the performance share plan and matching share award plan

Grant year	Performance share plan	Matching share plan
2005/2006	100% TSR comparator group (see note)	N/A
2006/2007	100% TSR comparator group (see note)	N/A
2007/2008	100% TSR index	50% TSR index 50% operational measures
2008/2009	50% TSR index 50% operational measures	50% TSR index 50% operational measures

Notes:

The comparator group in respect of grants made in 2005/06 and 2006/07 consists initially of 16 selected companies (excluding United Utilities). As at the end of each of the performance periods there were 11 companies remaining in the comparator group. The companies were AMEC, BG Group, National Grid, Centrica, Scottish & Southern Energy, Pennon, Northumbrian Water, Severn Trent, Balfour Beatty, International Power and BT. The performance condition in respect of 2005/06 was not met and all awards made lapsed with no value during the year. The performance condition for the 2006/07 award has also not been met and no shares will vest under this award during 2009/10. The performance measures for 2009/10 are expected to be unchanged.

Governance

Directors' remuneration report
continued

Table 7: Executive directors' continuing scheme interests in the performance share plan (audited information)

						Awards as at 1 April 2008		Awards granted during the year		Awards lapsed during the year	**Awards as at 31 March 2009**	
	Award date	Performance period	Market price of a share at award (p)	Number of shares	Value at award date £'000's	Number of shares	Value £000's	Number of shares	Value £000's	Number of shares	**Number of shares**	**Value £000's**
Philip Green												
2005/06	13.2.06	1.4.05 to 31.3.08	688.5	78,432	540.0	78,432	541.6	–	–	(78,432)	**-**	**-**
2006/07	8.9.06	1.4.06 to 31.3.09	676.0	82,249	556.0	93,420	645.1	6,086	39.8	–	**99,506**	**481.1**
2007/08	11.6.07	1.4.07 to 31.3.10	752.5	92,359	695.0	98,620	681.0	6,425	42.0	–	**105,045**	**507.9**
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	75,121	523.6	–	–	80,014	555.6	–	**80,014**	**386.9**
Total					**2,314.6**	**270,472**	**1,867.7**	**92,525**	**637.4**	**(78,432)**	**284,565**	**1,375.9**
Charlie Cornish												
2005/06	30.6.05	1.4.06 to 31.3.08	657.5	30,419	200.0	30,419	210.0	–	–	(30,419)	**-**	**-**
2006/07	8.9.06	1.4.06 to 31.3.09	676.0	40,237	272.0	45,700	315.6	2,976	19.5	–	**48,676**	**235.3**
2007/08	11.6.07	1.4.07 to 31.3.10	752.5	45,183	340.0	48,245	333.1	3,142	20.5	–	**51,387**	**248.5**
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	36,355	253.4	–	–	38,722	268.9	–	**38,722**	**187.2**
Total					**1,065.4**	**124,364**	**858.7**	**44,840**	**308.9**	**(30,419)**	**138,785**	**671.0**
Tim Weller												
2006/07	8.9.06	1.4.06 to 31.3.09	676.0	47,338	320.0	53,767	371.2	3,502	22.9	–	**57,269**	**276.9**
2007/08	11.6.07	1.4.07 to 31.3.10	752.5	53,157	400.0	56,760	391.9	3,697	24.2	–	**60,457**	**292.3**
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	43,185	301.0	–	–	45,997	319.4	–	**45,997**	**222.4**
Total					**1,021.0**	**110,527**	**763.1**	**53,196**	**366.5**	**-**	**163,723**	**791.6**

The following notes apply to tables 7 to 11

The lapse of awards in respect of 2006/07 will be reflected in the 2010 remuneration report.

The values shown for 1 April 2008 and 31 March 2009 have been calculated using the opening and closing mid-market price of a share on each day of 690.5 pence and 483.5 pence respectively.

Any awards granted during the year include the total number of additional interests granted as a result of notional dividends being re-invested.

From 2006/07 onwards, all awards will be increased by the notional re-investment of dividends paid over the course of the retention or performance period.

Notional dividends re-invested are in respect of ordinary dividends only and do not reflect any dividend or cash redemption amount in respect of United Utilities Group B Shares.

During the period 1 April 2008 to 31 March 2009 the market price of a share ranged from 761.8 pence to 463.2 pence.

ii) Matching share award plan

Details of the basis for MSAP awards are provided under the section relating to annual bonus. A proportion of annual bonus received in shares results in a corresponding matching award from the company. An executive must retain his shares for the three-year holding period in order to receive the matching award and in addition matching shares are only released if performance criteria are met. For awards made in 2007/08 and 2008/09 one half of each award is subject to an index performance condition on the same basis as applies to the PSP and one half relates to operational performance targets on the same basis as the PSP.

The provisions that apply in the event of a change of control, capital reconstruction or winding up of the company are the same as for the PSP.

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

						Awards as at 1 April 2008		Awards granted during the year		Awards lapsed during the year	**Awards as at 31 March 2009**	
	Award date	Performance period	Market price of a share at award (p)	Number of shares	Value at award date £'000's	Number of shares	Value £000's	Number of shares	Value £000's	Number of shares	**Number of shares**	**Value £000's**
Philip Green												
	30.7.07	1.4.07 to 31.3.10	662.0	51,624	341.7	55,123	380.6	3,590	23.5	–	**58,713**	**283.9**
	6.8.08	1.4.08 to 31.3.11	697.0	65,755	458.3	–	–	70,038	486.3	–	**70,038**	**338.6**
Total					**800.0**	**55,123**	**380.6**	**73,628**	**509.8**	**–**	**128,751**	**622.5**
Charlie Cornish												
	30.7.07	1.4.07 to 31.3.10	662.0	14,606	96.9	15,596	107.7	1,015	6.6	–	**16,611**	**80.3**
	6.8.08	1.4.08 to 31.3.11	697.0	18,475	128.8	–	–	19,678	136.6	–	**19,678**	**95.1**
Total					**225.7**	**15,596**	**107.7**	**20,693**	**143.2**	**–**	**36,289**	**175.4**
Tim Weller												
	30.7.07	1.4.07 to 31.3.10	662.0	22,015	145.7	23,507	162.3	1,530	10.0	–	**25,037**	**121.1**
	6.8.08	1.4.08 to 31.3.11	697.0	41,929	292.2	–	–	44,660	310.1	–	**44,660**	**215.9**
Total					**437.9**	**23,507**	**162.3**	**46,190**	**320.1**	**–**	**69,697**	**337.0**

Matched share investment scheme for Philip Green

Full details of the matched share investment scheme for Philip Green, introduced as part of his terms of appointment, were disclosed in the remuneration report for 2006. In accordance with the rules of that scheme, Philip Green invested in 100,000 shares and a conditional matched award of 100,000 shares was made to him on 16 January 2007 which will transfer to him at the end of the five-year retention period on 12 February 2011, subject to his still being employed by the group at that date.

Table 9: Philip Green's continuing scheme interests in the matched share investment scheme (audited information)

						Awards as at 1 April 2008		Awards granted during the year		Awards lapsed during the year	Awards as at 31 March 2009	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000's	Number of shares	Value £000's	Number of shares	Value £000's	Number of shares	Number of shares	Value £000's
Philip Green	16.1.07	13.2.06 to 12.2.11	761.0	100,000	761.0	113,583	784.3	7,399	48.4	–	120,982	584.9

Directors' remuneration report
continued

Matched share investment scheme for Tim Weller

Full details of the matched share investment scheme for Tim Weller, introduced as part of his terms of appointment, were disclosed in the remuneration report for 2007. In accordance with the rules of that scheme, Tim Weller invested in 39,000 shares and a conditional matched award of 39,000 shares was made to him on 14 February 2007 which will transfer to him at the end of the five-year retention period on 30 June 2011, subject to his still being employed by the group at that date.

Table 10: Tim Weller's continuing scheme interests in the matched share investment scheme (audited information)

						Awards as at 1 April 2008		Awards granted during the year		Awards lapsed during the year	**Awards as at 31 March 2009**	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000's	Number of shares	Value £000's	Number of shares	Value £000's	Number of shares	**Number of shares**	**Value £000's**
Tim Weller	14.2.07	1.7.06 to 30.6.11	772.5	39,000	301.3	44,296	305.9	2,885	18.9	–	**47,181**	**228.1**

Special long-term incentive scheme for Charlie Cornish

Full details of the special long-term incentive scheme for Charlie Cornish were disclosed in the remuneration report for 2007. In accordance with the rules of that scheme, an award equal in value to his annual salary was granted to Charlie Cornish on 16 March 2007 in the form of an option over 47,027 shares. There are performance conditions which are attached to this award which mirror the operational performance measures adopted in respect of the first matching share award grant in 2007/08.

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

						Awards as at 1 April 2008		Awards granted during the year		Awards lapsed during the year	**Awards as at 31 March 2009**	
	Award date	Retention period	Market price of a share at award (p)	Number of share	Value at award date £'000's	Number of shares	Value £000's	Number of shares	Value £000's	Number of shares	**Number of shares**	**Value £000's**
Charlie Cornish	16.3.07	1.4.06 to 31.3.10	723	47,027	340.0	53,413	368.9	3,479	22.7	–	**56,892**	**275.1**

United Utilities Group PLC

Following the acquisition of shares in United Utilities PLC by United Utilities Group PLC, all company share awards, that were previously awards over shares in United Utilities PLC ('UU') became awards over shares in United Utilities Group PLC ('UUG'). The cash alternatives that were available to shareholders in addition to the exchange of UU shares for UUG shares did not apply to company share awards and any cash redemption or dividend payment in respect of UUG B Shares was not included for the purposes of any notional dividend re-investment that applies to existing awards. Executives who were the beneficial owners of UU shares connected with awards under any matched investment scheme were entitled to receive UUG B shares but were required to retain UUG B shares until the last possible redemption date in April 2009. In order to retain any matching company awards the executives are required to retain the revised holding in UUG shares to the end of the original performance or retention period. Full details were provided to shareholders in the prospectus prior to the approval of the scheme of arrangement at the extraordinary general meeting on 1 July 2008.

Contracts of service and compensation for termination

The group's policy is that the executive directors normally have one-year notice periods. The group may offer a longer notice period if it considers that necessary to recruit a new director. If it offers an initial notice period of more than one year, it will reduce that to a rolling one-year notice period after the initial period has expired. At 31 March 2009, all current executive directors had one-year notice periods. Service contracts are with, and all remuneration and benefits are provided by, United Utilities PLC.

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

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

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

Details of directors' contracts as at 31 March 2009 are set out in table 12.

Table 12: Executive directors' service contracts as at 31 March 2009

	Date of contract	Unexpired term (to 65th birthday)	Notice period
Philip Green	13.02.06	12.05.18	12 months (rolling)
Charlie Cornish	05.01.04	30.11.24	12 months (rolling)
Tim Weller	01.07.06	08.06.28	12 months (rolling)

Non-executive directorships

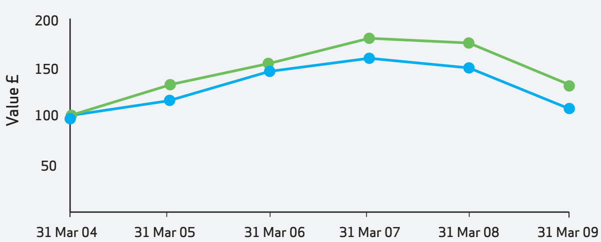
The group recognises that its executive directors may be invited to become non-executive directors of companies outside the group and exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the group. Subject to board approval (which will not be given if the proposed appointment is with a competing company, would otherwise lead to a material conflict of interest or could have a detrimental effect on a director's performance), executive directors are allowed to accept one non-executive directorship and to retain the fee. Philip Green is a non-executive director of Lloyds Banking Group plc and received £100,000 in fees in the year to 31 December 2008. Tim Weller is a non-executive director of the Carbon Trust and received £21,000 in fees for the year to 31 March 2009.

Performance graph

The performance graph compares the group's annual TSR performance (reflecting B shares issued to shareholders and the share consolidation) for the past five years against the FTSE 100 index. This index was chosen as it is the most appropriate broad equity market index. This comparison also supplements the information on the group's TSR performance relative to the comparator groups in the MSAP and PSP. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date of 31 March 2004.

Total shareholder return

Source: Thomson Financial



This graph shows the value, by 31 March 2009, of £100 invested in United Utilities on 31 March 2004 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

— United Utilities
— FTSE 100 Index

Non-executive directors (including the chairman)

A committee of the board decides the remuneration of all of the non-executive directors other than the chairman. Its members are the chairman (Sir Richard Evans until 25 July 2008 and Dr John McAdam thereafter) and the executive directors: Philip Green, Charlie Cornish and Tim Weller. The committee met once during the year to review the fees paid to non-executive directors, which were increased with effect from 1 September 2008 (see below). The remuneration committee (details of which are set out earlier in this report) determines the remuneration of the chairman.

The group's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed each year when account is taken of the level of fees paid in companies of similar size and complexity. There are separate annual fees for the chairman and the other non-executive directors. Additional fees are paid to the chairmen of the audit and remuneration committees and to the senior independent non-executive director. Non-executive directors do not participate in any annual bonus or incentive plans, pension schemes, healthcare arrangements, the group's long-term incentive plans or employee share schemes. The group repays the reasonable expenses that non-executive directors incur in carrying out their duties as directors.

Non-executive directors' fees were increased on 1 September 2008. The base annual fee is £54,000 a year (2008: £52,000). The chairman of the audit committee receives an additional annual fee which was increased on 1 September 2008 from £10,000 to £12,500. The chairman of the remuneration committee and, with effect from 1 September 2008, the senior independent non-executive director, receive an additional annual fee of £10,000.

The chairman's fee was £250,000 which was payable following his appointment at the AGM on 25 July 2008. The next review of non-executive directors' fees will be in September 2009.

Non-executive directors' remuneration for the year ended 31 March 2009 is set out in table 14.

Terms of appointment

Non-executive directors' appointments are for an initial period of three years. They are subject to re-appointment at the first AGM after their initial appointment and at an AGM at least every three years thereafter (if they are to be reappointed). After nine years in office, a non-executive director is required to seek reappointment each year at the AGM. They have letters of appointment, as opposed to contracts of service. In the event of early termination, for whatever reason, they are not entitled to receive compensation for loss of office.

The non-executive directors' letters of appointment can be inspected at the group's registered office and on the group's website, **unitedutilities.com** The letters set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them. Table 13 summarises the terms of appointment for each non-executive director.

