

# Financial statements

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# 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 and parent company cashflow statements, 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
<b>Continuing operations</b>			
<b>Revenue</b>	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)
<b>Total operating expenses</b>		(1,699.5)	(1,699.7)
<b>Operating profit</b>	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)
<b>Profit before taxation</b>		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
<b>Taxation</b>	7	(349.2)	(62.0)
<b>Profit for the year from continuing operations</b>		180.6	416.3
<b>Discontinued operations</b>			
(Loss)/profit for the year/period from discontinued operations	8	(1.2)	492.9
<b>Profit for the year</b>		179.4	909.2
<b>Earnings per share</b>	10		
from continuing and discontinued operations*			
Basic		26.3p	133.6p
Diluted		26.3p	133.6p
<b>Earnings per share</b>	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

			Group	Company
	Note	2009 £m	2008 £m	2009 £m
<b>ASSETS</b>				
<b>Non-current assets</b>				
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
<b>Current assets</b>				
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
<b>Total assets</b>		9,746.4	10,336.4	6,393.2
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
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)	-
<b>Current liabilities</b>				
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)
<b>Total liabilities</b>		(8,304.4)	(7,126.4)	(1,502.8)
<b>Total net assets</b>		1,442.0	3,210.0	4,890.4
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of the company</b>				
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
<b>Shareholders' equity</b>		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
<b>Net expense recognised directly in equity</b>		<b>(102.5)</b>	<b>(45.4)</b>
Profit for the year	24	179.4	909.2
<b>Total recognised income and expense for the year</b>		<b>76.9</b>	<b>863.8</b>

# Cashflow statements

for the year ended 31 March

		Group	Company
	Note	2009 £m	2008 £m
<b>Operating activities</b>			
Cash generated from operations	29	911.4	876.9
Interest paid		(232.3)	(299.9)
Interest received and similar income		90.4	119.1
Tax paid		(32.8)	(98.6)
<b>Net cash generated from operating activities (continuing operations)</b>		<b>736.7</b>	<b>597.5</b>
<b>Net cash generated from operating activities (discontinued operations)</b>	29	-	99.5
		736.7	697.0
<b>Investing activities</b>			
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
<b>Net cash (used in)/generated from investing activities (continuing operations)</b>		<b>(710.3)</b>	<b>559.3</b>
<b>Net cash used in investing activities (discontinued operations)</b>		-	(161.0)
		(710.3)	398.3
<b>Financing activities</b>			
Proceeds from issue of ordinary shares		1.6	9.2
Cash used in structured financing		(163.9)	(170.1)
Proceeds from borrowings		3,784.7	1,068.9
Repayment of borrowings		(3,310.9)	(2,297.2)
Dividends paid to equity holders of the company	9	(349.9)	(400.4)
Return to shareholders on capital reorganisation		(1,482.3)	-
Dividends received from discontinued operations		-	100.0
<b>Net cash used in financing activities (continuing operations)</b>		<b>(1,520.7)</b>	<b>(1,689.6)</b>
<b>Net cash used in financing activities (discontinued operations)</b>		-	(190.1)
		(1,520.7)	(1,879.7)
Effects of exchange rate changes (continuing operations)		(1.8)	148.9
<b>Net decrease in cash and cash equivalents (continuing operations)</b>		<b>(1,496.1)</b>	<b>(383.9)</b>
<b>Net decrease in cash and cash equivalents (discontinued operations)</b>		-	(251.6)
		(1,496.1)	(635.5)
Cash and cash equivalents at beginning of the year/period	17	1,705.2	2,340.7
<b>Cash and cash equivalents at end of the year/period</b>	17	<b>209.1</b>	<b>1,705.2</b>

# 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

## 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	Continuing operations	Discontinued operations	Total
	2009 £m	2008 £m	2008 £m	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.

