Registered No: 2366616

United Utilities PLC

Report and Financial Statements

31 March 2015

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Terms used in this report:
United Utilities PLC's ultimate parent company is United Utilities Group PLC. 'UUG' means United Utilities Group PLC and 'United Utilities', 'the group' or 'the UUG group' means United Utilities Group PLC and its subsidiary undertakings. 'UU' means United Utilities PLC and its subsidiary undertakings.

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

Certain regulatory performance data contained in this financial report is subject to regulatory audit.

Strategic report

Our vision and strategy

Our vision is to become a leading North West service provider and one of the best UK water and wastewater companies. We will deliver this by providing the best service to customers at the lowest sustainable cost and in a responsible manner.

Our strategy is to deliver value by providing:

The best service to customers: Delivering excellent services to our customers by anticipating and responding to their needs.

Customer promises: deliver a service customers can rely on, provide great water and dispose of wastewater:

Customer outcomes:

- Customers are highly satisfied with our service and find it easy to do business with us
- Drinking water is safe and clean
- Customers have a reliable supply of water now and in the future
- Wastewater is removed and treated without customers ever noticing
- The risk of sewer flooding for homes and businesses is reduced

At the lowest sustainable cost: Providing the service as efficiently as possible on a cost basis that can be sustained over the long-term.

Customer promises: give value for money:

Customer outcomes:

- Customer bills are fair
- We support those customers who are struggling to pay
- The North West's economy is supported by our activities and investment

In a responsible manner: Managing responsibly our interaction with the environment, the communities where we operate and our employees.

Customer promises: protect and enhance the environment:

Customer outcomes:

- The natural environment is protected and improved in the way we deliver our services
- The North West's bathing and shellfish waters are cleaner through our work
- Our services and assets are fit for a changing climate

For more information in relation to our vision and strategy, please see pages 10 to 13 of the 2015 UUG annual report and financial statements.

How we create value

Today we benefit from the strategic decisions and work delivered by our predecessors over the previous 150 years to provide the North West with good quality water and to reduce the environmental impact of the wastewater we treat. The work we do today will help to ensure customers of the North West continue to enjoy an effective, efficient service for many generations to come.

We create value for our stakeholders principally by agreeing and then delivering, or outperforming, our regulatory contract. The way we use our key resources and interact with our ever-evolving external environment, influenced by our long-term strategic approach, helps to achieve value creation. This also facilitates the delivery of our five customer outcomes alongside ensuring investors receive an appropriate return.

Strategic report

External environment

Economic

Changes in the economy, such as inflation, interest rates, or unemployment levels, can influence our ability to create value. Whilst outside of our direct control, we can mitigate some of the potential adverse impact associated with market movements, such as on inflation and interest rates, through our hedging strategies.

Technological

Advances in technology can be used to help deliver improvements in the quality or cost of our service. Embracing innovation, using modern technology or techniques, is at the heart of how we do business. For example, our Davyhulme sludge recycling centre which employed a ground-breaking configuration of thermal hydrolysis to maximise energy generation from sludge, won an Annual Institute of Chemical Engineers award for innovation in 2013/14. We also have to be mindful of our customers' ever increasing use of technology and we have been improving our website and using text messages and social media to expand communication options with customers.

Political and regulatory

Over a long time-frame the political and regulatory environment can change significantly. In the 26 years since the water industry was privatised by the UK government, we have seen substantial tightening of laws and regulations. Whilst to some extent, changes to the regulatory environment are outside of our direct control, maintaining a good reputation is important to enable positive participation in regulatory discussions. By positively engaging and using our industry knowledge, we can help influence future policy with the aim of achieving the best outcome for our customers, shareholders and other stakeholders.

Social

We see some significant societal trends that we plan to address in our long-term strategy. The North West remains the most socially and economically deprived region in England and so we can anticipate continued hardship for a number of communities and difficulties for some customers in paying their bills. We will remain committed to supporting these customers through a suite of payment assistance schemes and looking at new ways to help, like the introduction of our social tariff in 2015. We anticipate an increase in the North West population of around 600,000 by 2040 (more than the population of a large city such as Liverpool). We are planning to ensure our services and supporting infrastructure meet the needs of this growing population, which will include a higher proportion of older people.

Natural

Planning far into the future ensures that we are prepared for the changing natural environment, most notably the effects of climate change. We have a responsibility to return water to the environment safely and we are focused on reducing pollution incidents, caused by spills from our network. We can make an important contribution to protecting and enhancing the natural environment by using fewer natural resources and we are reducing our carbon footprint as well as increasing renewable energy production.

Key resources

People

Our employees play a critical role in increasing long-term value generation. Fundamental to the decisions we take and operational performance we deliver is a skilled, engaged and motivated team. We place a strong emphasis on providing comprehensive training and development opportunities. Management has a range of incentives which focus on performance over a number of years, rather than just the current year, to encourage the delivery of benefit over the longer term.

Our suppliers and contractors provide us with essential services which we rely on to deliver our strategy. It is vital that we work closely with them, for example on large capital projects where the delivery of projects on time, to budget and with minimal customer impact has economic, societal and environmental benefits. Close collaboration is important to help support the delivery of these benefits and, for example, our suppliers contributed significantly towards our c£7 billion estimated contribution to the regional economy over the 2010–15 period.

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Financing
We aim to maintain a robust and responsible capital structure, balancing both equity and debt to achieve a strong investment grade credit rating. Our proactive equity and credit investor programmes allow us to engage effectively with investors. Issuing new debt is particularly important as our capital investment is largely financed through a mix of debt and cash generated from our operations. We maintain access to a broad range of sources of finance in a number of markets across which best relative value is sought when issuing new debt. The European Investment Bank is our largest lender with c£1.9 billion of debt and undrawn facilities.

Locking in long-term debt at good relative value can help keep our finance costs low and enables us potentially to outperform the industry-allowed cost of debt. Sustained low-cost finance across the industry benefits customer bills. The average life of our term debt is over 20 years. Our prudent financial risk management policies covering credit, liquidity, interest rate, inflation and currency risk help reduce the group's exposure to the economic and regulatory environment.

Assets
Our fixed assets (including all our reservoirs, treatment works and pipes) have a replacement cost of around £80 billion which is the estimated amount it would cost for another company to build similar assets and networks. However, it is not the replacement cost of our assets upon which we are allowed to earn a return, through our revenues. We earn a return on our regulatory capital value (RCV), a regulatory measure of our capital base, which is currently just over £10 billion, so it is this asset value which is more important economically.

Many of our assets are long-term in nature – for example, our impounding reservoirs have a useful economic life of around 200 years. By carefully reviewing our potential capital projects, considering the most efficient long-term solutions, we can save future operating costs, also helping to reduce future customer bills. Embracing innovation in our asset configuration and work processes can help to make our future service better, faster or cheaper.

Since privatisation in 1989, total capital investment of over £14 billion has provided substantial benefits to our customers and our region's environment as well as contributing to the North West economy through job creation, both within our company and in our supply chain. Disciplined investment, along with RPI inflation, also grows our RCV, increasing future revenues.

We need to continue with a substantial investment programme for the foreseeable future in order to meet ever more stringent environmental standards and to maintain and improve the current standards of our assets and services.

However, in deciding on our investment strategy, we have to be mindful of the impact on our customers' bills, and this is why, for example, we are spreading some of the environmental spend required by European legislation over the next 15 years.

Natural resources
Whilst rainfall in the North West of England is greater than other parts of the country, and thus supply is not as constrained, it is still in everyone's interest to make the most of this precious resource. We have encouraged customers to use water more efficiently and have increased the number of households fitted with meters. We also have a regulatory annual leakage target which we aim to meet each year.

We own over 55,000 hectares of land around our reservoirs. Through our sustainable catchment management programme (SCAMP), we can effectively manage these catchments to protect and enhance water quality and to provide other benefits such as an improved natural environment. Over the past five years we have invested £12 million through this programme. Our new Catchment Wise project is looking at working with others to improve the lakes, rivers and coastal waters where we return wastewater.

As well as water and our catchment land, another key resource is waste. Sludge from wastewater can be processed to generate renewable energy, helping to save power costs and protect the environment. Our advanced digestion facility at Davyhulme is one of the largest works of its type in the world. We also recycle waste by supplying treated biosolids to agriculture, which provides a valuable resource to farmers.

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Shorter-term (up to five years)
Ofwat, our economic regulator, determines the prices we can charge our customers to provide them with water and wastewater services. Ofwat sets our regulatory contract following the receipt of our five-year plan proposals. By submitting a robust, balanced plan, we can help ensure we receive a regulatory contract that allows for the best overall outcome for our customers, shareholders and the environment.

Once each five-year regulatory contract is set we create value principally by delivering or outperforming it, by providing the best service to customers, at the lowest sustainable cost and in a responsible manner. Investing in our people to ensure a committed, capable and motivated workforce is a major contributor to delivering high performance.

Over the current 2010–15 regulatory period, outperformance was generated mainly through efficiency savings on operating costs, capital expenditure and financing costs. Ofwat's SIM assessment also rewarded companies who performed well on customer service, or penalised companies who performed badly, relative to other water companies.

Our KPIs over this period, including for 2014/15, were reflective of these potential areas for outperformance.

Ofwat is evolving the regulatory framework so that, over the 2015–20 period, the way we can add value is changing. Operating costs and capital investment will no longer be separately assessed as they will be combined into a new 'Totex' methodology. There will be additional rewards or penalties based on performance as measured through a range of Outcome Delivery Incentives (ODIs). Ofwat is intending to continue with its SIM assessment for household customers and this is likely to provide a similar incentive and penalty framework. Companies will still be incentivised to outperform in the area of financing costs. The progressive opening up of the retail market for business customers will also provide additional opportunities to acquire further customers and earn higher returns. We will remain focused on improving our service to business customers to both help us win more out of area customers and importantly, to retain our existing customers.

For more information in relation to how we create value, please see pages 14 to 19 of the 2015 UUG annual report and financial statements.

Our responsible approach to doing business

We believe that responsible business should be embedded in everything we do and this should be evident across all of our activities.

We are committed to delivering our services in a responsible way and our approach to responsible business practice is set out in our Business Principles document available on our website at corporate.unitedutilities.com/unitedutilities-business-principles.

Some of the key components of our approach are set out in more detail below.

Employees
Health and safety is paramount and we strongly focus on our performance in this area. High employee engagement is a key contributor to our performance and we place significant emphasis on maintaining and strengthening levels of engagement. Our policies on maternity, paternity, adoption, personal and special leave go beyond the minimum required by law.

For disabled applicants and existing employees, we are committed to fulfilling our obligations in accordance with the relevant legislation. Applicants with disabilities are given equal consideration in the application process. Disabled colleagues have equipment and working practices modified for them as far as possible and wherever it is safe and practical to do so. We value diversity, providing equality of opportunity and recruiting and promoting on merit.

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The table below shows the male:female ratio of people at United Utilities.

	Male 2015	Female 2015
Group board	6 (75%)	2 (25%)
Senior managers		
- Executive team*	4 (57%)	3 (43%)
- Other senior managers	39 (80%)	10 (20%)
Wider employees	3,428 (63%)	1,986 (37%)

*Figures exclude CEO and CFO who are included in group board figures

We also have 15 (79 per cent) male and 4 (21 per cent) female employees who are appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'.

Running our business with integrity

We have procedures and policies in place to ensure we act in accordance with the Universal Declaration of Human Rights.

Given the long life of our infrastructure, we take a long-term view of our operations and key to the group's strategic objectives is the goal to operate in a more sustainable manner. Sustainability is fundamental to the manner in which we undertake our business and the group has, for many years, included corporate responsibility (CR) factors as a strategic consideration in its decision-making. Our board level CR committee develops and oversees our CR strategy and this continuing focus helped the group retain our Dow Jones Sustainability Index 'World Class' rating.

For more information in relation to how we operate responsibly, please see pages 20 to 21 of the 2015 UUG annual report and financial statements.

Our operating environment

Our industry and market

Every day, over 50 million household and business consumers in England and Wales receive water and wastewater services. These are serviced by 10 licensed companies which provide both water and wastewater services.

Our customers

United Utilities Water hold licences to provide water and wastewater services to a population of approximately seven million people in the North West of England. We provide services to approximately three million households in our region and this generates around two thirds of our total revenues. We also serve approximately 200,000 businesses, ranging in size from large manufacturing companies to small shops. Our focus over recent years has been on improving customer satisfaction.

Our natural environment

We plan far into the future to ensure we are prepared for the changing natural environment, most notably the effects of climate change. With severe dry periods becoming increasingly common, we must ensure we continue to have resilient water resources and an infrastructure capable of moving water efficiently around the region. The potential effect of climate change on our future water resources is included in our 25-year Water Resource Management Plan. We must seek to tackle flooding incidents caused by the intensive bursts of rainfall, which are becoming more frequent due to changing weather patterns, and ensure we are able to meet increased demand on our sewerage network as the regional population is expected to increase. A phased, long-term approach ensures that the necessary work can be delivered whilst not placing too much pressure on customer bills.

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Our regulatory environment

Economic regulation

The water industry currently operates within five-year planning cycles known as Asset Management Plan (AMP) periods. Prior to the start of each five-year period, companies submit their business plans which include their projected expenditure in order to enhance and maintain their assets. Following review of these plans, Ofwat sets the prices each company can charge their customers across the period. We have just finished the 2010–15 (AMP5) period and price controls for the 2015–20 (AMP6) period were set in December 2014, when Ofwat published their final determinations.

Ofwat assesses companies' operational performance across a wide range of measures, including some of our key performance indicators (KPIs) such as service incentive mechanism (SIM), leakage and, from April 2015, outcome delivery incentives (ODIs). Where performance falls short of expectations, Ofwat can take measures, such as enforcement actions or penalties, in order to protect customers' interests.

Ofwat review 2015–20

Ofwat introduced a number of important changes for the 2015–20 (AMP6) price review, with the aim of evolving the sector in order to meet future challenges and placing greater focus on customers' needs.

Moving away from one single price control, there are now four separate price controls:

- Wholesale water, covering the physical supply of water;
- Wholesale wastewater, covering the removal and treatment of wastewater;
- Household retail, covering customer-facing activities (principally customer contact, billing, meter reading and cash collection) for household customers; and
- Non-household retail, covering customer-facing activities for business customers.

Environmental and quality regulation

The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, placing significant statutory obligations on water and wastewater companies with regard to, amongst other factors, the quality of drinking water supplied, wastewater treatment and the effects of their activities on the natural environment.