Directors' remuneration report
continued

Table 13: Non-executive directors' terms of appointment

	Date first appointed to board	Date of last appointment AGM in	Reappoint no later than AGM in	Notice period	Compensation upon early termination
Sir Richard Evans	1.9.1997	2007	n/a	None	None
Dr John McAdam	4.2.2008	2008	2011	None	None
Dr Catherine Bell	19.3.2007	2007	2010	None	None
Norman Broadhurst	1.4.1999	2005	n/a	None	None
Paul Heiden	5.10.2005	2006	2009	None	None
David Jones	3.1.2005	2008	2011	None	None
Andrew Pinder	1.9.2001	2007	2010	None	None
Nick Salmon	4.4.2005	2008	2011	None	None

Note:
At the AGM on 25 July 2008 Sir Richard Evans and Norman Broadhurst did not stand for re-election and Dr John McAdam was appointed chairman.

Table 14: Non-executive directors' fees (audited information)

Total fees

	Year to 31 March 2009 £'000	Year to 31 March 2008 £'000
Sir Richard Evans	76.7	225.8
Dr John McAdam	187.7	8.7
Dr Catherine Bell	53.2	51.2
Norman Broadhurst	17.3	59.8
Paul Heiden	64.6	52.0
David Jones	63.2	61.2
Sir Peter Middleton	n/a	30.0
Andrew Pinder	53.2	51.2
Nick Salmon	59.0	51.2
Total	**574.9**	**591.1**

Share interests

Details of beneficial interests in the company's ordinary shares as at 31 March 2009 held by the directors and their connected persons are set out below in table 15. Except as described below and, in the case of the options granted as part of the incentive schemes of the company, as set out above, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.

Table 15: Details of interests in shares held by directors

	At 1 April 2008	At 31 March 2009 Ordinary	At 31 March 2009 B shares
Sir Richard Evans	381	n/a	n/a
Dr John McAdam	–	1,837	–
Philip Green	122,570	122,741	121,756
Dr Catherine Bell	–	–	–
Norman Broadhurst	530	n/a	n/a
Charlie Cornish	14,943	17,545	4,308
Paul Heiden	1,852	2,421	–
David Jones	–	–	–
Andrew Pinder	6,222	6,807	–
Nick Salmon	1,300	1,004	–
Tim Weller	48,747	55,599	48,277

Notes:
Interests as at 1 April 2008 represent interests in ordinary shares in UU. Interests at 31 March 2009 represent interests in ordinary shares and B shares in UUG following that company's substitution as the new holding company for the group pursuant to the scheme of arrangement which became effective on 28 July 2008. Pursuant to that scheme, shareholders of UU were issued with 17 new ordinary shares in UUG for every 22 ordinary shares held by them in UU and one B share in UUG for every ordinary share held by them in UU.

In the period 1 April 2009 to 27 May 2009, additional interests were acquired by Philip Green (57 ordinary shares), Charlie Cornish (59 ordinary shares) and Tim Weller (57 ordinary shares) in respect of their regular monthly contributions to the company's HMRC approved share incentive plan. On 14 April 2009 all B shares remaining in issue including all those listed in table 15, were redeemed.

Employee share schemes

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

The main all-employee scheme is the HM Revenue & Customs approved share incentive plan, 'ShareBuy'. This is a flexible way for employees to acquire shares in the group 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, which need to be held in trust for a five-year term in order to retain the maximum tax advantages.

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

Approved by the board of directors on 27 May 2009 and signed on its behalf by:

David Jones
Remuneration committee chairman

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the 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 and loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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 27 May 2009 and signed on its behalf by:

Dr John McAdam
Chairman

Tim Weller
Chief financial officer

Financial statements

Independent auditors' report

Independent auditors' report to the members of United Utilities Group PLC

We have audited the group and parent company financial statements (the 'financial statements') of United Utilities Group PLC for the year ended 31 March 2009 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated statement of recognised income and expense, the consolidated and parent company cashflow statements, the accounting policies and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 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

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for being satisfied that the group and parent company financial statements give a true and fair view are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the relevant financial reporting framework and whether the financial statements and the part of the directors' remuneration report to be audited have been prepared in accordance with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the chairman's and chief executive's statements and the business review that is cross-referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if disclosures of directors' benefits, remuneration, pensions and compensation for loss of office specified by law are not made.

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group and parent company 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 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006;
- the group and parent company financial statements have been prepared in accordance with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation;
- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report is consistent with the financial statements.

Richard Norton (Senior Statutory Auditor)
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditors
Manchester, United Kingdom

27 May 2009

Consolidated income statement

for the year ended 31 March

	Note	2009 £m	2008 £m
Continuing operations			
Revenue	1,2	2,434.7	2,362.9
Other income	4	18.5	21.3
Employee benefits expense	3	(347.2)	(317.5)
Depreciation and amortisation expense	4	(263.5)	(248.2)
Infrastructure renewals expenditure		(117.8)	(120.1)
Other operating costs	4	(989.5)	(1,035.2)
Total operating expenses		(1,699.5)	(1,699.7)
Operating profit	2,4	735.2	663.2
Investment income	5	65.5	146.7
Finance expense	6	(270.9)	(331.6)
Investment income and finance expense		(205.4)	(184.9)
Profit before taxation		529.8	478.3
Current taxation charge		(139.1)	(88.6)
Deferred taxation charge		(3.7)	(55.1)
Deferred taxation charge – abolition of industrial buildings allowances		(206.4)	–
Deferred taxation credit – change in taxation rate		–	81.7
Taxation	7	(349.2)	(62.0)
Profit for the year from continuing operations		180.6	416.3
Discontinued operations			
(Loss)/profit for the year/period from discontinued operations	8	(1.2)	492.9
Profit for the year		179.4	909.2
Earnings per share	10		
from continuing and discontinued operations*			
Basic		26.3p	133.6p
Diluted		26.3p	133.6p
Earnings per share	10		
from continuing operations*			
Basic		26.5p	61.2p
Diluted		26.5p	61.2p
Dividend per ordinary share	9	32.67p	46.67p

* The weighted average number of shares for the current and prior year have been based upon the 681,381,233 new ordinary shares issued in United Utilities Group PLC on 28 July 2008 and the earnings per share figures for the comparative year have been re-presented accordingly (see note 10).

Balance sheets

at 31 March

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m
ASSETS				
Non-current assets				
Property, plant and equipment	11	7,977.2	7,591.8	–
Goodwill	12	2.6	2.3	–
Other intangible assets	13	106.1	85.3	–
Investments	14	136.8	155.5	6,326.8
Trade and other receivables	16	21.5	28.2	–
Derivative financial instruments	19	412.6	44.3	–
		8,656.8	7,907.4	6,326.8
Current assets				
Inventories	15	73.0	63.3	–
Trade and other receivables	16	491.6	456.2	66.4
Cash and short-term deposits	17	298.6	1,810.5	–
Derivative financial instruments	19	226.4	99.0	–
		1,089.6	2,429.0	66.4
Total assets		9,746.4	10,336.4	6,393.2
LIABILITIES				
Non-current liabilities				
Trade and other payables	23	(139.8)	(125.5)	–
Borrowings	18	(5,200.1)	(3,788.9)	–
Retirement benefit obligations	20	(213.1)	(101.2)	–
Deferred tax liabilities	21	(1,338.9)	(1,164.0)	–
Provisions	22	(17.2)	(18.7)	–
Derivative financial instruments	19	(4.5)	(53.2)	–
		(6,913.6)	(5,251.5)	–
Current liabilities				
Trade and other payables	23	(672.4)	(771.9)	(0.6)
Borrowings	18	(479.6)	(878.4)	(1,502.2)
Current income tax liabilities		(67.6)	(66.9)	–
Provisions	22	(22.6)	(21.0)	–
Derivative financial instruments	19	(148.6)	(136.7)	–
		(1,390.8)	(1,874.9)	(1,502.8)
Total liabilities		(8,304.4)	(7,126.4)	(1,502.8)
Total net assets		1,442.0	3,210.0	4,890.4
EQUITY				
Capital and reserves attributable to equity holders of the company				
Share capital	24,25	499.8	881.6	499.8
Share premium account	24	0.7	1,429.3	0.7
Revaluation reserve	24	158.8	158.8	–
Treasury shares	24	(0.3)	(0.3)	–
Cumulative exchange reserve	24	16.1	7.6	–
Capital redemption reserve	24	–	–	1,016.6
Merger reserve	24	313.0	–	–
Other reserves	24	36.6	58.1	–
Retained earnings	24	417.3	674.9	3,373.3
Shareholders' equity		1,442.0	3,210.0	4,890.4

Approved by the board of directors on 27 May 2009 and signed on its behalf by:

Philip Green
Chief executive officer

Tim Weller
Chief financial officer

Statement of recognised income and expense

for the year ended 31 March

Group	Note	2009 £m	2008 £m
Actuarial losses on defined benefit pension schemes	20,24	(124.3)	(126.4)
Revaluation of investments	14,24	(20.3)	34.9
Fair value losses on cashflow hedges	24	(1.6)	(1.5)
Foreign exchange adjustments	24	8.5	11.8
Tax on items taken directly to equity	21,24	35.2	35.8
Net expense recognised directly in equity		(102.5)	(45.4)
Profit for the year	24	179.4	909.2
Total recognised income and expense for the year		76.9	863.8

Cashflow statements

for the year ended 31 March

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m
Operating activities				
Cash generated from operations	29	911.4	876.9	172.5
Interest paid		(232.3)	(299.9)	(40.6)
Interest received and similar income		90.4	119.1	0.1
Tax paid		(32.8)	(98.6)	–
Net cash generated from operating activities (continuing operations)		736.7	597.5	132.0
Net cash generated from operating activities (discontinued operations)	29	–	99.5	–
		736.7	697.0	132.0
Investing activities				
Disposal of investments		–	0.6	–
Disposal of associated company	8	–	75.8	–
Disposal of subsidiaries		–	1,152.7	–
Net cash outflow from group reorganisation		–	(15.0)	–
Purchase of property, plant and equipment		(675.2)	(644.5)	–
Purchase of other intangible assets		(38.9)	(25.3)	–
Proceeds from sale of property, plant and equipment		3.8	15.0	–
Net cash (used in)/generated from investing activities (continuing operations)		(710.3)	559.3	–
Net cash used in investing activities (discontinued operations)		–	(161.0)	–
		(710.3)	398.3	–
Financing activities				
Proceeds from issue of ordinary shares		1.6	9.2	0.7
Cash used in structured financing		(163.9)	(170.1)	–
Proceeds from borrowings		3,784.7	1,068.9	1,419.4
Repayment of borrowings		(3,310.9)	(2,297.2)	–
Dividends paid to equity holders of the company	9	(349.9)	(400.4)	(72.5)
Return to shareholders on capital reorganisation		(1,482.3)	–	(1,482.3)
Dividends received from discontinued operations		–	100.0	–
Net cash used in financing activities (continuing operations)		(1,520.7)	(1,689.6)	(134.7)
Net cash used in financing activities (discontinued operations)		–	(190.1)	–
		(1,520.7)	(1,879.7)	(134.7)
Effects of exchange rate changes (continuing operations)		(1.8)	148.9	–
Net decrease in cash and cash equivalents (continuing operations)		(1,496.1)	(383.9)	(2.7)
Net decrease in cash and cash equivalents (discontinued operations)		–	(251.6)	–
		(1,496.1)	(635.5)	(2.7)
Cash and cash equivalents at beginning of the year/period	17	1,705.2	2,340.7	–
Cash and cash equivalents at end of the year/period	17	209.1	1,705.2	(2.7)

Financial statements

Accounting policies

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

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments.

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP) under IFRS, requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented. Although these estimates are based upon management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction' has been adopted during the year with no material impact on the group's financial statements. The interpretation was endorsed by the EU on 16 December 2008.

New statutory holding company

The company was incorporated and registered in England and Wales on 8 April 2008 under the Companies Act 1985 as a private company limited by shares with the name United Utilities Newco Limited and registered number 6559020. The company changed its name and re-registered as a public company on 28 April 2008 under the name United Utilities Group PLC. 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 (the previous holding company) and United Utilities Group PLC (the new holding company) and the group became United Utilities Group PLC.

This has been accounted for as a reverse acquisition in the consolidated financial statements. The legal subsidiary, United Utilities PLC, was treated as the acquirer and the legal parent company, United Utilities Group PLC, was treated as the subsidiary. The transaction was, in substance, an acquisition of the assets of United Utilities Group PLC by United Utilities PLC.

As a consequence of applying reverse acquisition accounting, the results of United Utilities Group PLC (the 'group') for the year ended 31 March 2009 comprise the results of United Utilities PLC for the year ended 31 March 2009 consolidated with those of United Utilities Group PLC from 28 July 2008. The comparative figures for the group are those of the group headed by United Utilities PLC for the year ended 31 March 2008.

Going concern

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

Operating profit

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

b) Basis of consolidation

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

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the group.

Subsidiaries

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

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

Associates

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

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture income, expenses, assets, liabilities and cashflows are included in the consolidated financial statements on a proportionate consolidation basis using the same accounting methods as adopted for subsidiaries.

c) Non-current assets held for sale

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

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

d) Intangible assets

Goodwill

Goodwill arising on consolidation is recognised as an asset.

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

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

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

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. The carrying amount is reduced by any provision for impairment where necessary.

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

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

Amortisation periods for categories of intangible assets are:

- Computer software 3 to 10 years; and
- Other intangible assets 2 to 20 years.

e) Property, plant and equipment

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

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on the infrastructure assets relating to increases in capacity or enhancements of the network are treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing-off their deemed cost, less the estimated residual value, evenly over their useful lives, which range from 15 to 300 years.

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

Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

- Buildings 30 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.

f) Impairment of tangible and intangible assets excluding goodwill

Intangible assets with definite useful lives and property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cashflows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cashflows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cashflows have not been adjusted.

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

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

g) Financial instruments

Financial assets and financial liabilities are recognised and derecognised on the group's balance sheet on the trade date when the group becomes a party to the contractual provisions of the instrument.

Cash and short-term deposits

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

Financial investments

Investments (other than interests in associates, subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments are classified as available for sale in accordance with IAS 39 'Financial Instruments:

Accounting policies
continued

Recognition and Measurement' and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

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

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

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

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

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

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

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

Fair value hedges
For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in 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, 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.

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, 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 recognised income and expense. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the exchange reserve are included in the income statement when the foreign operations are disposed of.

h) Foreign currency translation

Transactions and balances
Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on the balance sheet date. Gains and losses arising on retranslation are included in net profit or loss for the period. Exchange differences arising on investments in equity instruments classified as available for sale are included in the gains or losses arising from changes in fair value which are recognised directly in equity.

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

Group companies
On consolidation, the balance sheets of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary

economy) are translated into sterling at exchange rates applicable at the balance sheet date. The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

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

i) Borrowing costs and finance income

All borrowing costs and finance income that are not directly attributable to the acquisition, issue or disposal of a financial asset or financial liability are recognised in the income statement in the period in which they are accrued.

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

j) Long-term contract accounting

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

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

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

k) Taxation

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

Current taxation

Current taxation, including UK corporation tax and foreign tax, is based 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 substantially enacted at the balance sheet date.