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

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

## Notes to the financial statements

### continued

#### 2 SEGMENT REPORTING CONTINUED

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

	Regulated activities £m	Group £m
<b>Year ended 31 March 2009</b>		
<i>Discontinued operations</i>		
<b>External revenue</b>	-	-
<b>Segmental operating loss</b>	(1.2)	(1.2)

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

	Regulated activities £m	Non- regulated activities £m	Other activities £m	Unallocated £m	Group £m
<b>Year ended 31 March 2009</b>					
<b>Other information</b>					
Capital additions	622.6	42.8	0.2	-	665.6
Depreciation and amortisation	236.2	27.2	0.1	-	263.5
<b>Balance sheet</b>					
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)

	Regulated activities £m	Non- regulated activities £m	Other activities £m	Discontinued operations £m	Unallocated £m	Group £m
<b>Year ended 31 March 2008</b>						
<b>Other information</b>						
Capital additions	706.0	61.6	0.1	166.8	-	934.5
Depreciation and amortisation	222.9	24.9	0.4	-*	-	248.2
<b>Balance sheet</b>						
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
<b>Continuing operations</b>		
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)
<b>Employee benefits expense attributable to continuing operations</b>	347.2	317.5
<b>Discontinued operations</b>		
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)
<b>Employee benefits expense attributable to discontinued operations</b>	-	16.1
	347.2	333.6
Less: employee benefits expense attributable to joint ventures	(9.2)	(7.1)
<b>Total employee benefits expense</b>	338.0	326.5

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

	2009 number	2008 number
<b>Continuing operations</b>		
Regulated activities	3,925	3,888
Non-regulated activities	4,364	4,517
Other activities	677	268
	8,966	8,673
<b>Discontinued operations</b>		
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	Continuing operations	Discontinued operations	Total
	2009 £m	2008 £m	2008 £m	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	Continuing operations	Discontinued operations	Re-presented Total
	2009 £m	2008 £m	2008 £m	2008 £m
<b>Other income</b>				
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)
<b>Depreciation and amortisation expense</b>				
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
<b>Other operating costs</b>				
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
<b>Interest payable</b>		
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
<b>Fair value losses/(gains) on debt and derivative instruments<sup>(1)</sup></b>		
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 <sup>(2)</sup>	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 <sup>(3)</sup>	20.4	11.2
Other	(8.8)	(0.6)
	127.3	84.6
Net fair value losses/(gains) on debt and derivative instruments <sup>(4)</sup>	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
<b>Current taxation</b>				
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
<b>Deferred taxation (see note 21)</b>				
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)
<b>Total tax charge for the year</b>	<b>349.2</b>	<b>62.0</b>	<b>14.4</b>	<b>76.4</b>

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
<b>Total tax charge and effective tax rate for the year</b>	<b>349.2</b>	<b>65.9</b>	<b>-</b>	<b>-</b>	<b>349.2</b>	<b>66.1</b>

	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
<b>Total tax charge and effective tax rate for the year</b>	<b>62.0</b>	<b>13.0</b>	<b>14.4</b>	<b>10.1</b>	<b>76.4</b>	<b>12.3</b>

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)
<b>(Loss)/profit for the year/period from discontinued operations</b>	<b>(1.2)</b>	<b>492.9</b>

	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
<b>Revenue</b>			
External sales	223.7	5.3	5.7
Intra-group sales	-	-	21.6
<b>Total revenue</b>	<b>223.7</b>	<b>5.3</b>	<b>27.3</b>
Depreciation and amortisation	(10.0)	(0.2)	(0.1)
Other operating expenses	(60.4)	(5.2)	(26.4)
<b>Operating profit/(loss)</b>	<b>153.3</b>	<b>(0.1)</b>	<b>0.8</b>
Investment income and finance expense	(17.1)	-	0.5
<b>Profit/(loss) before taxation</b>	<b>136.2</b>	<b>(0.1)</b>	<b>1.3</b>
Taxation on profit/(loss)	(14.4)	-	-
<b>Profit/(loss) for the period from discontinued operations</b>	<b>121.8</b>	<b>(0.1)</b>	<b>1.3</b>
Profit/(loss) on disposal of discontinued operations	371.2	(4.9)	9.1
<b>Total profit/(loss) for the period from discontinued operations</b>	<b>493.0</b>	<b>(5.0)</b>	<b>10.4</b>

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)
<b>Net assets/(liabilities)</b>	<b>722.8</b>	<b>7.9</b>	<b>(0.3)</b>
Transaction costs	46.0	0.7	0.2
Profit/(loss) on disposal	371.2	(4.9)	9.1
<b>Total fair value of consideration satisfied by cash</b>	<b>1,140.0<sup>(1)</sup></b>	<b>3.7</b>	<b>9.0</b>