Regulatory risks

Given the complex legal and regulatory environment within which we operate, there is a range of risks to which we are exposed. Risks can be in the form of possible non-compliance with existing laws or regulations or failure to meet the terms of our current 2015–20 regulatory contract. We also face risks in relation to potential future changes in legislation or regulation

Impact of environmental legislation

European Union environmental legislation will require us and other UK water companies to incur additional capital investment to ensure compliance with more stringent standards. We do, however, recognise that in our region we cannot achieve this alone and we are partnering with others who also have a role to play, such as the Environment Agency, local authorities and other interest groups such as the North West Rivers Trusts.

Our competitive environment

Comparative competition

Our main competitors to benchmark our performance against are the other nine water and wastewater companies (WaSCs) across England and Wales. We are the second largest WaSC based on the size of our asset base, as measured by Regulatory Capital Value (RCV). We, along with these other nine companies, comprise the vast majority of the total water and wastewater sector.

Although their relative sizes are generally far smaller than the water and wastewater companies, the remaining water-only companies are also important competitors as their relative performances are also included in Ofwat's published comparative information.

Strategic report

Direct competition
Currently only very large business customers are allowed to choose their water supplier. Under this arrangement, the new water supplier would buy water directly from the regional water company and be allowed to use its network for this water supply. Although very few users have switched supplier in England, the 2014 Water Act aims to open up future retail competition to all business customers, including sewerage as well as water services from 2017. We have been building our capability to ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market.

Our economic environment

Although many economic factors are outside of the direct control of the group, we do, where appropriate, aim to manage the associated risks and opportunities, for the benefit of our customers and shareholders.

Whilst the North West unemployment rate has followed the national trend downwards, at 5.7 per cent for the quarter ended March 2015, it remains above the UK average of 5.5 per cent. A report, 'Department for Communities and Local Government, Indices of Deprivation 2010', published in March 2011, highlighted that the North West had more of the most deprived areas in England than any other region. Bad debts remain a risk to which we are exposed, particularly with the continuing tightening of real disposable incomes and the impact of recent welfare reforms likely to intensify. Whilst our debt management processes have been externally benchmarked as efficient and effective, we will continue to refine and enhance them whilst also helping customers back into making regular payment through use of manageable payment plans.

Interest rates have remained below the long-term trend and we have benefited from this as we have made further drawdowns on our £500 million loan signed in 2013/14 and £100 million of new debt raised in 2014/15. Comparatively low interest rates have also been beneficial to our future cost of debt as we continue with our interest rate hedging strategy.

RPI inflation has declined recently, impacted by the significant fall in oil prices over the winter, and was 0.9 per cent at March 2015. The prices we charge our customers (and therefore revenues), as well as our asset base, are linked to RPI inflation, so lower RPI will mean slightly lower growth on these measures. However, we also have a large quantity of index-linked debt which means our finance costs decrease as inflation falls, providing a partial economic offset to revenue (although this is not a perfect hedge as changes to revenue and index linked finance costs are based on differing lagged measures of inflation). Our pension liabilities are linked to inflation, which provides an additional economic offset against our asset base. Overall, we are currently more inflation-hedged than the other listed water and wastewater companies so we are better protected in a low inflation environment.

For more information in relation to our operating environment, please see pages 22 to 29 of the 2015 UUG annual report and financial statements.

Key achievements 2010-15

Our focus on improving customer service
Great customer service relies on understanding what our customers need, anticipating problems, resolving complaints quickly and courteously and developing new, innovative services that fit into people's busy lifestyles. We want our customers to trust us and have confidence in our service.

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Key achievements to date include:

- We were the most improved water and wastewater company as measured under Ofwat's three-year SIM assessment from 2011/12 to 2013/14. As well as benefiting customers, this improved performance also resulted in us avoiding a revenue penalty of up to c.£80 million in Ofwat's final determination;
- Customer complaints reduced by approximately 75 per cent over the 2010-15 period;
- Complaints warranting CCW investigation reduced from 63 in 2010/11 to zero in 2012/13 and 2013/14 and two in 2014/15;
- We are consistently third behind only John Lewis and Marks & Spencer on the customer service brand tracker measure out of 10 leading service providers in the North West;
- Awarded 'Best Utility' in the Top 50 Contact Centre Awards and received the 'Service to the Water Industry' award presented by the House Builders Federation; and
- We are one of the leading water retailers in Scotland despite only entering the market in 2012/13.

Other operational improvements
We have been working hard to improve our performance in achieving statutory compliance and on-time delivery of schemes contributing to water quality and environmental improvement.

Highlights include:

- Delivered stable asset serviceability performance or better on all four water and wastewater measures for 2013/14 and 2014/15, avoiding a potential serviceability penalty of tens of millions of pounds;
- Upper quartile sector performance on Ofwat's annual key performance indicators and on the Environment Agency's assessment of water and wastewater companies 2013/14;
- Met or outperformed annual leakage targets in each of the last nine years;
- Efficiency improvements in delivering our capital programme allowed us to reinvest over £200 million of savings into projects which improve services to customers or benefit the environment; and
- Sustainable operating cost efficiencies have helped us to exceed our outperformance target of £50 million over 2010–15 against our allowed operating costs. This was in addition to efficiency targets set by Ofwat of approximately £150 million over the five years.

Financing outperformance
Our treasury function has continued to deliver a good performance, raising debt at better rates than allowed by the regulator, and we exceeded our financing outperformance target of £300 million across the 2010–15 period.

Shareholder returns
Over the 2010-15 period, we have delivered a strong total shareholder return (TSR) of 115 per cent, outperforming the market.

For more information in relation to our journey so far, please see pages 30 to 31 of the 2015 UUG annual report and financial statements.

Strategic report

Key performance indicators

Financial KPIs

In respect of our financial KPIs, we use underlying profit measures as these enable more meaningful comparisons of the year-on-year performance of our business.

	Year ended 31 March 2015	Restated[1] Year ended 31 March 2014
Financial KPIs		
Revenue	£1,720m	£1,689m
Underlying operating profit [2]	£664m	£635m
Underlying profit before taxation [2]	£474m	£413m
Underlying profit after taxation [2]	£375m	£324m
Regulatory capital expenditure [3]	£869m	£836m
Gearing: net debt to regulatory capital value [4]	59%	58%
Performance summary		
Operating profit	£653m	£630m
Profit before taxation	£368m	£569m
Profit after taxation	£292m	£786m

Notes:
(1) The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements' (see page 30).
(2) Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on page 13.
(3) Regulatory capex represents fixed asset additions and infrastructure renewals expenditure using regulatory accounting guidelines; there is no equivalent GAAP measure.
(4) Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water RCV (outturn prices).

Financial performance

Revenue

We have delivered a good set of financial results for the year ended 31 March 2015. Revenue increased by £31 million to £1,720 million. This increase principally reflects the allowed regulated price rise, partly offset by the previously announced special customer discount of £21 million.

Operating profit

Underlying operating profit was up £29 million to £664 million, as we tightly managed our cost base despite the expected increase in depreciation and other cost pressures, including bad debt. As planned, there was also a £17 million reduction in infrastructure renewals expenditure this year as we transition from this regulatory period to the next. Reported operating profit increased by £23 million, to £653 million.

Investment income and finance expense

The underlying net finance expense of £196 million was £30 million lower than last year, primarily reflecting the impact of lower RPI inflation on the group's index-linked debt. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £47 million, compared with a net charge of £83 million last year. The group had approximately £3.1 billion of index-linked debt as at 31 March 2015 at an average real rate of 1.6 per cent. Reported investment income and finance expense of £291 million was significantly higher than the £67 million expense in 2013/14.

Profit before taxation

Underlying profit before tax was £474 million, £61 million higher than last year, due to the £29 million increase in underlying operating profit and the £30 million decrease in underlying net finance expense. This underlying measure adjusts for the impact of one off items, principally from restructuring within the business, and other items such as fair value movements in respect of debt and derivative instruments. Reported profit before tax decreased by £201 million to £368 million, primarily due to fair value movements.

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Taxation
In 2014/15, we paid corporation tax of £62 million, which represents an effective cash tax rate of 17 per cent, 4 per cent lower than the mainstream rate of corporation tax of 21 per cent. In 2013/14, we paid corporation tax of £64 million. For both years, the key reconciling items to the mainstream rate were allowable tax deductions on net capital investment and timing differences in relation to fair value movements on treasury derivatives. In 2013/14, the company also received an exceptional tax refund of £96 million in relation to prior years' tax matters, covering a period of over 10 years in total.

The current tax charge was £62 million in 2014/15, compared with a charge of £81 million in the previous year. In addition, there were current tax credits of £10 million in 2014/15 and £168 million in 2013/14, both following agreement with the UK tax authorities of prior years' tax matters.

For 2014/15, the group recognised a deferred tax charge of £14 million, compared with a charge of £41 million in 2013/14. In addition, in 2014/15 the group recognised a deferred tax charge of £9 million relating to prior years' tax matters, compared to a deferred tax credit of £13 million in 2013/14. In 2013/14, the group also recognised a deferred tax credit of £157 million relating to the 3 per cent staged reduction in the mainstream rate of corporation tax, substantively enacted on 2 July 2013, to reduce the rate to 20 per cent by 2015/16.

The total tax charge, excluding one-off charges and credits, of £77 million for 2014/15 represents a rate of 21 per cent, similar to the rate in 2013/14.

Profit after taxation
Underlying profit after tax of £375 million was £51 million higher than for 2013/14, reflecting an increase in underlying profit before tax partly offset by an increase in underlying tax charge due on higher profits. Reported profit after tax was £292 million, compared with £786 million for 2013/14, impacted by the £234 million movement in fair value on debt and derivative instruments and the £292 million net increase in tax between the two periods.

Underlying profit
In considering the underlying results for the period, the directors have excluded fair value movements on debt and derivative instruments and one-off items. Reported operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit, underlying profit before taxation and underlying profit after taxation (non-GAAP measures) as follows:

	Year ended 31 March 2015 £m	Restated[1] Year ended 31 March 2014 £m
Operating profit		
Operating profit per published results	653.3	630.2
One-off items [2]	11.0	4.4
Underlying operating profit	664.3	634.6

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	Year ended 31 March 2015 £m	Restated[1] Year ended 31 March 2014 £m
Net finance expense		
Finance expense	(317.8)	(98.7)
Investment income	27.3	32.1
Net finance expense per published results	(290.5)	(66.6)
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value options	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying net finance expense	(195.7)	(226.2)
Profit before taxation		
Share of profits of joint ventures	5.1	5.0
Profit before taxation per published results	367.9	568.6
Adjustments:		
One-off items [2]	11.0	4.4
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value option	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying profit before taxation	473.7	413.4
Profit after taxation		
Underlying profit before taxation	473.7	413.4
Reported tax (charge)/credit	(76.0)	216.2
Deferred taxation credit – change in taxation rate	-	(156.8)
Agreement of prior years' UK taxation matters	(0.7)	(181.0)
Taxation relating to underlying profit before taxation adjustments	(22.2)	32.6
Underlying profit after taxation	374.8	324.4

Notes:
(1) The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements' (see page 30).
(2) Principally relates to restructuring costs within the business.

The group also has a number of operational KPI's and the performance in respect of these can be found on page 33 and associated commentary on pages 35 to 39, of the 2015 UUG annual report and financial statements.

Strategic report

Our plans for 2015-20

The final determination for our 2015-20 price controls was published by Ofwat on 12 December 2014 and, after careful consideration, we accepted these proposals on 27 January 2015.

The final determination delivers value for all of our stakeholders, with a strong focus on customer benefits, including reduced bills in 2015/16, alongside continued high levels of investment which will provide further environmental benefits and a significant contribution to the regional economy. Household customers are also set to benefit from below inflation growth in average bills for the decade through to 2020.

For more information in relation to our plans and our key performance indicators for 2015-20, please see pages 46 to 51 of the 2015 UUG annual report and financial statements.

Principal risks and uncertainties

We have developed a sophisticated approach to the assessment, management and reporting of risks, with a process aligned to ISO 31000: 2009 and a well-established governance structure for the group board to review the nature and extent of the risks that the group faces and for the audit committee to review process effectiveness. This process is supported by a central database, tools, templates and guidance to drive consistency.

Our risk profile currently illustrates around 200 event-based risks. All event types (strategic, financial, operational, compliance and hazard) are considered in the context of our strategic themes (best service to customers; lowest sustainable cost; and responsible manner). For internal or external drivers, each event is assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur.

Responsibility for the assessment and management of the risk (including monitoring and updating) is assigned to the appropriate individual manager who is also responsible for reporting on assessment, management and control/mitigation at least twice a year, in line with the reporting to the group board at full and half-year statutory accounting reporting periods.

Key features, developments over the last year and looking ahead

As expected, following the 2014 price determination the group's risk profile is returning to one based more on operational performance, compliance and delivery risk. We have challenging demands on customer benefits, operational performance and investment requirements in light of population growth, climate change and strict legal/regulatory requirements. Competition and market reform remain high on the agenda however, with the ongoing development of the non-household market and uncertainty surrounding the impact of upstream competition for water and wastewater services.

There continue to be two ongoing pieces of material litigation worthy of note but, based on the facts currently known to us and the provisions in our statement of financial position, our directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

- In February 2009, United Utilities International Limited (UUIL) was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks which was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

Strategic report

- In March 2010, Manchester Ship Canal Company (MSCC) issued proceedings seeking, amongst other relief, damages alleging trespass against United Utilities Water Limited (UUW) in respect of UUW's discharges of water and treated effluent into the canal. Whilst the matter has not reached a final conclusion, the Supreme Court has found substantively in UUW's favour on a significant element of the claim and referred the remainder of the proceedings back to the High Court.

Risks

1. The regulatory environment and framework

Current key risks, issues or areas of uncertainty include:

- Market reform including non-household and upstream competition
- A possible change from using the retail prices index to the consumer prices index for regulatory indexation

Potential impacts

Changes to regulation and the regulatory regime (either through political or regulatory events) may increase costs of administration, reduce income and margin and lead to greater variability of returns.

Control mitigation

We engage in relevant government and regulatory consultations which may affect policy and regulation in the sectors where we operate. We also consult with customers to understand their requirements and proactively consider all the opportunities and threats associated with any potential change, exploiting opportunities and mitigating risks where appropriate.

2. Corporate governance and legal compliance

Current key risks, issues or areas of uncertainty include:

- Competition law and regulatory compliance whilst preparing for and operating within a changing competitive market
- Material litigation (see above)
- New higher fine levels for environmental offences

Potential impacts

Non-compliance with existing or future UK or international laws or regulations (especially given the highly regulated environment we operate in) could result in additional workload and operating costs in justifying or defending our position and financial penalties (including of up to 10 per cent of relevant regulated turnover for extreme events) and compensation following litigation is also possible, together with additional capital/operating expenditure as a result of the imposition of enforcement orders. In more remote but extreme circumstances, impacts could ultimately include licence revocation or the appointment of a special administrator.