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

Deferred taxation

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

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

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

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

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

l) Employee benefits

Retirement benefit obligations

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

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

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

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

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

Share-based compensation arrangements

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

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based 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.

At each balance sheet date, the group revises its estimate of the number of options that are expected to become exercisable with

Accounting policies
continued

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.

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed. Liabilities for environmental remediation costs are recognised when there is a legal or constructive obligation, environmental assessments indicate that clean up is probable, and the associated costs can be reliably estimated.

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

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

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

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

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

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

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

Properties held for resale are included at the lower of cost and net realisable value. Cost includes the cost of acquiring and developing the sites.

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

r) Critical accounting judgements and key sources of estimation uncertainty
In the process of applying its accounting policies, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented.

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

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

Carrying value of property, plant and equipment
The estimated useful economic lives of property, plant and equipment (PPE) are based 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. Should the group consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned or collectibility is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

United Utilities Water PLC raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and wastewater customers with water meters, the receivable billed is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based upon estimated usage from the last billing through to the end of the financial year. 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 received in advance of performance is recognised as deferred income. When performance occurs, the deferred income is released and simultaneously reported as revenue.

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

Provision for doubtful receivables

At each balance sheet date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record provisions for doubtful receivables based 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 30, unless the possibility of transferring economic benefits is remote.

Retirement benefits

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

Derivatives and borrowings

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

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

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

Designated borrowings and derivatives valued at fair value are valued using a discounted cashflow valuation model. This model calculates the zero coupon curves for the applicable currency as at the balance sheet date and uses these to determine future floating cashflows. Future fixed and floating cashflows are discounted using discount factors derived from the same zero coupon curves adjusted for credit where appropriate. Cashflows denominated in foreign currencies are converted into sterling at the spot exchange rate observed at the balance sheet 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. 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.

s) Recently issued accounting pronouncements

International Financial Reporting Standards

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

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

- IAS 23 'Borrowing Costs – Revised standard'. On 29 March 2007, the International Accounting Standards Board (IASB) issued a

Financial statements

Accounting policies
continued

revised IAS 23 'Borrowing Costs'. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to prepare for use or sale. The revised standard is effective for periods commencing on or after 1 January 2009. The group is, therefore, required to capitalise borrowing costs as part of the cost of qualifying assets from 1 April 2009. The amendment was endorsed by the EU on 10 December 2008; and

- IFRS 3 'Business Combinations – Revised standard', issued in January 2008, is effective for periods commencing on or after 1 July 2009 but has not yet been endorsed by the EU. This will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future.

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

- IAS 32 'Financial Instruments: Presentation – Amendment' and IAS 1 'Presentation of Financial Statements – Amendment', issued in February 2008, are effective for periods commencing on or after 1 January 2009 and were endorsed by the EU on 21 January 2009;
- IFRS 2 'Share-based Payment – Amendment', issued in January 2008, is effective for periods commencing on or after 1 January 2009 and was endorsed by the EU on 16 December 2008;
- IFRS 7 'Financial Instruments: Disclosures – Amendment', issued in March 2009, is effective for periods commencing on or after 1 January 2009 but has not yet been endorsed by the EU;
- IFRS 8 'Operating Segments', issued in November 2006, is effective for periods commencing on or after 1 January 2009 and was endorsed by the EU on 21 November 2007;
- IFRIC 12 'Service Concession Arrangements', issued in November 2006, is effective for periods commencing on or after 1 January 2008 and was endorsed by the EU on 26 March 2009 with the requirement to apply to periods starting after 29 March 2009; and
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', issued in July 2008, is effective for periods commencing on or after 1 October 2008 but has not yet been endorsed by the EU.

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

- IFRS 1 'First-time Adoption of International Financial Reporting Standards –Amendment' and IAS 27 'Consolidated and Separate Financial Statements – Amendment', issued in May 2008, are effective for periods commencing on or after 1 July 2009 and were endorsed by the EU on 23 January 2009;
- IAS 27 'Consolidated and Separate Financial Statements – Revised standard', issued in January 2008, is effective for periods commencing on or after 1 July 2009 but has not yet been endorsed by the EU;
- IAS 39 'Financial Instruments: Recognition and Measurement – Amendment', issued in July 2008, is effective for periods commencing on or after 1 July 2009 but has not yet been endorsed by the EU;
- IFRIC 9 'Reassessment of Embedded Derivatives – Amendment' and IAS 39 'Financial Instruments: Recognition and Measurement – Amendment', issued in March 2009, are effective for periods commencing on or after 1 July 2008 but have not yet been endorsed by the EU;
- IFRIC 13 'Customer Loyalty Programmes', issued in June 2007, is effective for periods commencing on or after 1 July 2008 and was endorsed by the EU on 16 December 2008;
- IFRIC 15 'Agreements for the Construction of Real Estate', issued in July 2008, is effective for periods commencing on or after 1 January 2009 but has not yet been endorsed by the EU;
- IFRIC 17 'Distributions of Non-cash Assets to Owners', issued in November 2008, is effective for periods commencing on or after 1 July 2009 but has not yet been endorsed by the EU; and
- IFRIC 18 'Transfer of Assets from Customers', issued in January 2009, is effective for periods commencing on or after 1 July 2009 but has not yet been endorsed by the EU.

Notes to the financial statements

1 TOTAL REVENUE

Revenue recognised in the consolidated income statement is analysed as follows:

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m
Provision of goods and services (see note 2)	2,434.7	2,362.9	234.7	2,597.6
Dividend income (see note 4)	12.4	11.2	–	11.2
Investment income (see note 5)	65.5	146.7	0.5	147.2
	2,512.6	2,520.8	235.2	2,756.0

No revenue was derived from exchanges of goods or services during the year ended 31 March 2009 (2008: £nil).

2 SEGMENT REPORTING

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

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

The regulated activities segment includes the regulated results of United Utilities Water PLC.

The non-regulated activities segment includes the group's utility outsourcing contracts in the United Kingdom and overseas.

In addition, the other activities segment includes the results of United Utilities Property Solutions Limited, United Utilities Group PLC and other group holding companies.

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

Year ended 31 March 2009	Regulated activities £m	Non-regulated activities £m	Other activities £m	Group £m
Continuing operations				
Total revenue	1,499.5	919.3	22.4	2,441.2
Inter-segment revenue	(0.9)	(0.1)	(5.5)	(6.5)
External revenue	1,498.6	919.2	16.9	2,434.7
Segmental operating profit/(loss)	678.4	69.1	(12.3)	735.2
Investment income				65.5
Finance expense				(270.9)
Profit before taxation				529.8
Taxation				(349.2)
Profit for the year from continuing operations				180.6

Year ended 31 March 2008	Regulated activities £m	Non-regulated activities £m	Other activities £m	Group £m
Continuing operations				
Total revenue	1,416.3	949.2	41.3	2,406.8
Inter-segment revenue	(2.1)	(33.2)	(8.6)	(43.9)
External revenue	1,414.2	916.0	32.7	2,362.9
Segmental operating profit	611.6	50.6	1.0	663.2
Investment income				146.7
Finance expense				(331.6)
Profit before taxation				478.3
Taxation				(62.0)
Profit for the year from continuing operations				416.3

Notes to the financial statements
continued

2 SEGMENT REPORTING CONTINUED

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

Year ended 31 March 2009	Regulated activities £m	Group £m
Discontinued operations		
External revenue	–	–
Segmental operating loss	(1.2)	(1.2)

Year ended 31 March 2008	Regulated activities £m	Non-regulated activities £m	Telecoms £m	Group £m
Discontinued operations				
Total revenue	223.7	32.6	–	256.3
Inter-segment revenue	–	(21.6)	–	(21.6)
External revenue	223.7	11.0	–	234.7
Segmental operating profit	153.3	0.7	4.5	158.5

Year ended 31 March 2009	Regulated activities £m	Non-regulated activities £m	Other activities £m	Unallocated £m	Group £m
Other information					
Capital additions	622.6	42.8	0.2	–	665.6
Depreciation and amortisation	236.2	27.2	0.1	–	263.5
Balance sheet					
Segment assets	8,495.1	695.7	254.2	301.4	9,746.4
Segment liabilities	(650.6)	(318.2)	(44.7)	(7,290.9)	(8,304.4)

Year ended 31 March 2008	Regulated activities £m	Non-regulated activities £m	Other activities £m	Discontinued operations £m	Unallocated £m	Group £m
Other information						
Capital additions	706.0	61.6	0.1	166.8	–	934.5
Depreciation and amortisation	222.9	24.9	0.4	–*	–	248.2
Balance sheet						
Segment assets	7,752.8	695.6	73.6	–	1,814.4	10,336.4
Segment liabilities	(593.3)	(310.6)	(113.7)	–	(6,108.8)	(7,126.4)

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

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

Of the group's consolidated revenue and net assets for continuing operations, greater than 90 per cent of revenue is derived from customers located in the United Kingdom and greater than 90 per cent of the net assets are located in the United Kingdom, for both of the years ended 31 March 2009 and 31 March 2008 and, hence, no geographical analysis is presented.

3 DIRECTORS AND EMPLOYEES

Directors' remuneration

	2009 £m	2008 £m
Fees to non-executive directors	0.6	0.6
Salaries	1.6	1.6
Benefits	0.1	0.4
Bonus	1.0	1.4
	3.3	4.0

Benefits of £0.1 million (2008: £0.4 million) include £nil (2008: £0.3 million) in respect of compensation for loss of office.

Further information about the remuneration of individual directors and details of their pension arrangements is provided in the directors' remuneration report on pages 32 to 40.

Remuneration of key management personnel

	2009 £m	2008 £m
Salaries and short-term employee benefits	5.0	5.6
Post-employment benefits	0.7	0.6
Share-based payments	–	0.1
	5.7	6.3

Salaries and short-term employee benefits include £nil (2008: £0.3 million) in respect of compensation for loss of office.

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

Employee benefits expense (including directors)

Group	2009 £m	2008 £m
Continuing operations		
Wages and salaries	328.1	308.9
Social security costs	26.8	24.7
Post-employment benefits	60.4	48.1
	415.3	381.7
Capital schemes and charges against provisions	(68.1)	(64.2)
Employee benefits expense attributable to continuing operations	347.2	317.5
Discontinued operations		
Wages and salaries	–	10.2
Social security costs	–	0.8
Post-employment benefits	–	7.0
	–	18.0
Capital schemes and charges against provisions	–	(1.9)
Employee benefits expense attributable to discontinued operations	–	16.1
	347.2	333.6
Less: employee benefits expense attributable to joint ventures	(9.2)	(7.1)
Total employee benefits expense	338.0	326.5

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

	2009 number	2008 number
Continuing operations		
Regulated activities	3,925	3,888
Non-regulated activities	4,364	4,517
Other activities	677	268
	8,966	8,673
Discontinued operations		
United Utilities Electricity	–	57
Industrial liquid waste	–	34
Facilities management	–	145
	8,966	8,909

The company has no employees.

Notes to the financial statements
continued

3 DIRECTORS AND EMPLOYEES CONTINUED

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

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 2008 £m
Defined benefit pension expense charged to operating profit (see note 20)	39.8	44.1	6.3	50.4
Defined contribution pension costs (see note 20)	20.6	4.0	0.7	4.7
	60.4	48.1	7.0	55.1

4 OPERATING PROFIT

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

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2008 £m	Re-presented Total 2008 £m
Other income				
Dividend income	(12.4)	(11.2)	–	(11.2)
Loss/(profit) on disposal of property, plant and equipment	0.8	(5.7)	2.5	(3.2)
Other income	(6.9)	(4.4)	0.2	(4.2)
	(18.5)	(21.3)	2.7	(18.6)
Depreciation and amortisation expense				
Depreciation of property, plant and equipment:				
Owned assets (see note 11)	242.6	224.3	9.7	234.0
Under finance leases (see note 11)	1.7	1.7	–	1.7
Amortisation of other intangible assets (see note 13)	19.2	22.2	0.6	22.8
	263.5	248.2	10.3	258.5
Other operating costs				
Hired and contracted services	481.7	499.6	12.6	512.2
Materials	168.3	161.1	0.9	162.0
Power	87.6	70.5	1.0	71.5
Property rates	57.0	61.8	11.7	73.5
Charge for bad and doubtful receivables (see note 16)	53.6	55.8	0.2	56.0
Other operating leases payable:				
Property	4.9	2.9	0.1	3.0
Plant and equipment	3.0	1.8	–	1.8
Amortisation of government grants (see note 23)	(6.4)	(6.2)	(6.4)	(12.6)
Research and development expenses	0.9	1.2	0.5	1.7
Other	138.9	186.7	52.6	239.3
	989.5	1,035.2	73.2	1,108.4

The comparatives for the year ended 31 March 2008 have been re-presented to reflect a re-analysis of other operating costs as the directors believe this provides a fairer presentation of the nature of these costs.

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

	2009 £m	2008 £m
Statutory audit of the financial statements	0.4	0.5
Other fees to the auditors:		
Local statutory audits for subsidiaries	0.3	0.4
Other audit related	0.1	0.1
Regulatory reporting	0.4	0.2
Due diligence and transaction support	1.2	3.6
	2.4	4.8

Included in the above statutory audit fee is £50,000 in relation to the company for the period ended 31 March 2009.

5 INVESTMENT INCOME

	2009 £m	2008 £m
Interest receivable on short-term bank deposits held at amortised cost	22.6	67.8
Foreign exchange gains on forward contracts	36.1	55.4
	58.7	123.2
Expected return on pension schemes' assets (see note 20)	124.3	128.6
Interest cost on pension schemes' obligations (see note 20)	(117.5)	(105.1)
Net pension interest income	6.8	23.5
	65.5	146.7

6 FINANCE EXPENSE

	2009 £m	2008 £m
Interest payable		
Interest payable on borrowings held at amortised cost	243.9	285.7
Interest payable on finance leases (see note 18)	2.7	3.2
	246.6	288.9
Fair value losses/(gains) on debt and derivative instruments[1]		
Fair value hedge relationships:		
Borrowings	494.4	177.8
Designated swaps	(441.1)	(109.6)
	53.3	68.2
Held for trading derivatives – economic hedge	(51.6)	(78.1)
	1.7	(9.9)
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss[2]	56.5	(5.7)
Held for trading derivatives – economic hedge	(161.2)	(26.3)
	(104.7)	(32.0)
Held for trading derivatives – 2005-2010 regulatory hedges	68.8	24.5
Held for trading derivatives – 2010-2015 regulatory hedges	31.2	–
Net payments on swaps and debt under fair value option	15.7	49.5
Held for trading derivatives – other[3]	20.4	11.2
Other	(8.8)	(0.6)
	127.3	84.6
Net fair value losses/(gains) on debt and derivative instruments[4]	24.3	42.7
	270.9	331.6

Notes:

(1) Fair value losses/(gains) on debt and derivative instruments includes foreign exchange losses of £352.0 million (2008: £153.6 million losses), excluding those on instruments measured at fair value through profit or loss. These losses will be largely offset by fair value gains on derivatives.