**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:		
<b>Ordinary shares</b>		
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
<b>Earnings per share from continuing and discontinued operations</b>		
Basic	26.3	133.6
Diluted	26.3	133.6
<b>Earnings per share from continuing operations</b>		
Basic	26.5	61.2
Diluted	26.5	61.2
<b>Earnings per share from discontinued operations</b>		
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
<b>Cost</b>						
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
<b>At 31 March 2009</b>	221.7	3,729.2	4,414.0	591.9	936.1	9,892.9
<b>Accumulated depreciation</b>						
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
<b>At 31 March 2009</b>	70.5	195.7	1,368.0	281.5	-	1,915.7
<b>Net book value at 31 March 2009</b>	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
<b>Cost</b>	
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
<b>At 31 March 2009</b>	<b>2.6</b>

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
<b>Cost</b>			
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
<b>At 31 March 2009</b>	<b>181.9</b>	<b>24.3</b>	<b>206.2</b>
<b>Amortisation</b>			
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
<b>At 31 March 2009</b>	<b>88.5</b>	<b>11.6</b>	<b>100.1</b>
<b>Net book value at 31 March 2009</b>	<b>93.4</b>	<b>12.7</b>	<b>106.1</b>
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
<b>At 31 March 2009</b>	-	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
<b>Subsidiary undertakings</b>			
<b>Great Britain</b>			
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
<b>Australia</b>			
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
<b>Joint ventures</b>			
<b>Great Britain</b>			
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
<b>Australia</b>			
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
<b>Estonia</b>			
AS Tallinna Vesi	Ordinary	26.5	Contract operations and maintenance services
<b>Bulgaria</b>			
Sofiyska Voda AD	Ordinary	57.8	Contract operations and maintenance services
<b>Poland</b>			
Aqua Spolka Akcyjna	Ordinary	33.2	Contract operations and maintenance services
<b>Philippines</b>			
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:

<b>Group share of joint ventures</b>	<b>2009 £m</b>	<b>2008 £m</b>
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

<b>Group share of joint ventures</b>	<b>2009 £m</b>	<b>2008 £m</b>
Gross income	209.5	211.5
Expenses	(196.5)	(198.6)
Taxation	(1.8)	(3.3)
<b>Profit for the year</b>	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).

<b>Company</b>	<b>Shares in subsidiary undertakings £m</b>
On incorporation at 8 April 2008	-
Additions	6,326.8
<b>At 31 March 2009</b>	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

<b>Group</b>	<b>2009 £m</b>	<b>2008 £m</b>
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

	<b>2009 £m</b>	<b>Group 2008 £m</b>	<b>Company 2009 £m</b>
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	Company
	2009 £m	2008 £m	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)
<b>At 31 March</b>	<b>192.8</b>	<b>171.7</b>

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	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
<b>At 31 March 2009</b>				
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
<b>At 31 March 2008</b>				
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	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
<b>At 31 March 2009</b>				
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		Company
	2009 £m	2008 £m	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
<b>Trade and other receivables</b>	<b>513.1</b>	<b>484.4</b>	<b>66.4</b>

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

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
<b>Non-current liabilities</b>		
Bonds	4,005.7	3,031.5
Bank and other term borrowings	1,194.4	701.1
Finance lease obligations	-	56.3
	<b>5,200.1</b>	<b>3,788.9</b>
<b>Current liabilities</b>		
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 <sup>(1)</sup>	17.2	-
	<b>479.6</b>	<b>878.4</b>
	<b>5,679.7</b>	<b>4,667.3</b>

### 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.

# 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	Carrying value	Fair value	Carrying value
			2009 £m	2009 £m	2008 £m	2008 £m
<b>Borrowings in fair value hedge relationships</b>						
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
<b>Borrowings designated at fair value through profit or loss</b>						
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
<b>Borrowings measured at amortised cost</b>						
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**

	Currency	Year of maturity	Fair value 2009 £m	Carrying value 2009 £m	Fair value 2008 £m	Carrying value 2008 £m
<b>Group</b>						
<b>Other borrowings</b>						
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)
<b>Amount due for settlement after 12 months</b>			-	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
<b>Current liabilities</b>	
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:

		<b>Group</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
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	-
	<b>1,587.5</b>	<b>2,593.7</b>	<b>66.4</b>

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:

<b>Group</b>	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
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)
	<b>934.8</b>	<b>2,494.4</b>

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:

<b>Group</b>	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
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 <sup>(1)</sup>	(55.0)	-
Offsetting bank guarantees	(79.2)	(45.4)
<b>Undrawn borrowing facilities</b>	<b>1,410.8</b>	<b>1,599.6</b>

#### 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 <sup>(1)</sup> £m	Adjust- ment <sup>(2)</sup> £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 <sup>(2)</sup>	(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 <sup>(2)</sup>	151.0	151.0						
<b>Derivatives – net assets</b>	<b>(485.9)</b>	<b>151.0</b>	<b>(158.0)</b>	<b>(14.7)</b>	<b>(18.0)</b>	<b>(40.8)</b>	<b>(126.4)</b>	<b>(279.0)</b>
<b>At 31 March 2008</b>	<b>Total<sup>(1)</sup> £m</b>	<b>Adjust- ment<sup>(2)</sup> £m</b>	<b>1 year or less £m</b>	<b>1-2 years £m</b>	<b>2-3 years £m</b>	<b>3-4 years £m</b>	<b>4-5 years £m</b>	<b>More than 5 years £m</b>
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 <sup>(2)</sup>	(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 <sup>(2)</sup>	6.6	6.6						
<b>Derivatives – net liabilities</b>	<b>46.6</b>	<b>6.6</b>	<b>64.0</b>	<b>(16.4)</b>	<b>2.8</b>	<b>7.5</b>	<b>9.4</b>	<b>(27.3)</b>

##### 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

	2009 £m	Group 2008 £m	Company 2009 £m
<b>Impact on profit before taxation and equity</b>			
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
<b>Borrowings in hedge relationships</b>							
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	-	-	-	-	-
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	279.7	-	-	-	-	20.0	259.7
Effect of swaps	-	279.7	-	-	-	(20.0)	(259.7)
	279.7	279.7	-	-	-	-	-
<b>Borrowings measured at amortised cost</b>							
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
<b>Total borrowings</b>	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)	-	-	-	-	-
<b>Net borrowings</b>	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
<b>Borrowings in hedge relationships</b>							
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	-	-	-	-	-
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	223.1	-	-	-	-	-	223.1
Effect of swaps	-	223.1	-	-	-	-	(223.1)
	223.1	223.1	-	-	-	-	-
<b>Borrowings measured at amortised cost</b>							
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	-	-	-
<b>Total borrowings</b>	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)	-	-	-	-	-
<b>Net borrowings</b>	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
<b>Borrowings measured at amortised cost</b>		
Fixed rate instruments	17.2	17.2
Floating rate instruments	1,485.0	1,485.0
<b>Total borrowings</b>	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.

	2009 JPY £m	2008 JPY £m
<b>Impact on profit before taxation</b>		
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	Fair value	Carrying value	Fair value
	2009 £m	2009 £m	2008 £m	2008 £m
<b>Financial assets</b>				
<b>Non-current assets</b>				
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
<b>Current assets</b>				
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 <sup>(3)</sup>	226.4	226.4	99.0	99.0
<b>Financial liabilities</b>				
<b>Non-current liabilities</b>				
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)
<b>Current liabilities</b>				
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 <sup>(3)</sup>	(148.6)	(148.6)	(136.7)	(136.7)
Adjustment for accrued interest <sup>(1)(2)</sup>	-	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

	Carrying value	Fair value
<b>Company</b>	<b>2009 £m</b>	<b>2009 £m</b>
<b>Financial assets</b>		
<b>Current assets</b>		
Loans and receivables	66.4	66.4
<b>Financial liabilities</b>		
<b>Current liabilities</b>		
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)
<b>Net retirement benefit obligations</b>		<b>(213.1)</b>		<b>(101.2)</b>

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
Curtailements/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)
<b>At 31 March</b>	<b>(1,696.9)</b>	<b>(1,964.4)</b>

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

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#### 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
<b>At 31 March</b>	<b>1,483.8</b>	<b>1,863.2</b>

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 2009 £m	Continuing operations 2008 £m	Discontinued operations 2008 £m	Total 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)
<b>Pension expense charged to operating profit (see note 3)</b>	<b>(39.8)</b>	<b>(44.1)</b>	<b>(6.3)</b>	<b>(50.4)</b>
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)
<b>Pension expense credited to investment income (see note 5)</b>	<b>6.8</b>	<b>23.5</b>	<b>5.2</b>	<b>28.7</b>
Curtailments/settlements charged to profit/(loss) on disposal	-	-	(30.5)	(30.5)
<b>Net pension charged before taxation</b>	<b>(33.0)</b>	<b>(20.6)</b>	<b>(31.6)</b>	<b>(52.2)</b>