Control mitigation

Legislative and regulatory developments are continually monitored. Risk-based training of employees is undertaken and we participate in consultations to influence legislative and regulatory developments. Funding for any additional compliance costs in the regulated business is sought as part of the price determination process. The group also robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible.

Strategic report

3. Water and wastewater service

Current key risks, issues or areas of uncertainty include:
- Dealing with the impacts of population growth, climate change and weather conditions
- Meeting infrastructure investment requirements and balancing supply and demand
- Expected change to the abstraction licensing regime

Potential impacts
Operational performance problems or service failures can lead to increased regulatory scrutiny, regulatory penalties and/or additional operating or capital expenditure. In more extreme situations the group could also be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage.

Control mitigation
Mitigation is provided through core business processes, including forecasting, quality assurance procedures, risk assessments and rigorous sampling/testing regimes. Ongoing integration of water and wastewater networks improves service provision and measures of success have been developed to monitor performance. We also undertake customer education programmes, seeking to minimise related operational issues.

4. Security, assets and operational resilience

Current key risks, issues or areas of uncertainty include:
- The threat of cybercrime and/or terrorism affecting our assets or operations

Potential impacts
Our resources, assets and infrastructure are exposed to various threats (malicious or accidental) and natural hazards which could impact the provision of vital services to the public and commercial business.

Control mitigation
Physical and technological security measures combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. Ongoing integration of water and wastewater networks improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We also maintain insurance cover for loss and liability and the licence of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat/customers in the event of a catastrophic incident.

5. Human and IT resource

Current key risks, issues or areas of uncertainty include:
- Delivering required employee engagement, talent management, technological innovation and IT asset management

Potential impacts
Capacity, capability and effectiveness problems associated with human and IT resource will impact the efficiency and effectiveness of business activity, the ability to make appropriate decisions and ultimately meet targets. This can also affect the ability to recruit and retain knowledge/expertise or to recover effectively following an incident. In remote but extreme circumstances there is also the potential for higher levels of regulatory scrutiny, financial penalties, reputational damage and missed commercial opportunities.

Strategic report

Control mitigation
Developing our people with the right skills and knowledge, combined with delivering effective technology are important enablers to support the business to meet its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, faster and more cost-effective operations.

6. Tax, treasury and financial control

Current key risks, issues or areas of uncertainty include:
- Stability of financial institutions and the world economy
- The speed of economic recovery
- Inflation/deflation
- Financial market conditions, interest rates and funding costs

Potential impacts
The failure of financial counterparties could result in additional financing cost, an adverse impact on the income statement and potential reputational damage. Variability in inflation (as measured by the UK Retail Prices Index) and changes in interest rates, funding costs and other market risks could adversely impact the economic return on the regulatory capital value (RCV) and affect our pension schemes with a requirement for the group to make additional contributions. In extreme but remote cases adverse market conditions could affect our access to debt capital markets and subsequently available liquidity and credit ratings.

Control mitigation
Refinancing is long-term with staggered maturity dates to minimise the effect of short-term downturns. Counterparty credit, exposure and settlement limits exist to reduce any potential future impacts. These are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. The group also employs hedging strategies to stabilise market fluctuation for inflation, interest rates and commodities (notably energy prices). Sensitivity analysis is carried out as part of the business planning process, influencing the various financial limits employed. Continuous monitoring of the markets takes place including movements in credit default swap prices and movements in equity levels.

7. Programme delivery

Current key risks, issues or areas of uncertainty include:
- Supply chain security of supply and delivery of solutions, quality and innovation
- New contract delivery partnerships for the 2015–20 period with a new approach to construction and design

Potential impacts
Failure to deliver capital or change programmes against relevant time, cost or quality measures could result in a failure to secure competitive advantage or operating performance efficiency and cost benefits. There is also the risk of increased delivery costs or a failure to meet our obligations and customer outcomes which, depending on the nature and extent of failure, could result in an impact at future price reviews, regulatory or statutory penalties and negative reputational impact with customers and regulators.

Strategic report

Control mitigation
We have a developed and clear view of our investment priorities which are built into our programmes, projects and integrated business and asset plans. We have created better alignment and integration between our capital delivery partners and engineering service provider including alignment with our operating model. Our programme and project management capabilities are well established with strong governance and embedded processes to support delivery, manage risks and achieve business benefits. We utilise a time, cost and quality index (TCQi) as a key performance indicator and enhance our performance through a dedicated programme change office to deliver change in a structured and consistent way. Supply chain management is utilised to deliver end-to-end contract management which includes contract strategy and tendering, category management, security of supply, price and price volatility and financial and operational service level performance.

8. Revenues

Current key risks, issues or areas of uncertainty include:
- Socio-economic deprivation in the North West
- Welfare reform and the impact on domestic bad debt
- Competition in the water and wastewater market and competitor positioning
- The standards of service to our customers

Potential impacts
Poor service to customers can result in financial penalties issued by the regulator through components of the service incentive mechanism for domestic customers and loss of revenue associated with commercial churn for commercial customers using 5 megalitres and above per annum. The proposed opening of the market for retail services to all non-household customers in England from 2017 generates both opportunities and risk associated with market share, scale and margin erosion. There is also much uncertainty surrounding the form of upstream reform which is now anticipated to materialise post-2019.

Control mitigation
For domestic retail there is a transformation plan in place covering a wide range of initiatives and activities to improve customer service, with a number of controls in place to monitor achievement against the plan. Similarly, we look to retain existing and acquire new commercial customers by striving to meet their needs more effectively. We monitor competitor activity and target a reduction in operating costs.

9. Health, safety and environmental

Current key risks, issues or areas of uncertainty include:
- Risks associated with excavation, tunnelling and construction work and working with water and wastewater
- Weather conditions

Potential impacts
Working with and around water, sewage, construction and excavation sites, plant and equipment exposes employees, contractors and visitors to various man-made and naturally occurring hazards which could cause harm to people and the environment. Depending on the circumstances the group could be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage.

Control mitigation
We have developed a strong health, safety and environmental culture supported by strong governance and management systems which include policies and procedures which are certified to OHSAS 18001 and ISO 14001.

The Strategic report was approved by the board on 5 June 2015 and signed on its behalf by:

JR Houlden
Chief Financial Officer

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 2015.

Profit and dividends
The results for the year, set out in the consolidated income statement on page 24, show that profit for the year after tax was £291.9 million (2014: £785.6 million).

The directors have not recommended a final ordinary dividend (2014: £nil). Interim ordinary dividends of £249.5 million (2014: £237.9 million) have been declared and paid during the year.

Principal activity and review of business
The company is a public limited company registered in England and Wales.

The company is the intermediate holding company of a group which owns and operates water and wastewater assets in the North West of England. There have not been any significant changes in the company's principal activity in the year under review and no changes are currently planned.

The company's principal subsidiary undertakings, and joint ventures in which the group participates, are listed in note A1 to the consolidated financial statements.

The ultimate parent company of United Utilities PLC is United Utilities Group PLC.

Political donations
We do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the group and our political stakeholders. This includes promoting United Utilities' activities at the main political parties' annual conferences, and occasional stakeholder engagement in Westminster.

The period 2014/15 saw us engage with our stakeholders along a number of policy themes as the Water Bill made its way through Parliament and Market Reform planning continued. The group incurred expenditure of £21,600 (2014: £12,000) as part of this process. At the 2014 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to our shareholders at the 2015 AGM to authorise the company and its subsidiaries to make such expenditure.

Research and development
The group undertakes research primarily to provide improved standards of service to customers, together with continuing improvements in business efficiency. Its intention is to strengthen its understanding of science and technology in relation to its range of wastewater and water treatment processes to ensure that treatment plants are able to meet the required current and future standards of environmental performance.

The group is a member of a number of collaborative research programmes including UK Water Industry Research and Water Research Centre, both of which address common issues that face the UK water industry. The group also undertakes specific projects with these and other research and development providers, manufacturers and with universities. Research and development expenditure incurred by the group was £2.1 million in the year ended 31 March 2015 (2014: £2.4 million).

Events after the reporting period
There are no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 31 March 2015.

Directors' report

Going concern basis of accounting

The directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose.

This conclusion is based on a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities as well as consideration of the group's capital adequacy, consideration of the primary legal duty of UUW's economic regulator to ensure that water and wastewater companies can finance their functions, and any material uncertainties. In reaching this conclusion, the board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the directors would consider undertaking.

Directors

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

PA Aspin
SR Fraser
JR Houlden
SL Mogford

Directors' indemnities and insurance

We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company also maintains an appropriate level of directors' and officers' liability insurance.

Employees

The company's business principles make clear how it and all our employees must seek to act with integrity and fairness and observe legal requirements. Anyone with serious concerns that the company may not be adhering to these principles is encouraged to speak up via their line manager or through a confidential telephone line.

Importance is placed on strengthening employees' engagement, measuring their views annually, then by taking action to improve how they feel about the company and understand its direction. For further information on our average number of employees during the year, go to page 35.

Financial instruments

Our risk management objectives and policies in relation to the use of financial instruments can be found in note A3 to the financial statements.

Property, plant and equipment

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

Directors' report

Internal controls and risk management
The board is responsible for ensuring that the company has sound risk management and internal control systems in place, and for reviewing its effectiveness. It is supported in this role by the audit committee of UUG, the internal audit function, the financial control team and the external auditor. The key features of this internal control framework include policies and procedures for planning, approving and monitoring major capital expenditure and clearly defined comprehensive business planning and financial reporting procedures, and monthly meetings by the executive team to review financial and non-financial performance and key operational issues. Alongside these processes, risk management is well embedded in our ongoing business as usual approach. All areas of the business and support departments are responsible for monitoring changes to their areas of activity, and identifying any associated risks as a result of these changes which might prevent us from achieving our objectives and identify actions to mitigate those risks as far as is reasonably practicable and cost-effective to do so. These internal control and risk management systems, which are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss, have been in place continually for the year under review. On behalf of the board, the audit committee of UUG completed its annual review of the effectiveness of the risk management and internal control processes up to the date of the annual report in accordance with the revised Turnbull Guidance on Internal Control. There were no significant failings or weaknesses identified in this review.

The principal risks and uncertainties to the business are explained on pages 14 to 18. We continue to work with all key parties to represent the best interests of our stakeholders, and where we can identify actions to mitigate the adverse consequences of these potential regulatory changes we are working hard to address these changes to our business in a proactive manner.

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

1. so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of the auditor
Our board has decided to recommend KPMG LLP to be reappointed as external auditor to the company at the forthcoming AGM and an authority for the directors to set the remuneration of the auditor will be sought.

Approved by the board and signed on its behalf by:

JR Houlden
Chief Financial Officer
5 June 2015

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Independent auditor's report

to the members of United Utilities PLC

We have audited the financial statements of United Utilities PLC for the year ended 31 March 2015 set out on pages 24 to 78. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2015 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 EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square, Manchester, M2 3AE

Consolidated income statement

for the year ended 31 March

	Note	2015 £m	Restated* 2014 £m
Continuing operations			
Revenue	1	1,720.2	1,688.8
Employee benefits expense:			
excluding restructuring costs	2	(134.1)	(129.3)
restructuring costs	2	(11.0)	(4.4)
Total employee benefits expense	2	(145.1)	(133.7)
Other operating costs	3	(424.3)	(425.6)
Other income	3	3.3	2.7
Depreciation and amortisation expense	3	(352.6)	(336.9)
Infrastructure renewals expenditure		(148.2)	(165.1)
Total operating expenses		(1,066.9)	(1,058.6)
Operating profit		653.3	630.2
Investment income	4	27.3	32.1
Finance expense	5	(317.8)	(98.7)
Investment income and finance expense		(290.5)	(66.6)
Share of profits of joint ventures		5.1	5.0
Profit before taxation		367.9	568.6
Current taxation (charge)/credit	6	(52.7)	86.6
Deferred taxation charge	6	(23.3)	(27.2)
Deferred taxation credit – change in taxation rate	6	-	156.8
Taxation	6	(76.0)	216.2
Profit after taxation from continuing operations		291.9	784.8
Discontinued operations			
Profit after taxation from discontinued operations	7	-	0.8
Profit after taxation		291.9	785.6

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Consolidated statement of comprehensive income

for the year ended 31 March

	Note	2015 £m	2014 £m
Profit after taxation		291.9	785.6
Other comprehensive income			
Remeasurement gains/(losses) on defined benefit pension schemes	17	250.5	(200.8)
Taxation on items taken directly to equity	6	(50.1)	40.9
Foreign exchange adjustments		(3.1)	(1.2)
Total comprehensive income		489.2	624.5

With the exception of foreign exchange adjustments, none of the items in the table above will be prospectively reclassified to profit or loss.