(2) Includes £76.6 million gains (2008: £28.2 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 the expired THUS Group plc option in 2008, joint venture swaps and other economic hedge derivatives relating to debt held at amortised cost.

(4) Includes £8.3 million (2008: £41.7 million) interest on swaps and debt under fair value option.

Notes to the financial statements
continued

7 TAXATION

	Continuing operations	Continuing operations	Discontinued operations	Total
	2009 £m	2008 £m	2008 £m	2008 £m
Current taxation				
UK corporation tax	147.0	108.9	28.4	137.3
Foreign tax	2.1	2.7	–	2.7
Prior year adjustments	(10.0)	(23.0)	(0.1)	(23.1)
	139.1	88.6	28.3	116.9
Deferred taxation (see note 21)				
Current year	(0.5)	37.5	12.4	49.9
Prior year adjustments	4.2	17.6	(4.6)	13.0
	3.7	55.1	7.8	62.9
Abolition of industrial buildings allowances	206.4	–	–	–
Change in taxation rate	–	(81.7)	(21.7)	(103.4)
	210.1	(26.6)	(13.9)	(40.5)
Total tax charge for the year	349.2	62.0	14.4	76.4

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

	Continuing operations		Discontinued operations		Total	
	2009 £m	**2009 %**	**2009 £m**	**2009 %**	**2009 £m**	**2009 %**
Profit/(loss) before taxation	529.8		(1.2)		528.6	
Tax at the UK corporation tax rate of 28 per cent (2008: 30 per cent)	148.3	28.0	(0.3)	28.0	148.0	28.0
Adjustments in respect of prior periods	(5.8)	(1.1)	–	–	(5.8)	(1.1)
Abolition of industrial buildings allowances	206.4	39.0	–	–	206.4	39.1
Net (income)/expense not (taxable)/deductible	0.3	–	0.3	(28.0)	0.6	0.1
Total tax charge and effective tax rate for the year	349.2	65.9	–	–	349.2	66.1

	Continuing operations		Discontinued operations		Total	
	2008 £m	2008 %	2008 £m	2008 %	2008 £m	2008 %
Profit before taxation	478.3		141.9		620.2	
Tax at the UK corporation tax rate of 30 per cent (2007: 30 per cent)	143.5	30.0	42.6	30.0	186.1	30.0
Adjustments in respect of prior periods	(5.4)	(1.1)	(4.7)	(3.3)	(10.1)	(1.6)
Change in taxation rate	(81.7)	(17.1)	(21.7)	(15.3)	(103.4)	(16.7)
Net (income)/expense not (taxable)/deductible	5.6	1.2	(1.8)	(1.3)	3.8	0.6
Total tax charge and effective tax rate for the year	62.0	13.0	14.4	10.1	76.4	12.3

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 is a one-off deferred tax charge of £206.4 million, which is included in the current year deferred tax charge; however the cash impact will be spread over a period of approximately 20 years.

A tax credit of £5.8 million (2008: £5.4 million) arose in the year in relation to prior year tax returns for continuing operations.

A deferred tax credit of £81.7 million on continuing operations arose in the prior year due to the change in taxation rate due to the reduction in the mainstream corporation tax rate from 30 per cent to 28 per cent from 1 April 2008.

8 DISCONTINUED OPERATIONS

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

The group continues to look for opportunities to apply its core skills in its non-regulated business where it identifies opportunities to generate additional shareholder value with little impact on the risk profile of the group. In line with this strategy, the group sold its industrial liquid waste and facilities management operations and made its final exit from the telecoms sector during the prior year. On 26 October 2007, the group sold its industrial liquid waste operations to Group Tradebe for consideration of £3.7 million and on 22 February 2008, the group completed the sale of its facilities management operations to Europa Facility Holdings Limited for consideration of £9.0 million.

The group sold its 22.63 per cent stake in THUS Group plc on 19 June 2007 for consideration of £75.8 million, which completed United Utilities' exit from the telecoms sector. The sale is treated as an adjustment to consideration arising on the disposal of Your Communications and, as such, both the loss on disposal and the group's share of THUS' results prior to the disposal are disclosed within discontinued operations in 2008.

The results of UUE, the group's industrial liquid waste and facilities management operations and its share of results from its associate have been disclosed, along with the profit/(loss) on disposal, as discontinued operations in the group's financial statements in 2008. The detailed trading results and the profit/(loss) on disposal of each discontinued operation are shown below. Cashflows in relation to discontinued operations are separately disclosed in the group's cashflow statement in 2008.

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

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

	2009 £m	2008 £m
United Utilities Electricity	(1.2)	493.0
Industrial liquid waste	–	(5.0)
Facilities management	–	10.4
Telecoms (including loss on disposal of THUS Group plc shares of £10.0 million)	–	(5.5)
(Loss)/profit for the year/period from discontinued operations	(1.2)	492.9

	United Utilities Electricity	Industrial liquid waste	Facilities management
	Period ended 19 December 2007 £m	Period ended 26 October 2007 £m	Period ended 22 February 2008 £m
Revenue			
External sales	223.7	5.3	5.7
Intra-group sales	–	–	21.6
Total revenue	223.7	5.3	27.3
Depreciation and amortisation	(10.0)	(0.2)	(0.1)
Other operating expenses	(60.4)	(5.2)	(26.4)
Operating profit/(loss)	153.3	(0.1)	0.8
Investment income and finance expense	(17.1)	–	0.5
Profit/(loss) before taxation	136.2	(0.1)	1.3
Taxation on profit/(loss)	(14.4)	–	–
Profit/(loss) for the period from discontinued operations	121.8	(0.1)	1.3
Profit/(loss) on disposal of discontinued operations	371.2	(4.9)	9.1
Total profit/(loss) for the period from discontinued operations	493.0	(5.0)	10.4

Profit before taxation from facilities management includes profit generated from intercompany trading of £0.2 million in the period ended 22 February 2008.

Notes to the financial statements
continued

8 DISCONTINUED OPERATIONS CONTINUED

The net assets/(liabilities) at each date of disposal were as follows:

	United Utilities Electricity	Industrial liquid waste	Facilities management
	19 December 2007 £m	26 October 2007 £m	22 February 2008 £m
Property, plant and equipment	1,957.4	4.3	0.2
Goodwill	–	2.9	–
Other intangible assets	23.3	–	–
Trade and other receivables	166.2	2.3	7.6
Cash and short-term deposits	–	–	1.2
Non-current liabilities	(1,339.7)	–	–
Trade and other payables	(115.9)	(1.6)	(8.3)
Retirement benefit surplus/(obligations)	31.5	–	(1.0)
Net assets/(liabilities)	722.8	7.9	(0.3)
Transaction costs	46.0	0.7	0.2
Profit/(loss) on disposal	371.2	(4.9)	9.1
Total fair value of consideration satisfied by cash	1,140.0[1]	3.7	9.0

Note:

(1) Total fair value consideration of United Utilities Electricity comprised cash of £1,140.0 million. The enterprise value of £1,782.0 million incorporates cash consideration received added to the market value of the debt disposed of, which at the date of disposal totalled £642.0 million.

9 DIVIDENDS

	2009 £m	2008 £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 2008 at 31.47 pence per share (2007: 30.30 pence)	277.4	266.6
Interim dividend for the year ended 31 March 2009 at 10.64 pence per share (2008: 15.20 pence)	72.5	133.8
	349.9	400.4
Proposed final dividend for the year ended 31 March 2009 at 22.03 pence per share (2008: 31.47 pence)	150.1	277.4

The proposed final dividends for the years ended 31 March 2009 and 31 March 2008 were subject to approval by equity holders of United Utilities Group PLC and United Utilities PLC respectively and hence have not been included as liabilities in the consolidated financial statements at 31 March 2009 and 31 March 2008 respectively.

10 EARNINGS PER SHARE

	2009 £m	2008 £m
Profit for the year attributable to equity holders of the company – continuing and discontinued operations	179.4	909.2
Adjustment for loss/(profit) for the year/period from discontinued operations (see note 8)	1.2	(492.9)
Profit for the year attributable to equity holders of the company – continuing operations	180.6	416.3

	2009 pence	Re-presented 2008 pence
Earnings per share from continuing and discontinued operations		
Basic	26.3	133.6
Diluted	26.3	133.6
Earnings per share from continuing operations		
Basic	26.5	61.2
Diluted	26.5	61.2
Earnings per share from discontinued operations		
Basic	(0.2)	72.4
Diluted	(0.2)	72.4

Basic earnings per share are calculated by dividing profit for the financial year attributable to equity holders of the company by 681.4 million, being the weighted average number of shares in issue during the year (2008 re-presented: 680.4 million).

Diluted earnings per share are calculated by dividing profit for the financial year attributable to equity holders of the company by 682.3 million, being the weighted average number of shares in issue during the year including dilutive shares (2008 re-presented: 680.7 million).

To enable a meaningful comparison and in compliance with IAS 33 'Earnings per Share', the weighted average number of shares for the current and prior year have been based upon the 681,381,233 new ordinary shares in United Utilities Group PLC issued on 28 July 2008.

The actual United Utilities PLC shares in issue in the year from 1 April 2007 to 31 March 2008 have been proportionally applied to the 681,381,233 shares in issue at 28 July 2008 to derive a weighted average number of shares for the comparative year and the earnings per share re-presented accordingly.

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

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

	2009 million	Re-presented 2008 million
Average number of ordinary shares – basic	681.4	680.4
Average number of potentially dilutive ordinary shares under option	1.2	1.0
Number of ordinary shares that would have been issued at fair value	(0.3)	(0.7)
Average number of ordinary shares – diluted	682.3	680.7

11 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2007	346.8	3,386.9	6,310.4	457.8	731.0	11,232.9
Additions	7.0	79.3	193.0	72.5	554.7	906.5
Transfers	6.3	73.7	106.6	14.4	(201.0)	–
Disposals	(142.1)	(3.7)	(2,477.2)	(30.5)	(188.6)	(2,842.1)
Currency translation differences	0.7	26.1	–	0.3	1.3	28.4
At 31 March 2008	218.7	3,562.3	4,132.8	514.5	897.4	9,325.7
Additions	4.0	76.0	102.9	71.1	372.7	626.7
Transfers	5.0	86.5	215.4	28.4	(335.3)	–
Disposals	(6.8)	(3.1)	(37.1)	(22.5)	–	(69.5)
Currency translation differences	0.8	7.5	–	0.4	1.3	10.0
At 31 March 2009	221.7	3,729.2	4,414.0	591.9	936.1	9,892.9
Accumulated depreciation						
At 1 April 2007	109.6	118.2	1,891.9	218.6	–	2,338.3
Charge for the year	8.7	31.8	151.0	44.2	–	235.7
Disposals	(48.5)	(3.7)	(786.8)	(11.0)	–	(850.0)
Currency translation differences	0.1	11.7	–	(1.9)	–	9.9
At 31 March 2008	69.9	158.0	1,256.1	249.9	–	1,733.9
Charge for the year	7.2	38.6	149.3	49.2	–	244.3
Disposals	(6.8)	(3.1)	(37.1)	(17.9)	–	(64.9)
Currency translation differences	0.2	2.2	(0.3)	0.3	–	2.4
At 31 March 2009	70.5	195.7	1,368.0	281.5	–	1,915.7
Net book value at 31 March 2009	151.2	3,533.5	3,046.0	310.4	936.1	7,977.2
Net book value at 31 March 2008	148.8	3,404.3	2,876.7	264.6	897.4	7,591.8

The carrying amount of the group's operational assets includes an amount of £nil (2008: £64.4 million) in respect of assets held under finance leases.

At 31 March 2009, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £312.5 million (2008: £485.2 million).

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

Notes to the financial statements
continued

12 GOODWILL

Group	£m
Cost	
At 1 April 2007	5.0
Disposals (see note 8)	(2.9)
Currency translation differences	0.2
At 31 March 2008	2.3
Currency translation differences	0.3
At 31 March 2009	2.6

Goodwill is subject to impairment testing annually, or more frequently if there are indications of impairment. The recoverable amounts of cash generating units (CGUs) are determined from value-in-use calculations that use amounts from approved budgets and plans for the next seven years and extrapolate cashflows for a further eight years based upon an estimated growth rate. The discount rate applied to the cashflow projections was 9.9 per cent (2008: 13.6 to 15.0 per cent). The growth rate used of nil per cent (2008: 2.4 per cent) was based upon industry growth rates, which do not exceed the long-term average growth rate.

Goodwill is allocated to the appropriate CGU according to the business segment. Goodwill was held entirely within the non-regulated activities business segment at both 31 March 2009 and 31 March 2008.

13 OTHER INTANGIBLE ASSETS

Group	Computer software £m	Other £m	Total £m
Cost			
At 1 April 2007	228.9	18.6	247.5
Additions – internally generated	2.7	–	2.7
Additions – purchased	24.6	0.7	25.3
Disposals	(59.5)	(0.2)	(59.7)
Currency translation differences	–	2.5	2.5
At 31 March 2008	196.7	21.6	218.3
Additions – purchased	38.7	0.2	38.9
Disposals	(53.5)	(0.3)	(53.8)
Currency translation differences	–	2.8	2.8
At 31 March 2009	181.9	24.3	206.2
Amortisation			
At 1 April 2007	124.9	7.1	132.0
Charge for the year	21.6	1.2	22.8
Disposals	(22.7)	(0.2)	(22.9)
Currency translation differences	–	1.1	1.1
At 31 March 2008	123.8	9.2	133.0
Charge for the year	18.0	1.2	19.2
Disposals	(53.3)	–	(53.3)
Currency translation differences	–	1.2	1.2
At 31 March 2009	88.5	11.6	100.1
Net book value at 31 March 2009	93.4	12.7	106.1
Net book value at 31 March 2008	72.9	12.4	85.3

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

At 31 March 2009, the group had entered into contractual commitments for the acquisition of other intangible assets amounting to £19.5 million (2008: £16.9 million).

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

14 INVESTMENTS

Group	Associate £m	Other investments £m	Total £m
At 1 April 2007	83.7	118.7	202.4
Reclassification from prepayments and accrued income	–	1.0	1.0
Disposals	(83.7)	(0.6)	(84.3)
Revaluations	–	34.9	34.9
Currency translation differences	–	1.5	1.5
At 31 March 2008	–	155.5	155.5
Revaluations	–	(20.3)	(20.3)
Currency translation differences	–	1.6	1.6
At 31 March 2009	–	136.8	136.8

The group's other investments mainly comprise a 15.0 per cent shareholding in Northern Gas Networks Holdings Limited. The group also holds an overall 11.7 per cent shareholding in Manila Water Company. In the opinion of the directors, there is no material difference between the book and fair values of these investments. The fair values of the group's financial instruments are shown in note 19.