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)
<b>At 31 March</b>	<b>(213.1)</b>	<b>(101.2)</b>

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
<b>Net retirement benefit (obligations)/surplus</b>	<b>(213.1)</b>	<b>(101.2)</b>	<b>61.3</b>	<b>19.3</b>	<b>(84.6)</b>
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)
<b>At 31 March 2009</b>	<b>1,455.6</b>	<b>(59.7)</b>	<b>(57.0)</b>	<b>1,338.9</b>

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)
<b>At 31 March 2009</b>	<b>11.4</b>	<b>-</b>	<b>28.4</b>	<b>39.8</b>

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
<b>At 31 March 2009</b>			
Non-current	-	17.2	17.2
Current	11.4	11.2	22.6
	11.4	28.4	39.8
<b>At 31 March 2008</b>			
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

	2009 £m	2008 £m	2009 £m
<b>Non-current</b>			
Deferred grants and contributions	136.0	122.1	-
Other creditors	3.8	3.4	-
	139.8	125.5	-
<b>Current</b>			
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)
<b>At 31 March</b>	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
<b>At 31 March 2009</b>	<b>499.8</b>	<b>0.7</b>	<b>158.8</b>	<b>(0.3)</b>	<b>16.1</b>	<b>313.0</b>	<b>36.6</b>	<b>417.3</b>	<b>1,442.0</b>

\* 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
<b>At 31 March 2009</b>	<b>499.8</b>	<b>0.7</b>	<b>1,016.6</b>	<b>-</b>	<b>3,373.3</b>	<b>4,890.4</b>

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
<b>Authorised</b>		
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
	<b>1,900.1</b>	<b>1,580.1</b>
<b>Issued, called up and fully paid</b>		
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
	<b>965.3</b>	<b>516.5</b>
Less: B shares designated as borrowings (see note 18)	(9.8)	(16.7)
	<b>955.5</b>	<b>499.8</b>

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

#### 26 OPERATING LEASE COMMITMENTS

Group	Property	Plant and equipment	Property	Plant and equipment
	2009 £m	2009 £m	2008 £m	2008 £m
<b>Commitments under non-cancellable operating leases due</b>				
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	-
	<b>240.6</b>	<b>2.8</b>	<b>219.4</b>	<b>2.2</b>

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.

	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan <sup>(1)</sup> TSR 50%	Performance share plan <sup>(1)</sup> Operational 50%	Performance share plan <sup>(2)</sup> TSR 50%	Performance share plan <sup>(2)</sup> Operational 50%
<b>Year ended 31 March 2009</b>						
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.

	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan
<b>Year ended 31 March 2008</b>			
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)
<b>Outstanding at 31 March 2009</b>	<b>108,531</b>	<b>6.30</b>	<b>-</b>	<b>-</b>	<b>272,858</b>	<b>583,334</b>	<b>234,091</b>	<b>-</b>
<b>Range of prices</b>								
<b>31 March 2009</b>		6.30		4.90				
31 March 2008		5.44		4.23				
<b>Weighted average share price at date of exercise</b>								
<b>31 March 2009</b>		6.85		7.05				
31 March 2008		7.12		6.85				
<b>Contractual remaining life</b>								
<b>31 March 2009</b>		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 <sup>(1)</sup> £	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)	-
<b>Outstanding at 31 March 2009</b>	-	-
<b>Range of prices</b>		
<b>31 March 2009</b>		-
31 March 2008		-
<b>Weighted average share price at date of exercise</b>		
<b>31 March 2009</b>		-
31 March 2008		-
<b>Contractual remaining life</b>		
<b>31 March 2009</b>		-
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

	2009 £m	Group 2008 £m	Company 2009 £m
<b>Continuing operations</b>			
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	-
<b>Cash generated from continuing operations</b>	<b>911.4</b>	<b>876.9</b>	<b>172.5</b>
<b>Discontinued operations</b>			
(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)	-
<b>Cash generated from operating activities – discontinued operations</b>	<b>-</b>	<b>99.5</b>	<b>-</b>

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.