Consolidated and company statements of financial position

at 31 March

	Note	2015 £m	Restated* Group 2014 £m	2015 £m	Company 2014 £m
ASSETS					
Non-current assets					
Property, plant and equipment	9	9,716.3	9,318.5	-	-
Intangible assets	10	144.9	110.2	-	-
Interests in joint ventures	11	31.7	35.6	-	-
Investments	12	8.6	6.9	4,940.1	4,731.4
Trade and other receivables	14	2.5	2.4	-	-
Retirement benefit surplus	17	79.2	-	4.4	-
Deferred tax asset	18	-	-	-	5.7
Derivative financial instruments	A3	681.6	456.0	136.8	92.4
		10,664.8	9,929.6	5,081.3	4,829.5
Current assets					
Inventories	13	40.5	39.8	-	-
Trade and other receivables	14	1,971.8	1,922.6	3,177.0	3,176.5
Cash and short-term deposits	15	244.0	115.8	61.6	109.5
Derivative financial instruments	A3	1.0	56.9	1.7	4.1
		2,257.3	2,135.1	3,240.3	3,290.1
Total assets		12,922.1	12,064.7	8,321.6	8,119.6
LIABILITIES					
Non-current liabilities					
Trade and other payables	20	(480.0)	(451.0)	-	-
Borrowings	16	(6,067.3)	(5,929.2)	(715.4)	(641.5)
Retirement benefit obligations	17	-	(177.4)	-	(31.8)
Deferred tax liabilities	18	(1,123.8)	(1,050.4)	(1.2)	-
Derivative financial instruments	A3	(196.6)	(52.3)	-	-
		(7,867.7)	(7,660.3)	(716.6)	(673.3)
Current liabilities					
Trade and other payables	20	(386.6)	(392.7)	(942.7)	(864.1)
Borrowings	16	(631.9)	(155.8)	(823.7)	(1,386.7)
Current tax liabilities		(21.1)	(34.8)	-	-
Provisions	19	(12.5)	(16.3)	-	(0.1)
Derivative financial instruments	A3	(8.6)	(50.8)	(0.7)	(0.4)
		(1,060.7)	(650.4)	(1,767.1)	(2,251.3)
Total liabilities		(8,928.4)	(8,310.7)	(2,483.7)	(2,924.6)
Total net assets		3,993.7	3,754.0	5,837.9	5,195.0
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	21	881.8	881.8	881.8	881.8
Share premium account		1,430.0	1,430.0	1,430.0	1,430.0
Other reserve		-	158.8	-	-
Cumulative exchange reserve		(8.7)	(5.6)	-	-
Retained earnings		1,690.6	1,289.0	3,526.1	2,883.2
Shareholders' equity		3,993.7	3,754.0	5,837.9	5,195.0

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors on 5 June 2015 and signed on its behalf by:

JR Houlden
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserve £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
Group						
At 1 April 2014	881.8	1,430.0	158.8	(5.6)	1,289.0	3,754.0
Profit after taxation	-	-	-	-	291.9	291.9
Other comprehensive (expense)/income						
Remeasurement gains on defined benefit pension schemes (see note 17)	-	-	-	-	250.5	250.5
Taxation on items taken directly to equity (see note 6)	-	-	-	-	(50.1)	(50.1)
Foreign exchange adjustments	-	-	-	(3.1)	-	(3.1)
Total comprehensive (expense)/income	-	-	-	(3.1)	492.3	489.2
Dividends (see note 8)	-	-	-	-	(249.5)	(249.5)
Transfer of other reserve	-	-	(158.8)	-	158.8	-
At 31 March 2015	881.8	1,430.0	-	(8.7)	1,690.6	3,993.7

	Share capital £m	Share premium account £m	Other reserve £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
Group						
At 1 April 2013	881.8	1,430.0	158.8	(4.4)	901.2	3,367.4
Profit after taxation	-	-	-	-	785.6	785.6
Other comprehensive (expense)/income						
Remeasurement losses on defined benefit pension schemes (see note 17)	-	-	-	-	(200.8)	(200.8)
Taxation on items taken directly to equity (see note 6)	-	-	-	-	40.9	40.9
Foreign exchange adjustments	-	-	-	(1.2)	-	(1.2)
Total comprehensive (expense)/income	-	-	-	(1.2)	625.7	624.5
Dividends (see note 8)	-	-	-	-	(237.9)	(237.9)
At 31 March 2014	881.8	1,430.0	158.8	(5.6)	1,289.0	3,754.0

On the group's transition to IFRS in the year ended 31 March 2006, the other reserve arose from the uplift to fair value of the infrastructure assets. This reserve is a component of retained earnings and, as such, has been transferred and presented within retained earnings during the year.

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2014	881.8	1,430.0	2,883.2	5,195.0
Profit after taxation	-	-	863.8	863.8
Other comprehensive income				
Remeasurement gains on defined benefit pension schemes (see note 17)	-	-	35.8	35.8
Taxation on items taken directly to equity (see note 6)	-	-	(7.2)	(7.2)
Total comprehensive income	-	-	892.4	892.4
Dividends (see note 8)	-	-	(249.5)	(249.5)
At 31 March 2015	881.8	1,430.0	3,526.1	5,837.9

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2013	881.8	1,430.0	2,797.6	5,109.4
Profit after taxation	-	-	331.4	331.4
Other comprehensive income				
Remeasurement losses on defined benefit pension schemes (see note 17)	-	-	(9.0)	(9.0)
Taxation on items taken directly to equity (see note 6)	-	-	1.1	1.1
Total comprehensive income	-	-	323.5	323.5
Dividends (see note 8)	-	-	(237.9)	(237.9)
At 31 March 2014	881.8	1,430.0	2,883.2	5,195.0

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The results of the company for the financial year was a profit after taxation of £863.8 million (2014: £331.4 million) after accounting for dividends received from subsidiary undertakings of £976.6 million (2014: £1,355.0 million), impairment of investments of £791.2 million (2014: £nil) and a reversal of an investment impairment of £694.1 million (2014: £nil) (see note 12).

Consolidated and company statements of cash flows

for the year ended 31 March

	Note	Restated* Group 2015 £m	Restated* Group 2014 £m	Company 2015 £m	Company 2014 £m
Operating activities					
Cash generated from continuing operations	A2	902.3	894.7	256.8	175.5
Interest paid		(175.6)	(168.7)	(20.3)	(20.6)
Interest received and similar income		26.7	28.3	0.6	0.7
Tax paid		(61.9)	(64.2)	(59.7)	(64.1)
Tax received		1.3	95.5	-	20.8
Net cash generated from operating activities (continuing operations)		692.8	785.6	177.4	112.3
Net cash used in operating activities (discontinued operations)		-	(0.8)	-	-
Investing activities					
Purchase of property, plant and equipment		(665.7)	(661.7)	-	-
Purchase of intangible assets		(63.4)	(39.4)	-	-
Proceeds from sale of property, plant and equipment		2.0	2.8	-	-
Grants and contributions received	20	18.1	16.4	-	-
Purchase of investments	12	(0.8)	(1.9)	-	-
Proceeds from sale of investments		-	0.1	-	-
Dividends received from joint ventures		4.9	5.1	-	-
Net cash used in investing activities (continuing operations)		(704.9)	(678.6)	-	-
Financing activities					
Proceeds from borrowings		421.3	384.0	38.9	84.4
Repayment of borrowings		(19.1)	(344.8)	(14.7)	(119.8)
Dividends paid to equity holders of the company	8	(249.5)	(237.9)	(249.5)	(237.9)
Net cash generated from/(used in) financing activities (continuing operations)		152.7	(198.7)	(225.3)	(273.3)
Net increase/(decrease) in cash and cash equivalents (continuing operations)		140.6	(91.7)	(47.9)	(161.0)
Net decrease in cash and cash equivalents (discontinued operations)		-	(0.8)	-	-
Cash and cash equivalents at beginning of the year		79.5	172.0	109.5	270.5
Cash and cash equivalents at end of the year	15	220.1	79.5	61.6	109.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Accounting policies

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

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). These have been prepared on the going concern basis and the directors have set out factors considered in concluding the appropriateness of this presentation in the corporate governance report on page 20.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers and the revaluation of infrastructure assets to fair value on transition to IFRS.

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

Adoption of new and revised standards
The adoption of the following standards and interpretations, at 1 April 2014, has had no material impact on the group's financial statements.

IFRS 11 'Joint Arrangements'
The standard replaces IAS 31 'Interests in Joint Ventures' and removes the option previously taken by the group to proportionately consolidate its joint ventures, requiring instead the application of the equity method. Under the equity method, the group's interests in the profit after taxation and net assets of its joint ventures are presented as one line in the consolidated income statement and the consolidated statement of financial position respectively. The application of the standard is retrospective and, hence, requires the restatement of the comparative period ended 31 March 2014.

The impact on the consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows is detailed in the following tables.

	Year ended 31 March 2014 £m
Impact on the consolidated income statement	
Decrease in revenue	(15.7)
Decrease in total operating expenses	9.0
Decrease in total operating profit	(6.7)
Decrease in investment income and finance expense	0.3
Increase in share of profits of joint ventures	5.0
Decrease in profit before taxation	(1.4)
Increase in taxation credit	1.4
Net impact on profit after taxation	-

	31 March 2014 £m
Impact on the consolidated statement of financial position	
Increase in interests in joint ventures*	35.6
Decrease in other non-current assets	(52.0)
Decrease in current assets	(19.2)
Decrease in non-current liabilities	28.4
Decrease in current liabilities	7.2
Net impact on net assets	-

* Includes £4.9 million of goodwill previously reported separately.

Accounting policies

	Year ended 31 March 2014 £m
Impact on the consolidated statement of cash flows	
Decrease in net cash generated from operating activities	(8.1)
Decrease in net cash used in investing activities	6.5
Net decrease in cash and cash equivalents	(1.6)

IFRS 10 'Consolidated Financial Statements'
The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated accounts of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 12 'Disclosures of Interests in Other Entities'
The standard includes disclosure requirements for all forms of interest in other entities, including subsidiaries, associates, joint arrangements and unconsolidated structured entities.

Amendment to IAS 32 'Financial Instruments: Presentation'
This amendment provides clarification on the application of the offsetting rules affecting financial assets and financial liabilities in the event that relevant offsetting transactions occur.

IFRIC 21 'Levies'
The standard clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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 on the information available. These judgements, estimates and assumptions affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented.

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

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

Property, plant and equipment
The group recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them. In addition, management capitalise time and resources incurred by the group's support functions on capital programmes.

The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful economic 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 economic lives could impact operating results both positively and negatively, although historically few changes to estimated useful economic lives have been required.

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Accounting policies

Revenue recognition and allowance for doubtful receivables
The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. When the group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

United Utilities Water Limited 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 on the volume supplied including the sales value of an estimate of the units supplied between the date of the last meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property, as assessed by an independent rating officer.

At each reporting date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record allowances for doubtful receivables based on experience. These allowances are based on, amongst other things, a 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.

Provisions and contingencies
The group is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses.

Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 23, unless the possibility of transferring economic benefits is remote.

Retirement benefits
The group operates two defined benefit schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note A4. Profit before taxation and net assets are affected by the actuarial assumptions used. The key assumptions include; discount rates, pay growth, mortality 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.

Derivative financial instruments
The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

Accounting policies

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

For further information on accounting policies see note A6.

Recently issued accounting pronouncements
At the date of authorisation of these financial statements, the following relevant standards and interpretations were in issue but not yet effective. All of the standards in issue but not yet effective have been endorsed by the EU except where noted. The directors anticipate that the group will adopt these standards and interpretations on their effective dates.

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

IFRS 9 'Financial Instruments'
The standard is effective for periods commencing on or after 1 January 2018 but has not yet been endorsed by the EU. Under the provisions of this standard, where the group has chosen to measure borrowings at fair value through profit or loss, the portion of the change in fair value due to changes in the group's own credit risk will be recognised in other comprehensive income rather than within profit or loss. If this standard had been adopted in the current year, £4.6 million of losses would have been recognised in other comprehensive income rather than within the income statement.

The standard also broadens the scope of what can be included within a hedge relationship, which may enable the group's regulatory swaps to be designated within cash flow hedge relationships. If the standard had been adopted in the current year, with all such swaps being designated and all hedges being fully effective, £133.5 million of fair value losses would have been recognised in other comprehensive income rather than within the income statement.

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

Amendment to IAS 1 'Presentation of Financial Statements'
This amendment represents the International Accounting Standard Board's (IASB) first step in its disclosure initiative, is effective for periods commencing on or after 1 January 2016, but has not yet been endorsed by the EU. The narrow focus amendments clarify, rather than significantly change, existing requirements within the standard.

IFRS 15 'Revenue from Contracts with Customers'
This standard is effective for periods commencing on or after 1 January 2017, but has not yet been endorsed by the EU. The standard introduces a new revenue recognition model and replaces IAS 18 'Revenue', IAS 11 'Construction Contracts', IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfer of Assets from Customers' and SIC-31 'Revenue - Barter Transactions Involving Advertising Services'.

Improvements to IFRS 2014
This is a collection of amendments to four standards as part of the IASB's programme of annual improvements. The improvements, issued in September 2014, are yet to be endorsed by the EU and are effective for periods commencing on or after 1 January 2016.

Improvements to IFRS (2012) and IFRS (2013)
This is a collection of amendments to 11 standards as part of the IASB's programme of annual improvements. The improvements were issued in December 2013 and are effective for periods commencing on or after 1 February 2015 and 1 January 2015 respectively.

All other standards and interpretations, which are in issue but not yet effective, are not considered relevant to the activities of the group.

Notes to financial statements

1. Revenue and segment reporting

The group's revenue predominantly arises from the provision of services within the United Kingdom, with less than one per cent of external revenue and non-current assets being overseas.

The group has a large and diverse customer base and there is no significant reliance on any single customer.

The board is provided with information on a single segment basis for the purposes of assessing performance and allocating resources and as such, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

2. Directors and employees

Directors' remuneration

	2015 £m	2014 £m
Salaries	1.6	1.6
Benefits	0.5	0.4
Bonus	0.7	0.8
Share-based payment charge	1.6	1.7
	4.4	4.5

Included within the above are aggregate emoluments of £2.2 million (2014: £2.0 million) in respect of the highest paid director. The highest paid director exercised share options during the current year.

No directors accrued benefits under defined benefit schemes during the current year (2014: 1 director). All directors opted for a cash allowance in lieu of their company pension scheme entitlement (2014: 3 directors).

Four directors (2014: four directors) received shares in United Utilities Group PLC in respect of qualifying services, and four directors (2014: three directors) exercised nil-cost share options in United Utilities Group PLC during the year. Four directors (2014: three directors) had long-term incentive plans which vested during the year. Aggregate amounts receivable relating to long-term incentive plans of £2.5 million (2014: £1.9 million) were recognised during the year. Details of the employee Sharebuy scheme and the executive share scheme operated by United Utilities Group PLC are given in the UUG group financial statements.

Remuneration of key management personnel

	2015 £m	2014 £m
Salaries and short-term employee benefits	6.2	5.9
Post-employment benefits	0.2	0.3
Share-based payment charge	2.4	2.5
	8.8	8.7

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

Notes to financial statements

2. Directors and employees (continued)

Employee benefits expense (including directors)

Group	2015 £m	2014 £m
Continuing operations		
Wages and salaries	206.5	204.1
Social security costs	18.1	18.6
Severance	6.6	4.4
Post-employment benefits:		
Defined benefit pension expense (see note 17)	26.2	21.1
Defined contribution pension costs (see note 17)	8.8	8.1
	35.0	29.2
Charged to regulatory capital schemes	(121.1)	(122.6)
Employee benefits expense attributable to continuing operations	145.1	133.7

Within employee benefits expense were £11.0 million (2014: £4.4 million) of restructuring cost.

Options over shares of the ultimate parent undertaking, United Utilities Group PLC have been granted to employees of the group under various schemes. Details of the terms and conditions of each share option scheme are given in the United Utilities Group PLC Annual Report 2015. Included within wages and salaries is an expense of £2.9 million (2014: £4.4 million) relating to a recharge of share-based payment costs from the ultimate parent undertaking.