During the prior year, the group accounted for its investment in THUS Group plc as an associate in accordance with IAS 28 'Investments in Associates' and applied equity accounting. The group's share of post-acquisition results for the period to disposal on 19 June 2007 (see note 8) has not been separately disclosed in the income statement or the statement of recognised income and expenditure on the grounds of materiality.

Notes to the financial statements
continued

14 INVESTMENTS CONTINUED

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

	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
Subsidiary undertakings			
Great Britain			
United Utilities Water PLC	Ordinary	100.0	Water and wastewater services and network management
United Utilities Electricity Services Limited	Ordinary	100.0	Operation of electricity distribution network
United Utilities International Limited	Ordinary	100.0	Consulting services and project management
United Utilities Industrial Limited	Ordinary	100.0	Electricity asset maintenance
United Utilities Property Solutions Limited	Ordinary	100.0	Property management
United Utilities Operational Services Limited	Ordinary	100.0	Operation and maintenance of water and wastewater assets of Dŵr Cymru
United Utilities Operational Services (Highland) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Operational Services (Tay) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Operational Services (Moray) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Networks Limited	Ordinary	100.0	Multi-utility metering and network operations
United Utilities Operations Limited	Ordinary	100.0	Operation of gas distribution network
Australia			
United Utilities Australia Pty Limited	Ordinary	100.0	Water treatment operations, technical and management services
United Utilities Macarthur Operations Pty Limited	Ordinary	100.0	Technical and management services
Yabulu Water Pty Limited	Ordinary	100.0	Technical and management services
UU Victor Harbor Pty Limited	Ordinary	100.0	Wastewater treatment operations
UU Onkaparinga Pty Limited	Ordinary	100.0	Technical and management services
UU 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
4Delivery Limited	Ordinary	40.0	Consulting services and project management
Australia			
Yan Yean Water Pty Limited	Ordinary	50.0	Water treatment operations
Macarthur Water Pty Limited	Ordinary	50.0	Water treatment operations
Riverland Water Pty Limited	Ordinary	50.0	Water treatment operations
Campaspe Asset Management Services Pty Limited	Ordinary	50.0	Asset management and water treatment
Estonia			
AS Tallinna Vesi	Ordinary	26.5	Contract operations and maintenance services
Bulgaria			
Sofiyska Voda AD	Ordinary	57.8	Contract operations and maintenance services
Poland			
Aqua Spolka Akcyjna	Ordinary	33.2	Contract operations and maintenance services
Philippines			
Water Capital Works Inc	Ordinary	27.0	Water treatment operations

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

A full list of the company's subsidiary undertakings is included within the company's annual return, as filed with the Registrar of Companies.

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

Group share of joint ventures	2009 £m	2008 £m
Non-current assets	346.3	318.1
Current assets	96.0	97.1
Non-current liabilities	(236.5)	(221.8)
Current liabilities	(81.5)	(80.9)
	124.3	112.5

Group share of joint ventures	2009 £m	2008 £m
Gross income	209.5	211.5
Expenses	(196.5)	(198.6)
Taxation	(1.8)	(3.3)
Profit for the year	11.2	9.6

The joint ventures have no significant contingent liabilities to which the group is exposed and the group has contingent liabilities of £80.7 million in relation to its interests in the joint ventures (2008: £78.0 million).

Company	Shares in subsidiary undertakings £m
On incorporation at 8 April 2008	–
Additions	6,326.8
At 31 March 2009	6,326.8

The additions of £6,326.8 million represent the company's investment in United Utilities PLC, acquired on 28 July 2008. The value of the investment on acquisition has been based upon the closing share price of United Utilities PLC on 25 July 2008. In addition, the company also acquired 1 deferred A share in United Utilities PLC on 23 July 2008 for £1.00.

United Utilities PLC, and its subsidiary undertakings, are exposed to credit, liquidity and market risks, the details of which are found in note 19. Movements or variations in these risk factors will cause changes in the value of United Utilities PLC and the company's investment in that entity, which in turn could require an impairment charge.

15 INVENTORIES

Group	2009 £m	2008 £m
Raw materials and finished goods	11.3	10.8
Properties held for resale	51.9	41.3
Work in progress	9.8	11.2
	73.0	63.3

The company has no inventories.

16 TRADE AND OTHER RECEIVABLES

	Group		Company
	2009 £m	2008 £m	2009 £m
Trade receivables	195.7	208.7	–
Amounts owed by subsidiary undertakings	–	–	66.4
Amounts owed by related parties (see note 28)	12.8	15.0	–
Other debtors	57.5	38.8	–
Prepayments and accrued income	247.1	221.9	–
	513.1	484.4	66.4

Notes to the financial statements
continued

16 TRADE AND OTHER RECEIVABLES CONTINUED

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

	Group 2009 £m	Group 2008 £m	Company 2009 £m
Non-current	21.5	28.2	–
Current	491.6	456.2	66.4
	513.1	484.4	66.4

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

Group	2009 £m	2008 £m
At 1 April	171.7	147.7
Amounts charged to operating expenses	53.6	56.0
Trade receivables written-off	(32.5)	(31.8)
Disposed of in the year	–	(0.2)
At 31 March	192.8	171.7

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

Ageing of gross receivables

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

Group At 31 March 2009	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables – gross	199.1	65.2	124.2	388.5
Amounts owed by related parties	10.7	0.7	1.4	12.8
Other debtors	37.5	–	20.0	57.5
Prepayments and accrued income	246.5	0.3	0.3	247.1
At 31 March 2008				
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	17.8	0.1	20.9	38.8
Prepayments and accrued income	217.7	–	4.2	221.9

The above analysis in respect of gross trade receivables reconciles to net trade receivables by deduction of the allowance for doubtful receivables of £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 At 31 March 2009	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Amounts owed by subsidiary undertakings – gross	66.4	–	–	66.4

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

Amounts owed by subsidiary undertakings are shown net of an allowance for doubtful receivables of £nil. 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.

Trade and other receivables is split as follows:

	Group 2009 £m	Group 2008 £m	Company 2009 £m
Debtors in respect of unmetered water supplies	89.6	74.4	–
Debtors in respect of metered water supplies	107.8	100.5	–
Sundry debtors	60.6	47.2	–
Total regulated debtors	258.0	222.1	–
Non-regulated debtors	255.1	262.3	66.4
Trade and other receivables	513.1	484.4	66.4

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

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

17 CASH AND CASH EQUIVALENTS

	Group 2009 £m	Group 2008 £m	Company 2009 £m
Cash at bank and in hand	117.8	140.9	–
Short-term bank deposits	180.8	1,669.6	–
Cash and short-term deposits	298.6	1,810.5	–
Bank overdrafts (included in borrowings, see note 18)	(89.5)	(105.3)	(2.7)
Cash and cash equivalents in the cashflow statement	209.1	1,705.2	(2.7)

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

18 BORROWINGS

Group

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

Group	2009 £m	2008 £m
Non-current liabilities		
Bonds	4,005.7	3,031.5
Bank and other term borrowings	1,194.4	701.1
Finance lease obligations	–	56.3
	5,200.1	3,788.9
Current liabilities		
Bonds	160.2	738.0
Euro-commercial paper	56.1	–
Bank and other term borrowings	156.6	22.4
Bank overdrafts	89.5	105.3
Finance lease obligations	–	12.7
Liability component of B shares(1)	17.2	–
	479.6	878.4
	5,679.7	4,667.3

Note:

(1) The B shares are accounted for as a liability in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. The £17.2 million liability comprises £16.7 million share capital and £0.5 million accrued interest payable. The remaining B shares were redeemed in full during April 2009.

Financial statements

Notes to the financial statements
continued

18 BORROWINGS CONTINUED

Terms and debt repayment schedule

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

Group	Currency	Year of maturity	Fair value 2009 £m	Carrying value 2009 £m	Fair value 2008 £m	Carrying value 2008 £m
Borrowings in fair value hedge relationships						
5.625% 300m bond	GBP	2027	286.1	338.3	281.0	301.1
5.75% 275m bond	GBP	2022	274.7	270.3	–	–
5.25% 150m bond	GBP	2010	154.1	153.2	150.5	148.5
5.375% 150m bond	GBP	2018	158.8	164.4	149.0	147.4
5% 200m bond	GBP	2035	165.1	220.3	171.4	191.6
4.875% 600m bond	EUR	2009	–	–	479.0	473.2
4.25% 500m bond	EUR	2020	425.0	479.7	345.7	373.4
4.55% 250m bond	USD	2018	150.2	191.5	114.1	124.6
5.375% 350m bond	USD	2019	218.0	285.1	169.3	186.0
6.45% 500m bond	USD	2008	–	–	259.9	251.8
5.02% JPY 10bn dual currency loan	JPY/USD	2029	76.7	94.5	56.6	62.2
Borrowings designated at fair value through profit or loss						
6.875% 400m bond	USD	2028	259.7	259.7	208.7	208.7
1.135% 3bn bond	JPY	2013	20.0	20.0	14.4	14.4
Borrowings measured at amortised cost						
1.5802%+RPI 100m IL bond	GBP	2042	68.3	112.6	88.9	107.2
1.7829%+RPI 100m IL bond	GBP	2040	74.4	113.0	95.3	107.6
1.9799%+RPI 100m IL bond	GBP	2035	83.2	114.2	102.3	108.7
3.375%+RPI 50m IL bond	GBP	2032	60.0	60.6	71.3	57.6
1.3258%+RPI 50m IL bond	GBP	2041	32.1	56.4	41.7	53.7
1.397%+RPI 50m IL bond	GBP	2046	30.4	56.3	41.4	53.6
1.3805%+RPI 35m IL bond	GBP	2056	19.6	36.8	24.6	36.8
1.435%+RPI 50m IL bond	GBP	2056	28.6	52.6	35.9	52.5
1.556%+RPI 50m IL bond	GBP	2056	30.2	52.8	37.7	52.7
1.5865%+RPI 50m IL bond	GBP	2056	30.3	53.1	37.9	53.0
1.591%+RPI 25m IL bond	GBP	2056	15.1	26.5	18.9	26.4
1.662%+RPI 100m IL bond	GBP	2056	62.7	106.2	78.0	106.0
1.815%+RPI 100m IL bond	GBP	2056	66.5	106.4	82.4	106.2
1.847%+RPI 100m IL bond	GBP	2056	67.5	106.8	83.4	106.7
1.5366%+RPI 50m IL bond	GBP	2043	33.8	56.2	44.1	53.5
1.7937%+RPI 50m IL bond	GBP	2049	37.1	56.1	46.4	53.4
1.585%+RPI 100m IL bond	GBP	2057	60.5	102.2	75.7	102.0
1.702%+RPI 50m IL bond	GBP	2057	31.7	51.5	39.6	51.4
1.66%+RPI 35m IL bond	GBP	2037	24.3	35.4	30.1	35.4
1.97%+RPI 200m IL loan	GBP	2016	183.7	220.2	194.1	209.0
1.61%+RPI 50m IL loan	GBP	2020	42.3	48.5	–	–
1.73%+RPI 50m IL loan	GBP	2020	42.9	48.4	–	–
1.84%+RPI 50m IL loan	GBP	2020	43.7	48.4	–	–
1.88%+RPI 50m IL loan	GBP	2020	43.5	48.2	–	–
1.90%+RPI 50m IL loan	GBP	2020	43.7	48.3	–	–
1.93%+RPI 50m IL loan	GBP	2020	43.8	48.2	–	–
2.10%+RPI 50m IL loan	GBP	2020	44.6	48.1	–	–
2.46%+RPI 50m IL loan	GBP	2020	46.4	48.2	–	–
6.125% 375m bond	GBP	2015	405.9	379.1	–	–
0.24%+LIBOR (floating) 6.5m bond	GBP	2013	6.5	6.3	6.5	6.4
4.21% 10m bond	EUR	2008	–	–	8.0	8.0
0.385%+LIBOR (floating) 10m bond	USD	2008	–	–	5.0	5.0
0.365%+LIBOR (floating) 10m bond	USD	2009	7.0	7.0	5.1	5.0
1.3%+LIBOR (floating) 5bn bond	JPY	2017	38.8	35.3	–	–
Long-term bank borrowings – fixed	GBP	2008	–	–	5.1	5.0
Long-term bank borrowings – floating	GBP	2010-2012	250.3	250.0	200.0	200.0
Commission for New Towns loan	GBP	2053	45.1	30.8	48.6	31.0
Other debt issued by joint ventures	Various	Various	230.1	230.1	216.3	216.3
Euro-commercial paper	Various	2009	56.1	56.1	–	–
Committed facilities – drawn	GBP	2009	55.0	55.0	–	–
Short-term bank borrowings – fixed	GBP	2009	84.1	84.1	–	–

Terms and debt repayment schedule continued

Group	Currency	Year of maturity	Fair value **2009** **£m**	Carrying value **2009** **£m**	Fair value 2008 £m	Carrying value 2008 £m
Other borrowings						
Finance lease obligations	GBP	2014	–	–	69.0	69.0
Bank overdrafts	GBP	2009	89.5	89.5	105.3	105.3
Liability component of B shares	GBP	2009	17.2	17.2	–	–
			4,864.9	5,679.7	4,338.2	4,667.3

Abbreviations used in the above table are defined on page 72.

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

Finance lease obligations

Finance lease obligations are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
Group	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Amounts payable under finance leases:				
Within one year	–	12.7	–	12.7
In the second to fifth years inclusive	–	55.7	–	45.6
After five years	–	16.0	–	10.7
	–	84.4	–	69.0
Less future finance charges	–	(15.4)	–	–
Present value of lease obligations	–	69.0	–	69.0
Less amount due for settlement within 12 months			–	(12.7)
Amount due for settlement after 12 months			–	56.3

On 31 March 2009, the group closed out a finance lease which had a maturity date of 2014. The carrying value of the lease on 31 March 2009 was £60.9 million.

Interest rates implicit in the minimum lease payments were fixed on completion of the infrastructure build when the primary period of the lease commenced. In addition, contingent rentals were either payable or receivable, which adjusted the minimum lease payments to reflect changes in future market rates of interest. These contingent rentals were recognised as an increase or reduction in the finance expense in the period to which they related. Contingent rentals recognised as a reduction in finance expense in the year totalled £2.3 million (2008: £2.6 million).

The net finance charge for the year, after adjusting for contingent rentals, was £2.7 million (2008: £3.2 million) (see note 6) and the effective borrowing rate (after adjusting for contingent rentals) for the year was 3.928 per cent (2008: 5.048 per cent). The average lease term was six years as at 31 March 2008.

The group's obligations under finance leases were unsecured at 31 March 2008. The directors considered the fair value of the group's lease obligations approximate to their carrying value at 31 March 2008.

The company has no finance lease obligations.

Notes to the financial statements
continued

18 BORROWINGS CONTINUED

Company

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

Company	2009 £m
Current liabilities	
Liability component of B shares	17.2
Bank overdrafts	2.7
Amounts owed to subsidiary undertakings	1,482.3
	1,502.2

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

19 FINANCIAL INSTRUMENTS

Risk management

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

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

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

Credit risk

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

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

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

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

	Group		Company
	2009 £m	2008 £m	**2009 £m**
Cash and short-term deposits	298.6	1,810.5	–
Trade and other receivables	513.1	484.4	66.4
Investments	136.8	155.5	–
Derivative financial instruments	639.0	143.3	–
	1,587.5	2,593.7	66.4

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 2009 the group held £84.1 million (2008: £nil) 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 to the board monthly using a headroom figure.

At 31 March the headroom was as follows:

Group	**2009 £m**	2008 £m
Cash and short-term deposits	298.6	1,810.5
Medium-term committed undrawn bank facilities	1,075.8	1,549.6
Short-term debt	(261.9)	(105.3)
Term debt maturing within one year	(177.7)	(760.4)
	934.8	2,494.4

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

Short-term debt includes £84.1 million (2008: £nil) collateral liability pledged in relation to a particular swap contract.

Medium-term committed bank facilities excludes £335.0 million (2008: £50.0 million) of facilities expiring within one year.

The group had available committed borrowing facilities as follows:

Group	**2009 £m**	2008 £m
Expiring within one year	350.0	50.0
Expiring after one year but in less than two years	300.0	350.0
Expiring after more than two years	895.0	1,245.0
Total borrowing facilities	1,545.0	1,645.0
Facilities drawn(1)	(55.0)	–
Offsetting bank guarantees	(79.2)	(45.4)
Undrawn borrowing facilities	1,410.8	1,599.6

Note:

(1) £15.0 million of these were facilities expiring within one year (2008: £nil) and £40.0 million were facilities expiring after more than two years (2008: £nil).

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

The company does not have any committed facilities available.

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

Maturity analysis

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

Group **At 31 March 2009**	Total[(1)] £m	Adjust-ment[(2)] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	10,221.6		323.1	158.7	159.6	167.0	183.8	9,229.4
Bank and other term borrowings	2,142.9		335.7	82.8	84.1	188.0	29.4	1,422.9
Adjustment to carrying value[(2)]	(6,684.8)	(6,684.8)						
Financial liabilities excluding derivatives	5,679.7	(6,684.8)	658.8	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)

At 31 March 2008	Total[(1)] £m	Adjust-ment[(2)] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	9,654.6		892.7	270.4	103.4	108.1	117.4	8,162.6
Bank and other term borrowings	1,357.4		148.3	37.3	37.8	87.4	181.4	865.2
Finance lease obligations	84.4		12.7	13.0	13.6	14.2	14.9	16.0
Adjustment to carrying value[(2)]	(6,429.1)	(6,429.1)						
Financial liabilities excluding derivatives	4,667.3	(6,429.1)	1,053.7	320.7	154.8	209.7	313.7	9,043.8
Derivatives:								
Payable	2,806.4		2,435.7	95.1	60.6	60.5	63.6	90.9
Receivable	(2,766.4)		(2,371.7)	(111.5)	(57.8)	(53.0)	(54.2)	(118.2)
Adjustment to carrying value[(2)]	6.6	6.6						
Derivatives – net liabilities	46.6	6.6	64.0	(16.4)	2.8	7.5	9.4	(27.3)

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 balance sheet.

The company has a total liability of £1,502.2 million, which is payable within one year.

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 and financial futures to hedge these exposures. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

The group's policy is to structure debt in a way that best matches the cashflows generated by its underlying assets. Revenues from the regulated business are determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period. The preferred form of debt, therefore, is sterling index-linked debt which is fixed in real terms also. Where conventional long-term debt is raised in a fixed rate form, the group will swap to floating rate, at inception over the life of the liability, through the use of interest rate swaps.

The group, using a second layer of interest rate swaps, fixes in nominal terms a material proportion of the floating cost of debt for the duration of the five-year regulatory pricing period to match better the fixed nature of the group's revenue stream.

The group assesses any residual floating rate exposure with regard to net debt, after the effect of derivative contracts, to determine whether to hedge using futures contracts.

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 2009 and 31 March 2008, respectively. As a result, this analysis relates to the position at the balance sheet date and is not indicative of the years then ended, as these factors would have varied throughout the year.

The following assumptions were made in calculating the interest sensitivity analysis:

- all fair value hedge relationships, including associated swaps classified as held for trading, are fully effective and therefore there is no balance sheet sensitivity 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 balance sheet sensitivity to interest rates (excluding the effect of accrued interest) with regard to the associated debt and swap instruments;
- the main balance sheet sensitivity to interest rates (excluding the effect of accrued interest) is in relation to the regulatory swaps which swap the majority of the floating rate exposure to fixed rate for the five-year regulatory period;
- the sensitivity of net finance expense to movements in interest rates is calculated on net floating rate exposures on debt and derivatives; and on deposits. The floating leg of a swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates will have a full 12-month impact on interest;
- the standard requires that a change in the relevant risk variable be applied to the risk exposures in existence at the balance sheet date, therefore deposits at the balance sheet date are taken and any debt or swaps maturing during the year are disregarded;
- index-linked debt is carried at amortised cost and therefore the balance sheet is not exposed to movements in interest rates. It is assumed that inflation is held constant;
- financial futures contracts entered into by the group to further manage the floating interest rate exposure are excluded from this analysis;
- the analysis excludes the impact of movements in market variables on the carrying value of pensions and other post-retirement obligations;
- management has assessed 100bp as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

Impact on profit before taxation and equity	Group 2009 £m	Group 2008 £m	Company 2009 £m
100bp increase in interest rate	64.4	35.4	(14.9)
100bp decrease in interest rate	(67.6)	(42.2)	14.9

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 2009, the group had no financial futures contracts in place. At 31 March 2008, the group had financial futures contracts in place to materially fix its net floating interest rate exposure.

Repricing analysis

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

Group At 31 March 2009	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	2,197.3	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 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	712.6	212.9	0.8	0.6	2.7	0.9	494.7
Floating rate instruments	527.9	527.9	–	–	–	–	–
Index-linked instruments	1,962.2	1,962.2	–	–	–	–	–
	3,202.7	2,703.0	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 borrowings	5,679.7	3,704.5	349.2	0.6	2.7	0.9	1,621.8
Cash and short-term deposits	(298.6)	(298.6)	–	–	–	–	–
Net borrowings	5,381.1	3,405.9	349.2	0.6	2.7	0.9	1,621.8

Group At 31 March 2008	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Borrowings in hedge relationships							
Fixed rate instruments	2,259.8	725.0	148.5	–	–	–	1,386.3
Effect of swaps	–	1,534.8	(148.5)	–	–	–	(1,386.3)
	2,259.8	2,259.8	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	223.1	–	–	–	–	–	223.1
Effect of swaps	–	223.1	–	–	–	–	(223.1)
	223.1	223.1	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	108.2	13.8	0.2	0.2	0.8	3.7	89.5
Floating rate instruments	542.8	542.8	–	–	–	–	–
Index-linked instruments	1,533.4	1,533.4	–	–	–	–	–
	2,184.4	2,090.0	0.2	0.2	0.8	3.7	89.5
Effect of a fixed hedge for the term of the regulatory period	–	(2,030.6)	1,582.2	448.4	–	–	–
Total borrowings	4,667.3	2,542.3	1,582.4	448.6	0.8	3.7	89.5
Cash and short-term deposits	(1,810.5)	(1,810.5)	–	–	–	–	–
Net borrowings	2,856.8	731.8	1,582.4	448.6	0.8	3.7	89.5

Company **At 31 March 2009**	Total £m	1 year or less £m
Borrowings measured at amortised cost		
Fixed rate instruments	17.2	17.2
Floating rate instruments	1,485.0	1,485.0
Total borrowings	1,502.2	1,502.2

Currency risk

The group's assets are principally sterling denominated; however, the group has access to various international debt capital markets and raises foreign currency denominated debt. Where debt is denominated in a currency which is not sterling, the group's policy is generally to swap the foreign currency denominated cashflows into sterling through the use of foreign currency swaps. As a result, for the majority of foreign currency denominated borrowings, the group has no material exposure to movements in exchange rates.

Under a currency swap, the group agrees with another party to exchange the principal amount of two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

As required by IFRS 7, the foreign exchange rate risk sensitivity analysis has been prepared on the basis of the net debt positions in place as at 31 March 2009 and 31 March 2008, respectively. As a result, this analysis relates to the position at the balance sheet date and is not indicative of the years then ended, as these factors would have varied throughout the year. The following assumptions were made in calculating the sensitivity analysis:

- management has assessed 10 per cent to be a reasonably possible movement across all foreign exchange rates;
- as required by IFRS 7, the impact has been assessed for monetary items only;
- the sensitivity to JPY is the result of forward exchange contracts denominated in JPY. In calculating the sensitivity in movements in the GBP/JPY exchange rate, it has been assumed that the theoretical relationship between forward exchange rates, spot exchange rates and the interest rate differential between the two currencies holds true; and
- all other factors are held constant.

Impact on profit before taxation	**2009** **JPY** **£m**	2008 JPY £m
10 per cent increase in exchange rates	–	(2.3)
10 per cent decrease in exchange rates	–	2.6

Brackets denote a reduction in profit.

During the year, the group closed out its JPY foreign investment and related forward contracts resulting in no exposure as at 31 March 2009.

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

For JPY, the impact on equity is £nil increase for a 10 per cent increase in exchange rates (2008: increase £135.5 million) and £nil decrease for a 10 per cent decrease in exchange rates (2008: decrease £165.9 million).

The difference between the impact on equity and the impact on profit before taxation was due to the equity impact including movements in JPY denominated forward contracts which were used as hedging instruments in hedges of net investments in foreign operations, but excluding the impact of the retranslation of the investments which the forwards were hedging – due to the investments not being financial assets as defined by IFRS 7. Had the impact of the retranslation of the investments been included in the above analysis, the impact on profit before taxation and impact on equity would have been equal. Sensitivity analyses for United States dollar and euro have not been presented as, due to the swaps in place to hedge the risk, the group has no material exposure to these currencies.

The company has no material exposure to currency risk.

Inflation risk

The group's index-linked borrowings and interest liabilities are exposed to a risk of change in carrying value due to changes in the UK RPI. This form of liability is a good match for the group's regulated assets, which are also linked to RPI due to the revenue price cap imposed by the regulator. This price cap is linked to RPI and limits management's ability to change prices. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cashflow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash. Management looks to issue index-linked debt wherever possible, but has a limited counterparty base willing to invest in these instruments. As such, the ability to issue this form of debt is limited.

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

	2009 £m	2008 £m
Index-linked debt	1,962.2	1,533.4

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 2009 and 31 March 2008, respectively. As a result, this analysis relates to the position at the balance sheet date and is not indicative of the years then ended, as these factors would have varied throughout the year. The following table details the sensitivity of profit before taxation to changes in the RPI, excluding the hedging aspect of the group's regulatory assets, which are not financial assets as defined by IAS 32 'Financial Instruments: Disclosure and Presentation':

Impact on profit before taxation and equity	**2009 £m**	2008 £m
One per cent increase in RPI	(20.0)	(15.7)
One per cent decrease in RPI	20.0	15.7

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 balance sheet date the index-linked interest and principal adjustments impacting the income statement are fixed and based upon either the previous three or eight-month RPI.

The company has no material exposure to inflation risk.

Capital risk management

The group's objective when managing capital is to maintain a capital structure that enables its primary subsidiary, United Utilities Water PLC, to retain a credit rating of A3, which the group believes best mirrors the Water Services Regulation Authority's (Ofwat) assumptions in relation to capital structure.

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

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

The group's strategy of targeting a credit rating of A3 for United Utilities Water PLC was announced as part of the group's interim results announcement in November 2007. Consistent with this strategy and in order to adjust the RCV gearing levels in line with the rating agencies' tolerance levels for an A3 credit rating, the group returned £1.5 billion to shareholders (with a corresponding reduction in its equity base) during August 2008 and reduced dividend per share by 30 per cent with effect from February 2009.

Fair values

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

Group	Carrying value 2009 £m	Fair value 2009 £m	Carrying value 2008 £m	Fair value 2008 £m
Financial assets				
Non-current assets				
Available for sale investments	136.8	136.8	155.5	155.5
Loans and receivables:				
Trade and other receivables	21.5	21.5	28.2	28.2
Derivative financial instruments:				
Fair value hedge derivatives	412.6	412.6	44.3	44.3
Current assets				
Loans and receivables:				
Trade and other receivables	491.6	491.6	456.2	456.2
Cash and short-term deposits	298.6	298.7	1,810.5	1,814.1
Derivative financial instruments:				
Held for trading derivatives – swaps(3)	226.4	226.4	99.0	99.0
Financial liabilities				
Non-current liabilities				
Trade and other payables at amortised cost	(139.8)	(139.8)	(125.5)	(125.5)
Borrowings:				
Financial liabilities designated at fair value through profit or loss	(279.7)	(279.7)	(223.1)	(223.1)
Financial liabilities in hedge relationships:				
Fair value hedge	(2,044.1)	(1,754.6)	(1,534.8)	(1,437.6)
Other financial liabilities	(2,876.3)	(2,350.1)	(2,031.0)	(1,785.0)
	(5,200.1)	(4,384.4)	(3,788.9)	(3,445.7)
Derivative financial instruments:				
Fair value hedge derivatives – swaps	(4.5)	(4.5)	(53.2)	(53.2)
Current liabilities				
Trade and other payables at amortised cost	(672.4)	(672.4)	(771.9)	(771.9)
Borrowings:				
Financial liabilities in hedge relationships:				
Fair value hedge	(153.2)	(154.1)	(725.0)	(738.9)
Other financial liabilities	(326.4)	(326.4)	(153.4)	(153.6)
	(479.6)	(480.5)	(878.4)	(892.5)
Derivative financial instruments:				
Held for trading derivatives – swaps(3)	(148.6)	(148.6)	(136.7)	(136.7)
Adjustment for accrued interest(1)(2)	–	41.5	–	34.7
	(5,057.5)	(4,201.1)	(3,160.9)	(2,793.5)

Notes:

(1) The fair values quoted include £nil interest receivable (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 £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 £182.8 million (2008: £59.5 million).

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 49. 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 £56.6 million loss (2008: £5.7 million gain), £76.6 million gain (2008: £28.2 million gain) is attributable to changes in credit risk. The cumulative impact of changes in credit spread was £107.2 million profit (2008: £30.6 million profit). The difference between the carrying amount and the amount contracted to settle on maturity was a carrying amount increase of £55.5 million (2008: a carrying amount decrease of £41.5 million).