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

	2015 number	2014 number
Group		
Continuing operations	5,278	5,329

Company

The average number of employees during the year was 221 (2014: 268). These employees were engaged in the provision of services to United Utilities Water Limited, and as such, employee costs of £15.7 million (2014: £18.1 million) in relation to these employees have been incurred directly by that company during the year.

Notes to financial statements

3. Operating profit

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

	2015 £m	Restated* 2014 £m
Other operating costs		
Hired and contracted services	87.3	85.8
Property rates	80.5	86.2
Power	68.2	63.3
Materials	58.5	50.4
Charge for bad and doubtful receivables (see note 14)	52.9	37.1
Regulatory fees	29.2	36.2
Accommodation	7.0	6.7
Loss on disposal of property, plant and equipment	5.1	6.4
Legal and professional	4.2	5.0
Operating leases payable:		
Property	3.7	3.6
Plant and equipment	0.7	0.8
Research and development	2.1	2.4
Cost of properties disposed	0.6	3.9
Loss on disposal of intangible assets	0.5	-
Movement in other provisions (see note 19)	(3.4)	10.9
Amortisation of deferred grants and contributions (see note 20)	(7.7)	(7.4)
Other	34.9	34.3
	424.3	425.6
Other income		
Other income	(3.3)	(2.7)
	(3.3)	(2.7)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (see note 9)	323.6	312.9
Amortisation of intangible assets (see note 10)	29.0	24.0
	352.6	336.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

During the year, the group obtained the following services from its auditor:

	2015 £'000	2014 £'000
Audit services:		
Statutory audit - group and company	37	34
Statutory audit - subsidiaries	268	195
Regulatory reporting	30	30
	335	259
Audit related services	30	45
Other non-audit services	250	203
	615	507

Included in the above statutory audit fee is £23,000 in relation to the company for the year ended 31 March 2015 (2014: £21,000).

Notes to financial statements

4. Investment income

	2015 £m	Restated* 2014 £m
Interest receivable on short-term bank deposits held at amortised cost	1.0	1.0
Interest receivable on taxation settlement	-	4.5
Net pension interest income (see note 17)	-	1.3
Interest receivable from ultimate parent undertaking (see note A5)	26.3	25.3
	27.3	32.1

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

5. Finance expense

	2015 £m	Restated* 2014 £m
Interest payable		
Interest payable on borrowings held at amortised cost	206.1	241.2
Release of taxation interest accrual	-	(13.3)
	206.1	227.9
Fair value losses/(gains) on debt and derivative instruments[1]		
Fair value hedge relationships:		
Borrowings	112.8	(193.4)
Designated swaps	(122.7)	177.3
	(9.9)	(16.1)
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss [2]	65.0	(32.6)
Associated Swaps[3]	(73.5)	53.6
	(8.5)	21.0
2010-2015 regulatory swaps[3]	(52.6)	(61.5)
2015+ regulatory swaps[3]	186.1	(67.6)
Electricity swaps[3]	(6.0)	4.2
Net receipts on swaps and debt under fair value option	(2.5)	(8.7)
Other swaps[3][4]	1.1	6.4
Other	(3.0)	(6.9)
	123.1	(134.1)
Net fair value losses/(gains) on debt and derivative instruments [5]	104.7	(129.2)
Net pension interest expense (see note 17)	7.0	-
	317.8	98.7

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Notes:

(1) 'Fair value losses/(gains) on debt and derivative instruments' includes foreign exchange gains of £10.5 million (2014: £60.3 million), excluding those on instruments measured at fair value through profit or loss. These gains are largely offset by fair value losses on derivatives.

(2) Includes a £4.6 million loss (2014: £11.1 million) on the valuation of debt reported at fair value through profit or loss due to changes in credit spread assumptions.

(3) These swap contracts are not designated within an IAS 39 hedge relationship and are, as a result, classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intend to hold these through to maturity.

(4) Includes fair value movements in relation to other economic hedge derivatives relating to debt held at amortised cost.

(5) Includes £4.0 million income (2014: £8.1 million) due to interest on swaps and debt under fair value option.

Notes to financial statements

5. Finance expense (continued)

Interest payable for the year ended 31 March 2015 is stated net of £20.9 million (2014: £19.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying a capitalisation rate of 3.1 per cent (2014: 3.8 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

6. Taxation

	2015 £m	Restated* 2014 £m
Continuing operations		
Current taxation		
UK corporation tax	62.4	81.1
Adjustments in respect of prior years	(9.7)	(167.7)
Total current taxation charge/(credit) for the year	52.7	(86.6)
Deferred taxation		
Current year	14.3	40.5
Adjustments in respect of prior years	9.0	(13.3)
	23.3	27.2
Change in taxation rate	-	(156.8)
Total deferred taxation charge/(credit) for the year	23.3	(129.6)
Total taxation charge/(credit) for the year	76.0	(216.2)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

The current taxation credit for the year ended 31 March 2014 includes a credit of £167.7 million, and an associated deferred taxation credit of £13.3 million relating to agreed matters in relation to prior years covering a period of over 10 years in total. In addition, deferred taxation credits for the year ended 31 March 2014 include a credit of £156.8 million, reflecting the staged reductions in the mainstream rate of corporation tax from 23 per cent in the year ended 31 March 2014 to 20 per cent effective from 1 April 2015.

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

	2015 £m	2015 %	Restated* 2014 £m	Restated* 2014 %
Profit before taxation	367.9		568.6	
Taxation at the UK corporation tax rate	77.3	21.0	130.8	23.0
Adjustment in respect of prior years	(0.7)	(0.2)	(181.0)	(31.8)
Change in taxation rate	-	-	(156.8)	(27.6)
Net income not taxable/other	(0.6)	(0.2)	(9.2)	(1.6)
Total taxation charge/(credit) and effective tax rate for the year	76.0	20.6	(216.2)	(38.0)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Notes to financial statements

6. Taxation (continued)

Taxation on items taken directly to equity

Group	2015 £m	2014 £m
Continuing operations		
Current taxation		
Relating to other pension movements	-	(1.9)
Deferred taxation (see note 18)		
On remeasurement (losses)/gains on defined benefit pension schemes	50.1	(40.2)
Relating to other pension movements	-	1.7
Change in taxation rate	-	(0.5)
	50.1	(39.0)
Total taxation (credit)/charge on items taken directly to equity	50.1	(40.9)

Company	2015 £m	2014 £m
Continuing operations		
Deferred taxation (see note 18)		
On remeasurement (losses)/gains on defined benefit pension schemes	7.2	(1.8)
Change in taxation rate	-	0.7
	7.2	(1.1)
Total taxation charge/(credit) on items taken directly to equity	7.2	(1.1)

7. Discontinued operations

Discontinued operations represent the retained obligations of businesses sold in prior years. During the year ended 31 March 2015, the profit after taxation from discontinued operations was £nil (2014: £0.8 million), the prior year balance related primarily to the release of accrued costs of disposal in respect of certain elements of the group's non-regulated disposal programme.

8. Dividends

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

	2015 £m	2014 £m
Ordinary shares		
Second interim dividend for the year ended 31 March 2014 at 18.59 pence per share (2013: 17.69 pence per share)	163.9	156.0
Interim dividend for the year ended 31 March 2015 at 9.71 pence per share (2014: 9.29 pence per share)	85.6	81.9
	249.5	237.9

Notes to financial statements

9. Property, plant and equipment

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Group						
Cost						
At 1 April 2013 restated*	242.9	4,329.5	5,497.1	451.8	1,009.3	11,530.6
Additions	11.4	87.7	127.6	34.1	431.6	692.4
Transfers	20.2	139.9	333.8	20.1	(514.0)	-
Disposals	(2.4)	(1.4)	(31.3)	(23.4)	(0.5)	(59.0)
At 31 March 2014 restated*	272.1	4,555.7	5,927.2	482.6	926.4	12,164.0
Additions	8.4	112.8	91.0	19.9	496.4	728.5
Transfers	27.2	219.9	273.0	18.3	(538.4)	-
Disposals	(4.1)	(0.4)	(27.2)	(33.6)	-	(65.3)
At 31 March 2015	303.6	4,888.0	6,264.0	487.2	884.4	12,827.2
Accumulated depreciation						
At 1 April 2013 restated*	75.2	205.7	2,029.4	272.1	-	2,582.4
Charge for the year	10.2	34.7	227.5	40.5	-	312.9
Transfers	-	-	(0.5)	0.5	-	-
Disposals	(2.0)	(0.6)	(25.6)	(21.6)	-	(49.8)
At 31 March 2014 restated*	83.4	239.8	2,230.8	291.5	-	2,845.5
Charge for the year	15.9	35.4	233.2	39.1	-	323.6
Disposals	(3.8)	-	(22.6)	(31.8)	-	(58.2)
At 31 March 2015	95.5	275.2	2,441.4	298.8	-	3,110.9
Net book value at 31 March 2014 restated*	188.7	4,315.9	3,696.4	191.1	926.4	9,318.5
Net book value at 31 March 2015	208.1	4,612.8	3,822.6	188.4	884.4	9,716.3

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

At 31 March 2015, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £394.5 million (2014: £333.9 million).

In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by the regulators and to provide for future growth.

Company

The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2015 or at 31 March 2014.

Notes to financial statements

10. Intangible assets

	Total £m
Group	
Cost	
At 1 April 2013 restated*	207.3
Additions	40.1
Disposals	(17.6)
At 31 March 2014 restated*	229.8
Additions	64.2
Disposals	(29.5)
At 31 March 2015	264.5
Amortisation	
At 1 April 2013 restated*	113.2
Charge for the year	24.0
Disposals	(17.6)
At 31 March 2014 restated*	119.6
Charge for the year	29.0
Disposals	(29.0)
At 31 March 2015	119.6
Net book value at 31 March 2014 restated*	110.2
Net book value at 31 March 2015	144.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

The group's intangible assets relate mainly to computer software.

At 31 March 2015, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £2.3 million (2014: £29.4 million).

Company
The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2015 or 31 March 2014.

11. Joint ventures

At 31 March 2015, the group's joint ventures mainly comprised of its interest in AS Tallinna Vesi (Tallinn Water). Joint management of Tallinn Water is based on a shareholders' agreement.

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has issued guarantees of £4.7 million in support of its joint ventures (2014: £5.2 million) which are included in the contingent liabilities total disclosed in note 23.

Notes to financial statements

12. Investments

	£m
Group	
At 1 April 2013	5.7
Additions	1.9
Disposals	(0.1)
Currency translation differences	(0.6)
At 31 March 2014	6.9
Additions	0.8
Currency translation differences	0.9
At 31 March 2015	8.6

During the year the group increased its investment in Muharraq Holding Company 1 Limited by £0.8 million (2014: £1.9 million).

At 31 March 2015, the group's investments mainly comprised its investment in Muharraq Holding Company 1 Limited. These investments are held at fair value.

	Shares in subsidiary undertakings £m
Company	
At 1 April 2013	4,655.1
Additions	1,131.1
Disposals	(1,054.8)
At 31 March 2014	4,731.4
Additions	305.8
Impairment charge	(791.2)
Reversal of impairment	694.1
Net book value at 31 March 2015	4,940.1

During the year ended 31 March 2015, there were additions of £305.8 million, which comprised a £71.3 million investment in the ordinary shares of United Utilities (Tallin) BV and a £234.5 million investment in the ordinary shares of Birchpoint No.1. The investment in United Utilities (Tallin) BV resulted from the acquisition of shares from United Utilities Europe Holdings BV and United Utilities BV. The investment in Birchpoint No.1 resulted from the acquisition of shares from United Utilities BV.

During the year, the investment in United Utilities (Jersey) Limited was impaired by £556.7 million, following a £556.7 million realisation of value through receipt of dividends. In addition, the investment in Birchpoint No.1 was impaired by £234.5 million following a £234.6 million realisation of value through receipt of dividends.

During the year, a review has been performed of the carrying value of the company's investment in United Utilities North West Limited which has resulted in the reversal of the impairment made during the year ended 31 March 2010. As in the prior year, the review was based on a 'fair value less costs of disposal' valuation. The reversal of the £694.1 million impairment, increases the company's investment in United Utilities North West Limited to £3,907.1 million at 31 March 2015 (2014; £3,213.0 million).

Additions of £1,131.1 million in the prior year included a £562.2 million investment in the ordinary shares of United Utilities Investments BV, £556.7 million investment in the ordinary shares of United Utilities (Jersey) Limited and a £12.2 million investment in the ordinary shares of United Utilities Utility Solutions (Industrial) Limited. The investments in United Utilities Investments BV and United Utilities (Jersey) Limited resulted from the acquisition of shares from United Utilities Investments (No.3) Limited and United Utilities Investments BV respectively, prior to the strike off of United Utilities Investments (No.3) Limited. The investment in United Utilities Utility Solutions (Industrial) Limited resulted from the acquisition of shares from United Utilities Energy & Contracting Services Holdings Limited, the latter of which was an indirect subsidiary of the company and was subsequently struck off.

Notes to financial statements

12. Investments (continued)

Total disposals during the prior year of £1,054.8 million included a £557.2 million investment in the ordinary shares of United Utilities Investments (No.3) Limited, £474.6 million in the ordinary shares of United Utilities Finance Holdings Limited and £23.0 million in the ordinary shares of United Utilities Holdings Trustee Limited. The disposals resulted in £1,201.9 million realisation of value through receipt of dividends, subsequent to the strike off of these companies.

13. Inventories

	2015 £m	Restated* 2014 £m
Group		
Properties held for resale	31.2	30.4
Other inventories	9.3	9.4
	40.5	39.8

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Company
The company has no inventories.

14. Trade and other receivables

	Restated* Group		**Company**	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade receivables	176.6	188.5	-	-
Amounts owed by subsidiary undertakings	-	-	1,558.4	1,584.2
Amounts owed by ultimate parent undertaking (see note A5)	1,618.5	1,592.2	1,618.5	1,592.2
Amounts owed by related parties (see note A5)	2.8	2.7	-	-
Other debtors	22.6	18.1	0.1	0.1
Prepayments and accrued income	153.8	123.5	-	-
	1,974.3	1,925.0	3,177.0	3,176.5

* The comparatives have been restated to reflect the requirements of 'Joint Arrangements'. See accounting policies page 30 for details.

At 31 March 2015 the group had £2.5 million (2014 restated: £2.4 million) of trade and other receivables classified as non-current.

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

Notes to financial statements

14. Trade and other receivables (continued)

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

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At the start of the year	97.9	87.5	-	0.4
Amounts charged to operating expenses	52.9	37.1	-	-
Trade receivables written off	(50.3)	(26.7)	-	(0.4)
At the end of the year	100.5	97.9	-	-

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for doubtful receivables based on experience.