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

Company	Carrying value 2009 £m	Fair value 2009 £m
Financial assets		
Current assets		
Loans and receivables	66.4	66.4
Financial liabilities		
Current liabilities		
Trade and other payables at amortised cost	(0.6)	(0.6)
Borrowings:		
Other financial liabilities	(1,502.2)	(1,502.2)
	(1,436.4)	(1,436.4)

20 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 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 7 December 2005. 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 2009 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 2009, significant elements of the company contribution holiday following the lump sum payments continued during the year ended 31 March 2009. The group also continues to pay contributions in respect of NGNPS, the defined contribution members and insurance premiums. Other payments will be made by the group in accordance with the funding agreements between the trustees and the group. Overall, the group expects to contribute around £30.0 million of contributions to its defined benefit schemes in the year ending 31 March 2010.

The group made total contributions of £45.4 million (2008: £16.1 million) to its pension schemes for the year ended 31 March 2009. During the prior year, the group also contributed to the Essex County Council Pension Fund; following the disposal of the group's facilities management operations on 22 February 2008 no further contributions have been made. The group also operates a series of unfunded, unregistered retirement benefit schemes. The cost of the unfunded, unregistered retirement benefit schemes is included in the total pension cost, on a basis consistent with IAS 19 and the assumptions set out below. In accordance with these unfunded arrangements, the group made no lump sum payments to former directors in the year ended 31 March 2009 (2008: £0.9 million).

The total defined benefit pension expense for the year was £33.0 million (2008: £52.2 million). A pension obligation of £213.1 million is included in the balance sheet at 31 March 2009 (2008: £101.2 million). Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

The main financial assumptions used by the actuary were as follows:

Group	2009 %	2008 %
Discount rate – UUPS	7.00	6.00
Discount rate – ESPS	7.00	6.10
Discount rate – NGNPS	6.90	5.80
Expected return on assets – UUPS	6.60	6.80
Expected return on assets – ESPS	6.20	6.50
Expected return on assets – NGNPS	5.90	6.20
Pensionable salary growth – UUPS	4.15	4.35
Pensionable salary growth – ESPS	4.20	4.40
Pensionable salary growth – NGNPS	4.20	4.40
Pension increases	3.20	3.40
Price inflation	3.20	3.40

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

Group	2009 years	2008 years
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.

At 31 March, the fair value of the schemes' assets and liabilities recognised in the balance sheet were as follows:

Group	Schemes' assets %	2009 £m	Schemes' assets %	2008 £m
Equities	55.0	815.4	65.4	1,217.7
Gilts	10.2	152.1	19.4	360.6
Bonds	33.7	500.7	13.5	252.4
Property	0.7	9.8	0.7	13.2
Cash	0.4	5.8	1.0	19.3
Total fair value of schemes' assets	100.0	1,483.8	100.0	1,863.2
Present value of defined benefit obligations		(1,696.9)		(1,964.4)
Net retirement benefit obligations		(213.1)		(101.2)

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 loss of £372.1 million (2008: £74.2 million loss).

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

Group	2009 £m	2008 £m
At 1 April	(1,964.4)	(2,835.3)
Interest cost on schemes' obligations	(117.5)	(137.0)
Actuarial gains	372.1	113.5
Curtailments/settlements	–	861.0
Member contributions	(9.2)	(11.0)
Benefits paid	61.9	100.4
Current service cost	(36.7)	(46.0)
Past service cost	(3.1)	(10.0)
At 31 March	(1,696.9)	(1,964.4)

At 31 March 2009, £5.9 million (2008: £7.0 million) of the defined benefit obligations related to unfunded, unregistered benefit plans.

Notes to the financial statements
continued

20 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

Group	2009 £m	2008 £m
At 1 April	1,863.2	2,896.6
Expected return on schemes' assets	124.3	165.7
Actuarial losses	(496.4)	(239.9)
Curtailments/settlements	–	(885.9)
Member contributions	9.2	11.0
Benefits paid	(61.9)	(100.4)
Company contributions	45.4	16.1
At 31 March	1,483.8	1,863.2

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

Group	Continuing operations	Continuing operations	Discontinued operations	Total
	2009 £m	2008 £m	2008 £m	2008 £m
Current service cost	(36.7)	(40.3)	(5.7)	(46.0)
Curtailments/settlements	–	5.6	–	5.6
Past service cost	(3.1)	(9.4)	(0.6)	(10.0)
Pension expense charged to operating profit (see note 3)	(39.8)	(44.1)	(6.3)	(50.4)
Expected return on schemes' assets	124.3	128.6	37.1	165.7
Interest on schemes' obligations	(117.5)	(105.1)	(31.9)	(137.0)
Pension expense credited to investment income (see note 5)	6.8	23.5	5.2	28.7
Curtailments/settlements charged to profit/(loss) on disposal	–	–	(30.5)	(30.5)
Net pension charged before taxation	(33.0)	(20.6)	(31.6)	(52.2)

The reconciliation of the opening and closing balance sheet position is as follows:

Group	2009 £m	2008 £m
At 1 April	(101.2)	61.3
Expenses recognised in the income statement	(33.0)	(52.2)
Contributions paid	45.4	16.1
Actuarial losses gross of taxation	(124.3)	(126.4)
At 31 March	(213.1)	(101.2)

Actuarial gains and losses are recognised directly in the statement of recognised income and expense. At 31 March 2009, a cumulative pre-tax loss of £95.1 million (2008: £29.2 million gain) had been recorded directly in the statement of recognised income and expense.

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

Group	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(1,696.9)	(1,964.4)	(2,835.3)	(2,721.0)	(2,382.3)
Fair value of schemes' assets	1,483.8	1,863.2	2,896.6	2,740.3	2,297.7
Net retirement benefit (obligations)/surplus	(213.1)	(101.2)	61.3	19.3	(84.6)
Experience adjustments on schemes' liabilities	(8.9)	23.8	92.6	–	(14.3)
Experience adjustments on schemes' assets	(496.4)	(239.9)	(43.3)	397.2	45.3

At 31 March 2009, gross pension liabilities in respect of retirement benefit obligations for NGNPS were £171.7 million (2008: £200.6 million). Gross pension assets in respect of NGNPS at 31 March 2009 were £169.7 million (2008: £193.7 million). The group recorded a related deferred tax asset at 31 March 2009 of £0.6 million (2008: £1.9 million). The directors consider that the group should apply defined benefit accounting in respect of the scheme. However, the group does not have the responsibility to fund the net pension deficit and has reflected this by the recognition of an available for sale financial asset within investments of £1.4 million at 31 March 2009 (2008: £5.0 million).

Defined contribution pension costs

UUPS also includes a defined contribution section which constitutes around 1.0 per cent of the total asset value.

During the year, the group made £7.0 million (2008: £4.0 million) of contributions to defined contribution schemes, which are included in arriving at operating profit from continuing operations and a further £nil (2008: £0.7 million) which are recognised within discontinued operations.

Various companies in the United Kingdom electricity business participate in the Electricity Supply Pension Scheme (ESPS), which is an industry-wide defined benefit scheme. The United Utilities Electricity Services Limited (UUES) section of the 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 2009, gross pension liabilities in respect of retirement benefit obligations for the UUES section were £157.3 million (2008: £196.3 million). Gross pension assets in respect of the UUES section, at 31 March 2009, were £149.4 million (2008: £186.6 million). £13.6 million of cash contributions have been made to the UUES section of the ESPS during the year ended 31 March 2009 (19 December 2007 to 31 March 2008: £nil), these costs being charged to operating profit as defined contribution pension costs. Therefore, in total for continuing operations, the group incurred defined contribution pension costs of £20.6 million (2008: £4.0 million) (see note 3).

The company does not participate in any of the group's pension schemes.

21 DEFERRED TAX LIABILITIES

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2007	1,579.9	(92.4)	63.0	1,550.5
Change in taxation rate	(105.3)	6.1	(4.2)	(103.4)
Charged/(credited) to the income statement	51.4	84.6	(73.1)	62.9
Credited to equity	–	(35.4)	(0.4)	(35.8)
Disposed of in the year	(312.2)	8.8	(6.8)	(310.2)
At 31 March 2008	1,213.8	(28.3)	(21.5)	1,164.0
Abolition of industrial buildings allowances (see note 7)	206.4	–	–	206.4
Charged/(credited) to the income statement	35.4	3.4	(35.1)	3.7
Credited to equity	–	(34.8)	(0.4)	(35.2)
At 31 March 2009	1,455.6	(59.7)	(57.0)	1,338.9

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

The company has no deferred tax assets or liabilities.

22 PROVISIONS

Group	Restructuring £m	Onerous leases £m	Other £m	Total £m
At 1 April 2007	6.3	7.7	24.9	38.9
Charged/(credited) to the income statement	22.3	(4.0)	4.9	23.2
Utilised in the year	(12.2)	–	(2.4)	(14.6)
Disposed of in the year	(4.1)	(3.7)	–	(7.8)
At 31 March 2008	12.3	–	27.4	39.7
Charged to the income statement	7.2	–	5.5	12.7
Utilised in the year	(8.1)	–	(4.5)	(12.6)
At 31 March 2009	11.4	–	28.4	39.8

The restructuring provision principally relates to severance and programme costs as a result of group reorganisation.

Other provisions principally relate to legal claims against the group and represent management's best estimate of the value of settlement and costs. It is estimated that these claims will be settled in more than one year.

Notes to the financial statements
continued

22 PROVISIONS CONTINUED

Provisions have been analysed between current and non-current as follows:

Group	Restructuring £m	Other £m	Total £m
At 31 March 2009			
Non-current	–	17.2	17.2
Current	11.4	11.2	22.6
	11.4	28.4	39.8
At 31 March 2008			
Non-current	–	18.7	18.7
Current	12.3	8.7	21.0
	12.3	27.4	39.7

The company has no provisions.

23 TRADE AND OTHER PAYABLES

	Group		Company
Non-current	**2009 £m**	2008 £m	**2009 £m**
Deferred grants and contributions	136.0	122.1	–
Other creditors	3.8	3.4	–
	139.8	125.5	–

	Group		Company
Current	**2009 £m**	2008 £m	**2009 £m**
Trade payables	86.6	78.8	–
Amounts owed to subsidiary undertakings	–	–	0.6
Amounts owed to related parties (see note 28)	1.9	0.1	–
Other tax and social security	7.7	7.1	–
Deferred grants and contributions	6.3	–	–
Other creditors	3.1	3.7	–
Accruals and deferred income	566.8	682.2	–
	672.4	771.9	0.6

The average credit period taken for trade purchases is 34 days (2008: 29 days).

The directors consider that the carrying amount of trade payables approximates to their fair value at both 31 March 2009 and 31 March 2008.

Deferred grants and contributions

Group	**2009 £m**	2008 £m
At 1 April	122.1	400.1
Received in the year	26.6	69.3
Disposed of in the year	–	(334.7)
Credited to the income statement	(6.4)	(12.6)
At 31 March	142.3	122.1

Deferred grants are those amounts received under government grant schemes. Deferred contributions are those amounts received from customers in respect of new connections to the network.

24 SHAREHOLDERS' EQUITY

Group	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2007	879.8	1,421.9	158.8	(0.3)	(4.2)	–	24.3	254.5	2,734.8
Profit for the year attributable to equity holders	–	–	–	–	–	–	–	909.2	909.2
Dividends	–	–	–	–	–	–	–	(400.4)	(400.4)
New share capital issued	1.8	7.4	–	–	–	–	–	–	9.2
Post-employment benefits – actuarial losses on defined benefit schemes	–	–	–	–	–	–	–	(126.4)	(126.4)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	–	2.6	2.6
Revaluation of investments	–	–	–	–	–	–	34.9	–	34.9
Fair value losses on cashflow hedges	–	–	–	–	–	–	(1.5)	–	(1.5)
Tax on items taken directly to equity	–	–	–	–	–	–	0.4	35.4	35.8
Foreign exchange adjustments	–	–	–	–	11.8	–	–	–	11.8
At 31 March 2008	881.6	1,429.3	158.8	(0.3)	7.6	–	58.1	674.9	3,210.0
Profit for the year attributable to equity holders	–	–	–	–	–	–	–	179.4	179.4
Dividends	–	–	–	–	–	–	–	(349.9)	(349.9)
New share capital issued	499.8	0.7	–	–	–	–	–	–	500.5
Capital reorganisation*	(881.6)	(1,429.3)	–	–	–	313.0	–	–	(1,997.9)
Post-employment benefits – actuarial losses on defined benefit schemes	–	–	–	–	–	–	–	(124.3)	(124.3)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	–	–	2.4	2.4
Revaluation of investments	–	–	–	–	–	–	(20.3)	–	(20.3)
Fair value losses on cashflow hedges	–	–	–	–	–	–	(1.6)	–	(1.6)
Tax on items taken directly to equity	–	–	–	–	–	–	0.4	34.8	35.2
Foreign exchange adjustments	–	–	–	–	8.5	–	–	–	8.5
At 31 March 2009	499.8	0.7	158.8	(0.3)	16.1	313.0	36.6	417.3	1,442.0

* On 24 July 2008, the High Court (the 'Court') approved the scheme of arrangement (the 'Scheme') of United Utilities PLC under section 425 of the Companies Act 1985 to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. The Scheme became effective on 28 July 2008. Under the terms of the Scheme, holders of shares in United Utilities PLC received 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC shares, together with one United Utilities Group PLC B share of 170.0 pence for each United Utilities PLC share.

On 30 July 2008, the Court approved the reduction of the capital of United Utilities Group PLC, whereby the nominal value of each ordinary share was reduced from 500.0 pence to five pence.

In addition, a merger reserve was created in the company balance sheet of United Utilities Group PLC upon the Scheme becoming effective, which, in order to create further distributable reserves in United Utilities Group PLC, was capitalised into A shares, which were cancelled as part of the reduction of capital of United Utilities Group PLC.

The reduction of capital became effective on 31 July 2008. The effect of the scheme of arrangement and the subsequent reduction in capital increased the distributable reserves of United Utilities Group PLC by £4.8 billion which enabled the return of £1,499.0 million capital to take place and will allow future dividends.

The merger reserve, as shown above, arises on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition, being the difference between the existing share capital and share premium of United Utilities PLC at the date of the reverse acquisition and the share capital, including B shares, of United Utilities Group PLC following the reduction of capital of United Utilities Group PLC.

Notes to the financial statements
continued

24 SHAREHOLDERS' EQUITY CONTINUED

Company	Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
On incorporation at 8 April 2008	–	–	–	–	–	–
Shares issued pursuant to the scheme of arrangement	3,406.9	–	–	1,420.9	–	4,827.8
Capitalisation of merger reserve	1,420.9	–	–	(1,420.9)	–	–
Cancellation of A shares pursuant to capital reduction	(1,420.9)	–	–	–	1,420.9	–
Reduction in nominal value of ordinary shares pursuant to capital reduction	(3,372.8)	–	–	–	3,372.8	–
Profit for the period attributable to equity holders	–	–	–	–	133.0	133.0
Dividends	–	–	–	–	(72.5)	(72.5)
Redemption of B shares	465.7	–	1,016.6	–	(1,482.3)	–
New share capital issued	–	0.7	–	–	–	0.7
Credit to equity for equity-settled share-based payments	–	–	–	–	1.4	1.4
At 31 March 2009	499.8	0.7	1,016.6	–	3,373.3	4,890.4

104,399 ordinary shares were allotted during the period ended 31 March 2009 for the exercise of options in accordance with the rules of the employee ShareSave scheme and the executive share option scheme for a total consideration of £0.7 million.