At 31 March 2015 and 31 March 2014, the group had no trade receivables that were past due and not individually impaired.

In the company, gross amounts owed by subsidiary undertakings relating to non-trading subsidiary undertakings are stated net of allowances for doubtful receivables, an analysis of which is as follows:

	2015 £m	2014 £m
Company		
At the start of the year	90.5	88.7
Amounts charged to operating expenses	1.2	1.8
At the end of the year	91.7	90.5

At each reporting date, the company evaluates the recoverability of amounts owed by subsidiary undertakings and records allowances for doubtful receivables based on an assessment of the company's ability to pay.

The following table provides information regarding the ageing of net trade receivables that were past due and individually impaired:

Group	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables				
At 31 March 2015	125.8	43.6	3.2	172.6
At 31 March 2014 restated*	112.0	40.0	31.1	183.1

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

At 31 March 2015, the group had £4.0 million (2014 restated: £5.4 million) of trade receivables that were not past due.

Company
At 31 March 2015 and 31 March 2014, the company had no trade receivables that were past due.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value at 31 March 2015 and 31 March 2014.

Notes to financial statements

15. Cash and cash equivalents

	Restated* Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash at bank and in hand	4.5	5.6	0.1	-
Short-term bank deposits	239.5	110.2	61.5	109.5
Cash and short-term deposits	244.0	115.8	61.6	109.5
Bank overdrafts (included in borrowings, see note 16)	(23.9)	(36.3)	-	-
Cash and cash equivalents in the statement of cash flows	220.1	79.5	61.6	109.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

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. The carrying amounts of cash and cash equivalents approximate their fair value.

16. Borrowings

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

Group	2015 £m	Restated* 2014 £m
Non-current liabilities		
Bonds	4,239.6	4,465.9
Bank and other term borrowings	1,827.7	1,463.3
	6,067.3	5,929.2
Current liabilities		
Bonds	425.9	-
Bank and other term borrowings	127.9	75.4
Bank overdrafts (see note 15)	23.9	36.3
Amounts owed to ultimate parent undertaking	54.2	44.1
	631.9	155.8
	6,699.2	6,085.0

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Notes to financial statements

16. Borrowings (continued)

Terms and debt repayment schedule

The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

Group	Currency	Year of final repayment	Fair value 2015 £m	Carrying value 2015 £m	Restated* Fair value 2014 £m	Restated* Carrying value 2014 £m
Borrowings in fair value hedge relationships			**2,218.0**	**2,252.1**	**2,100.4**	**2,137.6**
5.375% 150m bond	GBP	2018	175.1	167.0	173.7	167.7
4.55% 250m bond	USD	2018	181.3	183.0	161.2	164.9
5.375% 350m bond	USD	2019	259.1	265.8	231.1	239.2
4.25% 500m bond	EUR	2020	427.5	424.1	473.6	476.2
5.75% 375m bond	GBP	2022	457.9	432.4	432.4	409.2
5.625% 300m bond	GBP	2027	391.2	408.1	347.4	363.3
5.02% JPY 10bn dual currency loan	JPY/USD	2029	75.4	86.3	68.1	79.7
5.00% 200m bond	GBP	2035	250.5	285.4	212.9	237.4
Borrowings designated at fair value through profit or loss			**333.7**	**333.7**	**268.7**	**268.7**
6.875% 400m bond	USD	2028	333.7	333.7	268.7	268.7
Borrowings measured at amortised cost			**4,852.3**	**4,113.4**	**3,983.0**	**3,678.7**
Short-term bank borrowings - fixed	GBP	2015	117.5	117.5	75.0	75.0
6.125% 425m bond	GBP	2015	447.6	425.9	466.2	427.3
1.97%+RPI 200m IL loan	GBP	2016	271.9	264.1	265.1	257.1
1.30%+LIBOR 5bn bond	JPY	2017	29.2	28.8	30.0	29.7
2.46%+RPI 50m IL loan	GBP	2020	67.0	58.5	68.7	57.9
2.10%+RPI 50m IL loan	GBP	2020	65.8	58.5	67.2	57.8
1.93%+RPI 50m IL loan	GBP	2020	65.5	58.6	66.7	58.0
1.90%+RPI 50m IL loan	GBP	2020	65.5	58.7	66.6	58.1
1.88%+RPI 50m IL loan	GBP	2020	65.2	58.6	66.4	57.9
1.84%+RPI 50m IL loan	GBP	2020	65.3	58.8	66.5	58.1
1.73%+RPI 50m IL loan	GBP	2020	65.1	58.8	66.1	58.2
1.61%+RPI 50m IL loan	GBP	2020	64.8	58.9	65.7	58.3
0.47%+RPI 100m IL loan	GBP	2023	105.0	103.8	95.8	102.6
0.49%+RPI 100m IL loan	GBP	2025	101.6	99.9	-	-
1.29%+RPI 50m (amortising) IL loan	GBP	2029	59.3	55.4	55.4	54.8
1.23%+RPI 50m (amortising) IL loan	GBP	2029	59.1	55.8	55.0	55.2
1.12%+RPI 50m (amortising) IL loan	GBP	2029	58.2	55.0	53.6	54.4
1.10%+RPI 50m (amortising) IL loan	GBP	2029	58.0	54.9	53.4	54.3
0.75%+RPI 50m (amortising) IL loan	GBP	2029	55.6	53.7	49.5	53.1
1.15%+RPI 50m (amortising) IL loan	GBP	2030	56.8	53.4	52.0	52.8
1.11%+RPI 50m (amortising) IL loan	GBP	2030	56.8	53.5	50.8	52.9
0.76%+RPI 50m (amortising) IL loan	GBP	2030	55.4	53.6	49.3	53.0
0.709%+LIBOR 100m (amortising) loan	GBP	2032	97.7	100.0	89.2	100.0
0.691%+LIBOR 150m (amortising) loan	GBP	2032	146.2	150.0	-	-
3.375%+RPI 50m IL bond	GBP	2032	110.9	72.0	97.2	70.2
0.573%+LIBOR 100m (amortising) loan	GBP	2033	96.1	100.0	-	-
1.9799%+RPI 100m IL bond	GBP	2035	174.9	135.0	148.8	131.7
1.66%+RPI 35m IL bond	GBP	2037	52.9	43.0	45.5	42.6
2.40%+RPI 70m IL bond	GBP	2039	117.2	83.8	102.3	82.9
1.7829%+RPI 100m IL bond	GBP	2040	177.4	133.6	142.9	130.3
1.3258%+RPI 50m IL bond	GBP	2041	80.7	66.7	65.6	65.0
1.5802%+RPI 100m IL bond	GBP	2042	171.7	133.2	137.0	129.9

Notes to financial statements

16. Borrowings (continued)

	Currency	Year of final repayment	Fair value 2015 £m	Carrying value 2015 £m	Restated* Fair value 2014 £m	Restated* Carrying value 2014 £m
Borrowings measured at amortised cost (continued)						
1.5366%+RPI 50m IL bond	GBP	2043	85.0	66.5	68.4	64.8
1.397%+RPI 50m IL bond	GBP	2046	85.0	66.6	66.0	65.0
1.7937%+RPI 50m IL bond	GBP	2049	95.0	66.3	73.8	64.7
Commission for New Towns (amortising) loan - fixed	GBP	2053	55.6	29.3	51.9	29.5
1.847%+RPI 100m IL bond	GBP	2056	186.8	129.9	150.8	128.4
1.815%+RPI 100m IL bond	GBP	2056	185.5	129.3	148.7	127.9
1.662%+RPI 100m IL bond	GBP	2056	178.8	129.1	142.0	127.6
1.591%+RPI 25m IL bond	GBP	2056	43.6	32.2	34.6	31.8
1.5865%+RPI 50m IL bond	GBP	2056	86.9	64.5	69.5	63.8
1.556%+RPI 50m IL bond	GBP	2056	86.9	64.2	68.4	63.5
1.435%+RPI 50m IL bond	GBP	2056	84.2	63.9	65.9	63.2
1.3805%+RPI 35m IL bond	GBP	2056	58.2	44.7	45.3	44.3
1.702%+RPI 50m IL bond	GBP	2057	88.7	62.6	69.9	61.9
1.585%+RPI 100m IL bond	GBP	2057	172.1	124.2	133.9	122.8
Amounts owed to ultimate parent undertaking	GBP	2015	54.2	54.2	44.1	44.1
Bank overdrafts	GBP	2015	23.9	23.9	36.3	36.3
			7,404.0	**6,699.2**	**6,352.1**	**6,085.0**

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

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)

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

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

Company	2015 £m	2014 £m
Non-current liabilities		
Bonds	715.4	641.5
Current liabilities		
Bank and other term borrowings	70.7	46.5
Amounts owed to subsidiary undertakings	698.8	1,296.1
Amounts owed to ultimate parent undertaking	54.2	44.1
	823.7	1,386.7
	1,539.1	2,028.2

Notes to financial statements

16. Borrowings (continued)

Terms and debt repayment schedule
The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

	Currency	Year of final repayment	Fair value 2015 £m	Carrying value 2015 £m	Fair value 2014 £m	Carrying value 2014 £m
Company						
Borrowings in fair value hedge relationships			**440.4**	**448.8**	**392.3**	**404.1**
4.55% 250m bond	USD	2018	181.3	183.0	161.2	164.9
5.375% 350m bond	USD	2019	259.1	265.8	231.1	239.2
Borrowings measured at amortised cost			**1,157.4**	**1,090.3**	**1,655.4**	**1,624.1**
Short-term bank borrowings – fixed	GBP	2015	70.7	70.7	46.5	46.5
Amounts owed to subsidiary undertakings	GBP	2015	698.8	698.8	1,296.1	1,296.1
Amounts owed to ultimate parent undertaking	GBP	2015	54.2	54.2	44.1	44.1
6.875% 400m bond	USD	2028	333.7	266.6	268.7	237.4
			1,597.8	**1,539.1**	**2,047.7**	**2,028.2**

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

17. Retirement benefit surplus/(obligations)

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

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations				
Current service cost	(18.1)	(17.2)	(1.4)	(0.9)
Curtailments/settlements	(5.5)	(1.7)	(0.7)	(0.3)
Administrative expenses	(2.6)	(2.2)	(1.0)	(0.8)
Pension expense charged to operating profit	(26.2)	(21.1)	(3.1)	(2.0)
Net pension interest (expense)/income (charged)/credited to investment income and finance expense (see notes 4 and 5)	(7.0)	1.3	(1.3)	(1.0)
Net pension expense charged before taxation	(33.2)	(19.8)	(4.4)	(3.0)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £20.7 million (2014: £19.4 million) for the group and £2.4 million (2014: £1.7 million) for the company, comprising current service costs and administrative expenses.

Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £29.5 million (2014: £27.5 million) for the group and £2.4 million (2014: £1.7 million) for the company comprise the defined benefit costs described above of £20.7 million (2014: £19.4 million) for the group and £2.4 million (2014: £1.7 million) for the company and defined contribution pension costs of £8.8 million (2014: £8.1 million) for the group (see note 2).

Notes to financial statements

17. Retirement benefit surplus/(obligations) (continued)

The reconciliation of the opening and closing net pension surplus/(obligations) included in the statement of financial position is as follows:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At the start of the year	(177.4)	15.1	(31.8)	(23.0)
Expense recognised in the income statement	(33.2)	(19.8)	(4.4)	(3.0)
Contributions paid	39.3	28.1	4.8	3.2
Remeasurement gains/(losses) gross of taxation	250.5	(200.8)	35.8	(9.0)
At the end of the year	79.2	(177.4)	4.4	(31.8)

Included in the group contributions paid of £39.3 million (2014: £28.1 million) and company contributions paid of £4.8 million (2014: £3.2 million) were pre-paid accelerated deficit repair contributions for the group of £9.7 million (2014: £nil) and for the company of £1.7 million (2014: £nil) and an inflation funding mechanism payment for the group of £5.5 million (2014: £9.9 million) and for the company of £1.0 million (2014: £1.7 million).

Remeasurement gains and losses are recognised directly in the statement of comprehensive income.

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
The return/(loss) on plan assets, excluding amounts included in interest	705.2	(125.1)	155.2	(182.0)
Actuarial losses arising from changes in financial assumptions	(500.8)	(108.3)	(128.4)	(26.9)
Actuarial gains arising from changes in demographic assumptions[1]	10.2	34.4	2.2	7.2
Actuarial gains/(losses) arising from experience	35.9	(1.8)	6.8	192.7
Remeasurement gains/(losses) on defined benefit pension schemes	250.5	(200.8)	35.8	(9.0)

[1] Following investigations carried out as part of the last triennial scheme funding valuation performed in March 2013.

For more information in relation to the group's defined benefit pension schemes see note A4.

Defined contribution pension costs

During the year, the group made £8.8 million (2014: £8.1 million) of contributions and the company made £nil (2014: £nil) contributions (see note 2) to defined contribution schemes relating to continuing operations, which are included in arriving at operating profit.

Notes to financial statements

18. Deferred tax liabilities

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
Group				
At 1 April 2013	1,242.0	3.4	(26.4)	1,219.0
(Credited)/charged to the income statement	(158.0)	0.1	28.3	(129.6)
Credit to equity	-	(39.0)	-	(39.0)
At 31 March 2014	1,084.0	(35.5)	1.9	1,050.4
Charged/(credited) to the income statement	41.0	2.0	(19.7)	23.3
Charged to equity	-	50.1	-	50.1
At 31 March 2015	1,125.0	16.6	(17.8)	1,123.8
Company				
At 1 April 2013	(0.1)	(5.3)	(1.0)	(6.4)
Charged to the income statement	-	-	1.8	1.8
Credit to equity	-	(1.1)	-	(1.1)
At 31 March 2014	(0.1)	(6.4)	0.8	(5.7)
Credited to the income statement	-	-	(0.3)	(0.3)
Charged to equity	-	7.2	-	7.2
At 31 March 2015	(0.1)	0.8	0.5	1.2

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

19. Provisions

	Group			**Company**		
	Severance £m	Other £m	Total £m	Severance £m	Other £m	Total £m
At 1 April 2013	1.6	10.6	12.2	0.1	0.1	0.2
Charged to income statement	4.4	10.9	15.3	-	-	-
Utilised in the year	(3.6)	(7.6)	(11.2)	-	(0.1)	(0.1)
At 31 March 2014	2.4	13.9	16.3	0.1	-	0.1
Charged/(credited) to income statement	6.6	(3.4)	3.2	(0.1)	-	(0.1)
Utilised in the year	(4.2)	(2.8)	(7.0)	-	-	-
At 31 March 2015	4.8	7.7	12.5	-	-	-

At 31 March 2015, the group and company had no provisions classed as non-current.