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The amount of group profit for the financial year dealt with in the company's income statement is £133.0 million after accounting for dividends received from subsidiary undertakings of £172.5 million.

25 SHARE CAPITAL

Company	**2009 million**	**2009 £m**
Authorised		
Ordinary shares of 5.0 pence each	1,000.0	50.0
Deferred shares of 170.0 pence each	274.0	465.7
Redeemable preference shares of 100.0 pence each	0.1	0.1
B shares of 170.0 pence each	626.0	1,064.3
	1,900.1	1,580.1
Issued, called up and fully paid		
Ordinary shares of 5.0 pence each	681.5	34.1
Deferred shares of 170.0 pence each	274.0	465.7
Redeemable preference shares of 100.0 pence each	–	–
B shares of 170.0 pence each	9.8	16.7
	965.3	516.5
Less: B shares designated as borrowings (see note 18)	(9.8)	(16.7)
	955.5	499.8

Refer to the directors' report for details of the voting rights of each category of shares.

26 OPERATING LEASE COMMITMENTS

	Property	Plant and equipment	Property	Plant and equipment
Group	**2009 £m**	**2009 £m**	2008 £m	2008 £m
Commitments under non-cancellable operating leases due				
Within one year	2.6	1.1	2.2	0.9
In the second to fifth years inclusive	7.9	1.7	7.3	1.3
After five years	230.1	–	209.9	–
	240.6	2.8	219.4	2.2

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.

The company has no operating lease commitments.

27 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), (see note 24). 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.

The company operates several share option schemes. Options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. Options are forfeited if the employee leaves the group through resignation or dismissal before the options vest.

Cash-settled and equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of equity-settled share-based payments 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 £1.9 million (2008: £2.6 million) and £nil (2008: £nil) in respect of cash-settled share-based payments.

The United Utilities Employee Share Trust was established by a trust deed executed on 21 August 1996. The Trustees hold the trust fund for the benefit of the beneficiaries (being employees or former employees of the group's companies and their relatives) to the extent determined by the rules of the share schemes. As at 31 March 2009, the Trust held 41,418 (2008: 53,601) shares on trust and these shares will be used to satisfy awards payable under the group's performance share plan. All dividends payable on the shares during the current and prior years were waived.

Further details of the different types of share-based payments are as follows:

Continuing operations

Company share option scheme 1999

The company share option scheme 1999 is for senior executives (excluding, with effect from the introduction of the group's long-term incentive plan, executive directors and other executives participating in that plan and its successor, the performance share plan).

Options under the company share option scheme 1999 are exercisable in a period beginning no earlier than three years (five years for discounted options under the former executive share option scheme, which are no longer granted) and ending no later than 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 performance share plan are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months. PSP awards 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 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.

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 2009, the group has recorded liabilities of £nil (2008: £0.2 million) in respect of SARs.

The fair value of the SARs is determined using the Black-Scholes pricing model using the assumptions detailed below. The group recorded a total charge of £nil (2008: £0.2 million expense) during the year in respect of SARs. At 31 March 2009, the total intrinsic value of the vested SARs was £nil (2008: £nil).

Notes to the financial statements
continued

27 SHARE-BASED PAYMENTS CONTINUED

Other share-based payment plan

The main all-employee scheme is the HM Revenue and Customs approved share incentive plan, 'ShareBuy'. This is a flexible way for employees to acquire shares in the company by buying 'partnership' shares up to the lower of £1,500 or 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 2009 and 31 March 2008 respectively.

Year ended 31 March 2009	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan[1] TSR 50%	Performance share plan[1] Operational 50%	Performance share plan[2] TSR 50%	Performance share plan[2] Operational 50%
Weighted average exercise price (£ per share)	–	–	–	–	–	–
Vesting period (years)	2.7	2.7	2.7	2.7	2.2	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:

(1) Awarded in August 2008.

(2) Awarded in January 2009.

Year ended 31 March 2008	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan
Weighted average exercise price (£ per share)	–	–	–
Vesting period (years)	3.0	3.0	3.0
Expected volatility (%)	15.0	15.0	14.0
Expected option life after adjustment for anticipated forfeiture (years)	2.7	2.7	2.8
Risk free rate (%)	5.4	5.4	5.7
Expected dividend yield (%)	6.79	–	5.9
Fair value (£ per share)	1.43	6.62	1.84

No cash-settled share options were granted during the year (2008: £nil).

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

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

	Company share option scheme 1999		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 2007	237,072	5.44	969,032	4.19	–	2,783,478	–	147,518
Granted	–	–	–	–	101,367	305,868	–	–
Dividend re-investment	–	–	–	–	6,869	84,580	–	3,534
Forfeited	(22,832)	–	(22,815)	4.23	–	(240,185)	–	(3,561)
Exercised	(69,749)	5.44	(877,997)	4.19	–	–	–	–
Expired	–	–	(10,359)	4.04	–	(1,030,236)	–	(55,290)
Outstanding at 31 March 2008	144,491	5.44	57,861	4.23	108,236	1,903,505	–	92,201
Granted	–	–	–	–	147,945	270,739	229,775	–
Dividend re-investment	–	–	–	–	16,677	83,085	4,316	2,408
Forfeited	(15,381)	–	(1,114)	–	–	(48,587)	–	–
Exercised	(20,579)	6.30	(52,017)	4.90	–	–	–	–
Expired	–	–	(4,730)	–	–	(1,625,408)	–	(94,609)
Outstanding at 31 March 2009	108,531	6.30	–	–	272,858	583,334	234,091	–
Range of prices								
31 March 2009		6.30		4.90				
31 March 2008		5.44		4.23				
Weighted average share price at date of exercise								
31 March 2009		6.85		7.05				
31 March 2008		7.12		6.85				
Contractual remaining life								
31 March 2009		3.7 years		–	1.6 years	1.5 years	1.9 years	–
31 March 2008		4.7 years		0.4 years	2.0 years	1.3 years	–	0.5 years

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 2009 (2008: £nil).

None of the share options identified above as outstanding at 31 March 2009 had vested at that 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:

	2009 Number of options	2008 Number of options	Exercise price[1] £	Normal dates of exercise
Executive share option scheme	–	26,598	8.86	2001 to 2008
	–	93,934	8.68	2001 to 2008
	127,944	182,816	7.68	2002 to 2009
Company share option scheme 1999	13,803	17,045	6.16	2002 to 2009
	111,604	146,529	6.80	2003 to 2010
	25,923	29,971	6.66	2003 to 2010
	113,653	156,691	6.52	2004 to 2011
	47,872	71,937	5.89	2005 to 2012
	201,674	257,569	6.11	2005 to 2012
	642,473	983,090		

Note:

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

Notes to the financial statements
continued

27 SHARE-BASED PAYMENTS CONTINUED
Discontinued operations
Vertex performance share plan (Vertex PSP)

The Vertex PSP was for senior executives of the group. Options under the Vertex PSP are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months. Vertex PSP awards are subject to both a TSR performance condition (a market-based measure of performance) and earnings before interest, taxation and amortisation (EBITA) and return on capital employed (ROCE) performance conditions (non-market based measures of performance).

The Vertex PSP scheme was discontinued in line with the disposal of Vertex on 26 March 2007. Accordingly, all Vertex PSP options vest no later than 31 March 2009 and the remaining charge is considered to be inconsequential.

The movement in total outstanding options in respect of grants of Vertex PSP equity instruments after 7 November 2002 unvested as of 1 April 2004, and therefore within the scope of IFRS 2, is provided below:

	Number of options	Weighted average exercise price £
Outstanding at 1 April 2007	893,703	–
Dividend re-investment	22,579	–
Forfeited	(7,476)	–
Expired	(345,563)	–
Outstanding at 31 March 2008	563,243	–
Dividend re-investment	14,106	–
Expired	(577,349)	–
Outstanding at 31 March 2009	–	–
Range of prices		
31 March 2009		–
31 March 2008		–
Weighted average share price at date of exercise		
31 March 2009		–
31 March 2008		–
Contractual remaining life		
31 March 2009		–
31 March 2008		0.7 years

28 RELATED PARTY TRANSACTIONS

Group

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

Trading transactions

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

	Sales of services		Purchases of goods and services	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Joint ventures	109.8	130.9	11.4	3.2

	Amounts owed by related parties		Amounts owed to related parties	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Joint ventures (see notes 16,23)	12.8	15.0	1.9	0.1

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. No guarantees have been given or received. A £0.1 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2008: £nil).

Company

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

Total dividend income received during the year amounted to £172.5 million and total net interest paid during the period was £40.5 million. Amounts outstanding at 31 March 2009 between the parent company and subsidiary undertakings are provided in notes 16, 18 and 23.

Related party receivables and payables are not secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings.

Notes to the financial statements
continued

29 CASH GENERATED FROM OPERATIONS

	Group		Company
	2009 £m	2008 £m	**2009 £m**
Continuing operations			
Profit before taxation	529.8	478.3	133.6
Adjustment for investment income and finance expense	205.4	184.9	38.9
Operating profit	735.2	663.2	172.5
Adjustments for:			
Depreciation of property, plant and equipment	244.3	226.0	–
Amortisation of other intangible assets	19.2	22.2	–
Loss/(profit) on disposal of property, plant and equipment	0.8	(5.7)	–
Equity-settled share-based payments charge	1.9	2.6	–
Other non-cash movements	–	3.9	–
Changes in working capital:			
Increase in inventories	(9.7)	(4.1)	–
Increase in trade and other receivables	(30.2)	(81.3)	–
(Decrease)/increase in provisions and payables	(50.1)	50.1	–
Cash generated from continuing operations	911.4	876.9	172.5
Discontinued operations			
(Loss)/profit before taxation	(1.2)	141.9	–
Adjustment for investment income and finance expense	–	16.6	–
Operating (loss)/profit	(1.2)	158.5	–
Adjustments for:			
Depreciation of property, plant and equipment	–	9.7	–
Amortisation of other intangible assets	–	0.6	–
Loss on disposal of property, plant and equipment	–	2.5	–
Changes in working capital:			
Decrease in inventories	–	3.6	–
Decrease in trade and other receivables	–	6.3	–
Increase/(decrease) in provisions and payables	1.2	(36.5)	–
Interest paid	–	(17.1)	–
Interest received and similar income	–	10.3	–
Tax paid	–	(38.4)	–
Cash generated from operating activities – discontinued operations	–	99.5	–

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

30 CONTINGENT LIABILITIES

The group has entered into performance guarantees as at 31 March 2009, where a financial limit has been specified of £119.8 million (2008: £121.6 million).

The company has not entered into performance guarantees as at 31 March 2009.

31 EVENTS AFTER THE BALANCE SHEET DATE

There were no events arising after the balance sheet date that require recognition or disclosure in the financial statements for the year ended 31 March 2009.

Useful information for shareholders

Return of value

Following the sale of United Utilities Electricity Limited and a review of capital structure, the company returned value to shareholders through B shares redeemable in August 2008 and April 2009.

The following information is provided without responsibility or warranty for its accuracy or completeness for information only for the purposes of calculating UK capital gains tax (CGT) on United Utilities Group PLC ordinary shares and B shares. The closing United Utilities Group PLC ordinary share price for CGT purposes on 28 July 2008 was 699.25 pence. Additional CGT information can be found at **unitedutilities.com/Capitalgainstax**

Any shareholders or prospective shareholders who are in any doubt as to their tax position regarding the acquisition, ownership and/or disposal of United Utilities Group PLC ordinary shares and B shares should consult their tax advisers.

Key dates

During the next year we plan to:

- pay the 2009 final dividend on 3 August 2009;
- announce the half year results on 25 November 2009 (provisional);
- pay the 2009 interim dividend in February 2010;
- announce the final results for the 2009/10 financial year in May or June 2010;
- publish the Annual Report and Financial Statements and the Corporate Responsibility report in June 2010; and
- hold the AGM in July 2010.

Keeping you in the picture

You can find information about United Utilities quickly and easily on the group's website at **unitedutilities.com** Here the Annual Report and Financial Statements, Corporate Responsibility report, other reports, company announcements, the half-year and final announcements and associated presentations are published.

To obtain a paper copy of the Annual Report and Financial Statements 2009, write to the company secretary at the group's registered office. If you wish to change how you receive shareholder documents, please write to the registrar, Equiniti, at the address given below, stating your name, shareholding and shareholder reference number. Or, if you want to receive future notifications by email rather than post, you can arrange this at **shareview.co.uk**

Registrar

The registrar, Equiniti, can be contacted on **0871 384 2041** or textphone for those with hearing difficulties: **0871 384 2255**.
Their address is: Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.
Overseas shareholders may contact them on:
+44 (0) 121 415 7048.

Equiniti offers a low cost share dealing service by telephone: **0845 603 7037** and online: **shareview.co.uk/dealing** Equiniti also offers a single company ISA (a Maxi or Mini shares-only individual savings account), for United Utilities' shares. For more information, call the number above.

American Depositary Receipts (ADRs)

United Utilities' shares are traded in the USA in the form of American Depositary Receipts (ADRs), and trade under the symbol UUGRY on the OTC market. Each ADR represents two shares. JPMorgan Chase & Co. is the depositary and its address for enquiries is JPMorgan Chase & Co. P.O. Box 64504, St. Paul, MN 55164-0504.
adr.com/ShareholderServices/ShareholderServices.aspx
Telephone: **800 990-1135** or outside the US, **+1 651 453 2128**, or by email: **jpmorgan.adr@wellsfargo.com**

Donating shares to ShareGift

ShareGift is a charity that accepts donations of small numbers of shares which are uneconomic to sell on their own. Shares donated to ShareGift are aggregated and sold with the proceeds passed on to a wide range of UK charities. For further details go to **ShareGift.org** or write to ShareGift at 17 Carlton House Terrace, London SW1Y 5AH. Telephone: **0207 930 3737**.

Warning to shareholders

Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Services Authority at **moneymadeclear.fsa.gov.uk**

Avoiding unsolicited mail

United Utilities is legally obliged to make its register of members available for inspection in some circumstances. This may lead to you receiving unsolicited mail. If you have a UK registered address and want to limit the amount of personally addressed unsolicited mail you receive, please write to the Mailing Preference Service, Freepost 29, LON20771, London W1E 0ZT, or register by telephoning **0845 703 4599** or online at **mpsonline.org.uk**

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