The severance provision as at 31 March 2015 and 31 March 2014 relates to severance costs as a result of group reorganisation.

Other provisions principally relate to contractual and legal claims against the group and represent management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant legal claims.

Notes to financial statements

20. Trade and other payables

		Restated* Group
	2015 £m	2014 £m
Non-current		
Deferred grants and contributions	476.7	441.8
Other creditors	3.3	9.2
	480.0	451.0

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

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

		Restated* Group		Company
	2015 £m	2014 £m	2015 £m	2014 £m
Current				
Trade payables	40.1	41.1	-	1.0
Amounts owed to ultimate parent undertaking	7.0	12.1	5.6	7.6
Amounts owed to subsidiary undertakings	-	-	925.4	843.7
Other taxation and social security	4.7	4.9	-	-
Deferred grants and contributions	9.1	8.9	-	-
Other creditors	2.1	2.3	2.3	2.3
Accruals and deferred income	323.6	323.4	9.4	9.5
	386.6	392.7	942.7	864.1

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

The directors consider that the carrying amounts of trade payables approximate to their fair value at both 31 March 2015 and 31 March 2014.

Deferred grants and contributions

	2015 £m	2014 £m
Group		
At the start of the year	450.7	419.0
Cash received during the year	18.1	16.4
Transfers of assets from customers	27.0	24.8
Credited to income statement – revenue	(2.3)	(2.1)
Credited to the income statement – other operating expenses (see note 3)	(7.7)	(7.4)
At the end of the year	485.8	450.7

Notes to financial statements

21. Share capital

	2015 number	2015 £	2014 number	2014 £
Company				
Issued, called up and fully paid				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

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

22. Operating lease commitments

	Property 2015 £m	Plant and equipment 2015 £m	Property 2014 £m	Plant and equipment 2014 £m
Group				
Commitments under non-cancellable operating leases due				
Within one year	3.5	0.7	3.3	0.8
In the second to fifth years inclusive	11.6	0.5	11.4	0.5
After five years	280.4	-	258.2	-
	295.5	1.2	272.9	1.3

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. Wherever possible, the group ensures that it has the benefit of security of tenure where this is required by operational and accommodation strategies. Escalation of rents is via rent reviews at agreed intervals.

	Property 2015 £m	Property 2014 £m
Company		
Commitments under non-cancellable operating leases due		
In the second to fifth years inclusive	0.1	0.2
After five years	0.1	0.2
	0.2	0.4

23. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2015, where a financial limit has been specified of £9.7 million (2014: £47.1 million).

The company guaranteed loans of group undertakings up to a maximum of £1,616.3 million (2014: £1,349.7 million), including £1,519.8 million (2014: £1,253.2 million) relating to United Utilities Water Limited's loans from the European Investment Bank and £96.5 million (2014: £96.5 million) relating to intra-group loans made by subsidiary undertakings.

The company has entered into performance guarantees as at 31 March 2015, where a financial limit has been specified of £5.0 million (2014: £41.9 million).

Notes to financial statements

24. Events after the reporting period

There are no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 31 March 2015.

25. Ultimate parent undertaking

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

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

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

Notes to the financial statement – appendices

A1. Subsidiaries and other group undertakings

Details of principal operating subsidiary undertakings and joint ventures are set out below. These undertakings are included within the consolidated financial statements. A full list of the group's subsidiary undertakings is included in the company's annual return.

	Class of share capital held	Proportion of share capital owned/voting rights %	Nature of business
Subsidiary undertakings			
Great Britain			
United Utilities Water Limited (formerly United Utilities Water PLC)	Ordinary	100.0*	Water and wastewater services and network management
United Utilities Property Services Limited	Ordinary	100.0	Property management
Joint ventures			
Estonia			
AS Tallinna Vesi	Ordinary	35.3*	Contract operations and maintenance services

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

A2. Cash generated from operations

	Restated* Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations				
Profit before taxation	367.9	568.6	908.6	315.3
Adjustment for investment income (see note 4) and finance expense (see note 5)	290.5	66.6	(34.8)	(21.9)
Adjustment for share of profits of joint ventures	(5.1)	(5.0)	-	-
Operating profit	653.3	630.2	873.8	293.4
Adjustments for:				
Depreciation of property, plant and equipment (see note 9)	323.6	312.9	-	-
Amortisation of intangible assets (see note 10)	29.0	24.0	-	-
Loss on disposal of property, plant and equipment (see note 3)	5.1	6.4	-	-
Loss on disposal of intangible assets (see note 3)	0.5	-	-	-
Amortisation of deferred grants and contributions (see note 20)	(7.7)	(7.4)	-	-
Other non-cash movements**	(1.2)	(2.0)	(694.3)	(147.1)
Changes in working capital:				
(Increase)/decrease in inventories	(0.7)	(2.1)	-	-
(Increase)/decrease in trade and other receivables	(48.7)	(27.8)	10.8	(130.1)
(Decrease)/increase in trade and other payables	(34.0)	(36.6)	68.3	160.6
(Decrease)/increase in provisions (see note 19)	(3.8)	4.1	(0.1)	(0.1)
Pension contributions paid less pension expense charged to operating profit	(13.1)	(7.0)	(1.7)	(1.2)
Cash generated from continuing operations	902.3	894.7	256.8	175.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

** Material non-cash transactions for the company during the year ended 31 March 2015, includes a reversal of an investment impairment of £694.1 million. Material non-cash transactions for the company in the prior year include disposals of the company's investment in its subsidiaries amounting to £1,054.8 million offset by non-cash settled dividends received of £1,201.9 million. There were no further material non-cash transactions during the year.

The group has received property, plant and equipment of £27.0 million (2014: £24.8 million) in exchange for the provision of future goods and services (see notes 20 and A6).

Notes to the financial statement – appendices

A3. Financial risk management

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

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

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group's compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group's treasury function does not act as a profit centre and does not undertake any speculative trading activity.

Liquidity risk
The group looks to manage its liquidity risk by maintaining liquidity within a UUG board approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2015, the group had £1,244.0 million (2014 restated: £1,015.8 million) of available liquidity, which comprised £244.0 million (2014 restated: £115.8 million) cash and short-term deposits, £600.0 million (2014: £500.0 million) of undrawn committed borrowing facilities and £400.0 million (2014: £400.0 million) of undrawn term loan facilities. Short-term deposits mature within three months and bank overdrafts are repayable on demand.

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

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Expiring within one year	50.0	50.0	25.0	25.0
Expiring after one year but in less than two years	150.0	50.0	35.0	25.0
Expiring after more than two years	400.0	400.0	70.0	75.0
Undrawn borrowing facilities	600.0	500.0	130.0	125.0

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

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

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Maturity analysis (continued)

Group	Total[1] £m	Adjustment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2015								
Bonds	10,067.1		593.3	143.4	173.3	691.1	502.8	7,963.2
Bank and other term borrowings	2,536.5		184.1	348.9	84.2	85.8	86.9	1,746.6
Amounts owed to ultimate parent undertaking	54.2		54.2	-	-	-	-	-
Adjustment to carrying value[2]	(5,958.6)	(5,958.6)						
Borrowings	6,699.2	(5,958.6)	831.6	492.3	257.5	776.9	589.7	9,709.8
Derivatives:								
Payable	1,039.6		89.3	70.7	101.3	369.9	383.0	25.4
Receivable	(1,534.2)		(124.2)	(101.4)	(176.9)	(626.9)	(502.3)	(2.5)
Adjustment to carrying value[2]	17.2	17.2						
Derivatives – net assets	(477.4)	17.2	(34.9)	(30.7)	(75.6)	(257.0)	(119.3)	22.9

Restated* Group	Total[1] £m	Adjustment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2014								
Bonds	10,314.6		165.9	592.1	142.3	174.7	652.5	8,587.1
Bank and other term borrowings	2,135.5		139.0	38.8	343.1	65.1	66.3	1,483.2
Amounts owed to ultimate parent undertaking	44.1		44.1	-	-	-	-	-
Adjustment to carrying value[2]	(6,409.2)	(6,409.2)						
Borrowings	6,085.0	(6,409.2)	349.0	630.9	485.4	239.8	718.8	10,070.3
Derivatives:								
Payable	1,005.9		108.4	55.9	45.4	80.6	352.0	363.6
Receivable	(1,464.0)		(171.5)	(86.2)	(83.3)	(132.5)	(428.4)	(562.1)
Adjustment to carrying value[2]	48.3	48.3						
Derivatives – net assets	(409.8)	48.3	(63.1)	(30.3)	(37.9)	(51.9)	(76.4)	(198.5)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Notes:

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

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

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Maturity analysis (continued)

Company	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2015								
Bonds	964.7		38.9	38.9	38.7	434.6	18.2	395.4
Bank and other term borrowings	70.8		70.8	-	-	-	-	-
Amounts owed to ultimate parent undertaking	54.2		54.2	-	-	-	-	-
Amounts owed to subsidiary undertakings	698.8		698.8	-	-	-	-	-
Adjustment to carrying value[2]	(249.4)	(249.4)						
Borrowings	1,539.1	(249.4)	862.7	38.9	38.7	434.6	18.2	395.4
Derivatives:								
Payable	368.9		37.2	3.5	4.7	323.5	-	-
Receivable	(512.0)		(55.2)	(20.3)	(20.2)	(416.3)	-	-
Adjustment to carrying value[2]	5.3	5.3						
Derivatives – net assets	(137.8)	5.3	(18.0)	(16.8)	(15.5)	(92.8)	-	-

Company	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2014								
Bonds	912.1		34.6	34.8	34.9	34.9	393.0	379.9
Bank and other term borrowings	46.6		46.6	-	-	-	-	-
Amounts owed to ultimate parent undertaking	44.1		44.1	-	-	-	-	-
Amounts owed to subsidiary undertakings	1,296.1		1,296.1	-	-	-	-	-
Adjustment to carrying value[2]	(270.7)	(270.7)						
Borrowings	2,028.2	(270.7)	1,421.4	34.8	34.9	34.9	393.0	379.9
Derivatives:								
Payable	382.7		34.9	4.4	7.1	9.2	327.1	-
Receivable	(484.8)		(53.6)	(18.2)	(18.3)	(18.3)	(376.4)	-
Adjustment to carrying value[2]	6.0	6.0						
Derivatives – net assets	(96.1)	6.0	(18.7)	(13.8)	(11.2)	(9.1)	(49.3)	-

Notes:

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

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

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Credit risk
Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative and foreign exchange instruments). The group and company do not believe they are exposed to any material concentrations of credit risk.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 14).

The group manages its risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement cash flows. In addition, potential derivative exposure limits are also established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit. A control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

		Restated*		
		Group		**Company**
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash and short-term deposits (see note 15)	244.0	115.8	61.6	109.5
Trade and other receivables (see note 14)	1,974.3	1,925.0	3,177.0	3,176.5
Investments (see note 12)	8.6	6.9	-	-
Derivative financial instruments	682.6	512.9	138.5	96.5
	2,909.5	2,560.6	3,377.1	3,382.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Included within trade and other receivables for the group are amounts owed by the ultimate parent undertaking of £1,618.5 million (2014: £1,592.2 million).

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2015 the group held £117.5 million (2014: £75.0 million) and the company held £70.7 million (2014: £46.5 million) as collateral in relation to derivative financial instruments (included within borrowings in note 16).

Market risk
The group's exposure to market risks primarily result from its financing arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Inflation risk
The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. To the extent that nominal debt liabilities finance a proportion of the RCV, there is an asset liability mismatch which potentially exposes the group to the risk of economic loss where actual inflation is lower than that implicitly locked in through nominal debt.

The group's index-linked borrowings, which are linked to RPI inflation, form an economic hedge of the group's regulatory assets, which are also linked to RPI inflation. In particular, index-linked debt delivers a cash flow benefit compared to nominal debt, as the inflation adjustment on the index-linked liabilities is a deferred cash flow until the maturity of each financial instrument, providing a better match to the inflation adjustment on the regulated assets, which is recognised as a non-cash uplift to the RCV.

In addition, the group's pension obligations also provide an economic hedge of the group's regulatory assets. The pension schemes' inflation funding mechanism (see note A4) ensures that future contributions will be flexed for movements in RPI and smoothed over a rolling five-year period, providing a natural hedge against any inflationary uplift on the RCV.

The group seeks to manage this risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary and subject to relative value. Inflation risk is reported monthly to the treasury committee in the operational compliance report.

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

	2015 £m	2014 £m
Index-linked debt	3,083.8	2,936.8

Sensitivity analysis
As required by IFRS 7 'Financial Instruments: Disclosures', the sensitivity analysis has been prepared on the basis of the amount of index-linked debt in place as at 31 March 2015 and 31 March 2014, respectively. As a result, this analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year. The following table details the sensitivity of profit before taxation to changes in the RPI on the group's index-linked borrowings.

Group	2015 £m	2014 £m
Increase/(decrease) in profit before taxation and equity		
1 per cent increase in RPI	(31.4)	(29.9)
1 per cent decrease in RPI	31.4	29.9

This table excludes the hedging aspect of the group's regulatory assets which, being property, plant and equipment, are not financial assets as defined by IAS 32 'Financial Instruments: Presentation' and are typically held at cost or deemed cost less accumulated depreciation on the consolidated statement of financial position. In addition, the table excludes the hedging aspect of the group's pension obligations.

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 income statement and the analysis does not incorporate this factor. The portfolio of index-linked debt is either calculated on a three or eight month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI change either three or eight months earlier.

Company
The company had no material exposure to inflation risk at 31 March 2015 or 31 March 2014.

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Interest rate risk
The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV.

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

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to ten years in advance on a reducing balance basis. This is supplemented by managing residual exposure to interest rates within the relevant regulatory price control period by fixing substantively all residual floating underlying interest rates on projected nominal debt across the immediately forthcoming regulatory period at around the time of the price control determination.

The group seeks to manage its risk by maintaining its interest rate exposure within a board approved range. Interest rate risk is reported monthly to the treasury committee through the operational compliance report.

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

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

- fair value hedge relationships are fully effective;
- borrowings designated at fair value through profit or loss are effectively hedged by associated swaps;
- the sensitivity excludes the impact of interest rates on post-retirement obligations;
- management have assessed one percent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

		Restated*		
		Group		**Company**
	2015	2014	2015	2014
	£m	£m	£m	£m
Increase/(decrease) in profit before taxation and equity				
1 per cent increase in interest rate	173.6	100.8	(10.8)	(19.6)
1 per cent decrease in interest rate	(190.4)	(111.0)	11.2	20.1

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

The exposure largely relates to the fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates.

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

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2015							
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,252.1	-	-	-	615.8	424.1	1,212.2
Effect of swaps	-	2,252.1	-	-	(615.8)	(424.1)	(1,212.2)
	2,252.1	2,252.1	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	333.7	-	-	-	-	-	333.7
Effect of swaps	-	333.7	-	-	-	-	(333.7)
	333.7	333.7	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	572.7	543.8	0.4	0.5	0.5	0.6	26.9
Floating rate instruments	402.7	402.7	-	-	-	-	-
Index-linked instruments	3,083.8	3,083.8	-	-	-	-	-
	4,059.2	4,030.3	0.4	0.5	0.5	0.6	26.9
Effect of fixed interest rate hedge	-	(2,656.3)	(250.0)	(125.0)	(50.0)	1,127.1	1,954.2
Total external borrowings	6,645.0	3,959.8	(249.6)	(124.5)	(49.5)	1,127.7	1,981.1
Amounts owed to ultimate parent undertaking	54.2	54.2	-	-	-	-	-
Total borrowings	6,699.2	4,014.0	(249.6)	(124.5)	(49.5)	1,127.7	1,981.1
Cash and short-term deposits	(244.0)	(244.0)	-	-	-	-	-
Net borrowings	6,455.2	3,770.0	(249.6)	(124.5)	(49.5)	1,127.7	1,981.1
Restated*							
At 31 March 2014							
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,137.6	-	-	-	-	571.8	1,565.8
Effect of swaps	-	2.137.6	-	-	-	(571.8)	(1,565.8)
	2,137.6	2,137.6	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	268.7	-	-	-	-	-	268.7
Effect of swaps	-	268.7	-	-	-	-	(268.7)
	268.7	268.7	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	531.8	75.3	427.7	0.4	0.5	0.5	27.4
Floating rate instruments	166.0	166.0	-	-	-	-	-
Index-linked instruments	2,936.8	2,936.8	-	-	-	-	-
	3,634.6	3,178.1	427.7	0.4	0.5	0.5	27.4
Effect of fixed interest rate hedge	-	(2,031.3)	-	325.0	252.1	250.0	1,204.2
Total external borrowings	6,040.9	3,553.1	427.7	325.4	252.6	250.5	1,231.6
Amounts owed to ultimate parent undertaking	44.1	44.1	-	-	-	-	-
Total borrowings	6,085.0	3,597.2	427.7	325.4	252.6	250.5	1,231.6
Cash and short-term deposits	(115.8)	(115.8)	-	-	-	-	-
Net borrowings	5,969.2	3,481.4	427.7	325.4	252.6	250.5	1,231.6

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Repricing analysis (continued)

Company	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2015							
Borrowings in fair value hedge relationships							
Fixed rate instruments	448.8	-	-	-	448.8	-	-
Effect of swaps	-	448.8	-	-	(448.8)	-	-
	448.8	448.8	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	337.3	70.7	-	-	-	-	266.6
Total external borrowings	786.1	519.5	-	-	-	-	266.6
Amounts owed to subsidiary undertakings	698.8	698.8	-	-	-	-	-
Amounts owed to ultimate parent undertaking	54.2	54.2	-	-	-	-	-
Total borrowings	1,539.1	1,272.5	-	-	-	-	266.6
Cash and short-term deposits	(61.6)	(61.6)	-	-	-	-	-
Net borrowings	1,477.5	1,210.9	-	-	-	-	266.6
At 31 March 2014							
Borrowings in fair value hedge relationships							
Fixed rate instruments	404.1	-	-	-	-	404.1	-
Effect of swaps	-	404.1	-	-	-	(404.1)	-
	404.1	404.1	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	283.9	46.5	-	-	-	-	237.4
Total external borrowings	688.0	450.6	-	-	-	-	237.4
Amounts owed to subsidiary undertakings	1,296.1	1,296.1	-	-	-	-	-
Amounts owed to ultimate parent undertaking	44.1	44.1	-	-	-	-	-
Total borrowings	2,028.2	1,790.8	-	-	-	-	237.4
Cash and short-term deposits	(109.5)	(109.5)	-	-	-	-	-
Net borrowings	1,918.7	1,681.3	-	-	-	-	237.4

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Electricity price risk
The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner.

The group has fixed the price on a substantial proportion of its anticipated net electricity usage out to the end of the AMP in 2020, partially through entering into electricity swap contracts.

Sensitivity analysis
As required by IFRS 7 'Financial Instruments: Disclosures,' the sensitivity analysis has been prepared on the basis of the amount of electricity swaps in place at the reporting date and, as a result, this analysis is not indicative of the years then ended, as this factor would have varied throughout the year.

Group	2015 £m	2014 £m
Increase/(decrease) in profit before taxation and equity		
10 per cent increase in commodity prices	4.8	2.6
10 per cent decrease in commodity prices	(4.8)	(2.6)

Company
The company had no material exposure to electricity price risk at 31 March 2015 or 31 March 2014.

Currency risk
Currency exposure principally arises in respect of funding raised in foreign currencies.

To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross currency swaps and these are typically designated within a fair value accounting hedge.

The group seeks to manage its risk by maintaining currency exposure within UUG board approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report.

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

Capital risk management
The group's objective when managing capital is to maintain efficient access to debt capital markets throughout the economic cycle. The board therefore believes it is appropriate to maintain gearing, measured as group consolidated net debt to regulatory capital value (RCV) of United Utilities Water Limited (UUW), within a target range of 55 per cent to 65 per cent. As at 31 March 2015, group consolidated gearing was 59 per cent, which is comfortably within this range.

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain, as a minimum, its existing credit ratings of A3 with Moody's Investors Services (Moody's) and BBB+ with Standard and Poor's Ratings Services (Standard & Poor's) for UUW and debt issued by its financing subsidiary, United Utilities Water Finance PLC.

In order to maintain existing credit ratings the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's and Standard & Poor's. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover and Funds from Operations (FFO) to debt) and threshold levels as updated and published from time to time by Moody's and Standard & Poor's.

The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit rating agencies to determine a corporate's credit rating, within the thresholds approved by the UUG board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group	Level 1	Level 2	Level 3	Total
2015	£m	£m	£m	£m
Available for sale financial assets				
Investments	-	8.6	-	8.6
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	521.6	-	521.6
Derivative financial assets – held for trading[(1)]	-	161.0	-	161.0
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading[(1)]	-	(205.2)	-	(205.2)
Financial liabilities designated as fair value through profit or loss	-	(333.7)	-	(333.7)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,142.6)	(75.4)	-	(2,218.0)
Other financial liabilities at amortised cost	(2,530.3)	(2,322.0)	-	(4,852.3)
	(4,672.9)	(2,245.1)	-	(6,918.0)

Restated*

Group	Level 1	Level 2	Level 3	Total
2014	£m	£m	£m	£m
Available for sale financial assets				
Investments	-	6.9	-	6.9
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	398.9	-	398.9
Derivative financial assets – held for trading[(1)]	-	114.0	-	114.0
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading[(1)]	-	(103.1)	-	(103.1)
Financial liabilities designated as fair value through profit or loss	-	(268.7)	-	(268.7)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,032.3)	(68.1)	-	(2,100.4)
Other financial liabilities at amortised cost	(1,146.7)	(2,836.3)	-	(3,983.0)
	(3,179.0)	(2,756.4)	-	(5,935.4)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

(1) These derivatives form economic hedges and, as such, management intend to hold these through to maturity. Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £152.2 million (2014: £83.2 million).

Notes to the financial statement – appendices

A3. Financial risk management (continued)

Company 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	136.8	-	136.8
Derivative financial assets – held for trading[(1) (2)]	-	1.7	-	1.7
Financial liabilities at fair value through profit or loss				
Derivative financial assets – held for trading[(1)]	-	(0.7)	-	(0.7)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(440.4)	-	-	(440.4)
Other financial liabilities at amortised cost	-	(1,157.4)	-	(1,157.4)
	(440.4)	(1,019.6)	-	(1,460.0)

Company 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	92.4	-	92.4
Derivative financial assets – held for trading[(1) (2)]	-	4.1	-	4.1
Financial liabilities at fair value through profit or loss				
Derivative financial assets – held for trading[(1)]	-	(0.4)	-	(0.4)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(392.3)	-	-	(392.3)
Other financial liabilities at amortised cost	-	(1,655.4)	-	(1,655.4)
	(392.3)	(1,559.3)	-	(1,951.6)

(1) These derivatives form economic hedges and, as such, management intend to hold these through to maturity.
(2) Includes amounts owed by subsidiary undertakings of £0.7 million (2014: £3.3 million).

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

The group and company have calculated fair values using quoted prices where an active market exists, which has resulted in £4,672.9 million (2014: £3,179.0 million) for group and £440.4 million (2014: £392.3 million) for company of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group and company have applied discounted cash flow valuation models utilising market available data in line with prior years.

In respect of the total change during the year in the fair value of financial liabilities designated at fair value through profit or loss, of a £65.0 million loss (2014: £32.6 million gain), a £4.6 million loss (2014: £11.1 million) is attributable to changes in own credit risk. The cumulative amount recognised in the income statement due to changes in credit spread was £59.0 million profit (2014: £63.6 million). The carrying amount is £131.6 million (2014: £66.6 million) higher than the amount contracted to settle on maturity.

Notes to the financial statement – appendices

A4. Retirement benefits

Defined benefit schemes
The group and company participate in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC Group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. The assets of these schemes are held in trust funds independent of the group's finances.

The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

The group also operates a series of unfunded, unregistered retirement benefit schemes. The cost of these schemes are included in the total pension cost, on a basis consistent with IAS 19 and the assumptions set out below.

Information about the pension arrangements for executive directors is contained in note 2.

Under the schemes, employees are entitled to annual pensions on retirement. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The latest actuarial valuations of UUPS and ESPS were carried out as at 31 March 2013. The results of these valuations have been adjusted to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 31 March 2015 by projecting forward from the valuation date by the independent actuary, Aon Hewitt Limited.

Funding requirements
The latest funding valuations of the schemes as at 31 March 2013 reported a deficit. The basis on which liabilities are valued for funding purposes differs to the basis required under IAS 19. Under UK legislation there is a requirement that pension schemes are funded prudently.

The group has a plan in place with the schemes' trustees to address the funding deficit by 31 December 2020, through a series of annual deficit recovery contributions.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme.

For UUPS this includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets such as fixed income swaps which perform in line with the liabilities so as to hedge against changes in swap yields. For ESPS, a partial hedge is in place to protect against changes in swap yields.

In addition, the group has had an Inflation Funding Mechanism (IFM) in place since 2010; details of this are outlined in the 2011 annual report. In 2013, it extended the mechanism to the ESPS, and increased the fixed percentage rate used to 3.0 per cent per annum from 2.75 per cent per annum. To the extent that inflation, as measured by the RPI index at each 31 March preceding the payment due date is different to 3.0 per cent per annum, the inflation reserve will increase/decrease. Additional contributions are then payable annually based on the size of the inflation reserve.

The duration of the combined schemes is around 20 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

The group expects to make contributions of £55.7 million in the year ending 31 March 2016, comprising £29.2 million to UUPS and £4.1 million to ESPS in respect of accelerated deficit repair contributions, and £21.4 million and £1.0 million in respect of regular contributions to UUPS and ESPS respectively.

Notes to the financial statement – appendices

A4. Retirement benefits (continued)

The company expects to make contributions of £8.4 million in the year ending 31 March 2016, comprising £5.1 million to UUPS and £0.7 million to ESPS in respect of accelerated deficit repair contributions, and £1.1 million and £0.5 million in respect of regular contributions to UUPS and ESPS respectively.

Impact of scheme risk management on IAS 19 disclosures
Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and the current member mortality assumptions. These projected cash flows are then discounted by an AA corporate bond rate, which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and the forecast RPI. The underlying interest rate has been largely hedged through external market swaps, the value of which is included in the schemes' assets, and the forecast RPI has been largely hedged through the IFM, with RPI in excess of 3.0 per cent per annum being funded through an additional schedule of deficit contribution.

As a consequence, the reported statement of financial position under IAS 19 remains volatile to changes in credit spread which have not been hedged, primarily due to the difficulties in doing so over long durations; changes in inflation, as the IFM results in changes to the IFM deficit contributions rather than a change in the schemes' assets; and, to a lesser extent, changes in mortality as management has decided not to hedge this exposure due to its lower volatility in the short-term and the relatively high hedging costs.

In contrast, the schemes' specific funding basis, which forms the basis for regular (non-IFM) deficit repair contributions, is unlikely to suffer from volatility due to credit spread or inflation. This is because a conservative, fixed credit spread assumption is applied, and inflation linked contributions are included within the IFM.

In the IAS 19 assessment of financial position at 31 March 2015, price inflation fell by 0.3 per cent and, although the discount rate has fallen by 1.2 per cent, this masks a credit spread increase of 0.1 per cent. The price inflation reduction and credit spread increase results in substantially all of the reported £256.6 million improvement. During the year ended 31 March 2015, there has not been any material change in the schemes' specific funding basis and therefore the level of deficit repair contributions.

Sensitivity of the key scheme assumptions
The measurement of the group and company's defined benefit obligation is sensitive to changes in key assumptions, which are described below. The sensitivity calculations presented below allow for the specified movement in the relevant key assumption, whilst all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted.

- **Asset volatility**
  If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long-term, create volatility in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- **Discount rate**
  An increase/decrease in the discount rate of 0.1 per cent would have resulted in a £60.1 million (2014: £49.1 million) decrease/increase in the schemes' liabilities for the group at the 31 March 2015, although as long as credit spreads remain stable this will be largely offset by an increase in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on AA corporate bond yields of a similar duration to the schemes' liabilities.

Notes to the financial statement – appendices

A4. Retirement benefits (continued)

Sensitivity of the key scheme assumptions (continued)

- **Price inflation**
  An increase/decrease in the inflation assumption of 0.1 per cent would have resulted in a £56.6 million (2014: £47.0 million) increase/decrease in the schemes' liabilities for the group at the 31 March 2015, as a significant proportion of the schemes' benefit obligations are linked to inflation. In some cases, caps on the level of inflationary increases are in place to protect against extreme inflation. The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit. Any change in inflation out-turn results in a change to the cash contributions provided under the IFM.

- **Life expectancy**
  An increase/decrease in the mortality long-term improvement rate of 0.25 per cent would have resulted in a £36.7 million (2014: £37.3 million) increase/decrease in the schemes' liabilities for the group at the 31 March 2015. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension (GMP). The UK Government intends to implement legislation which could result in an increase in the value of GMP for males. This would increase the defined benefit obligation of the schemes. At this stage, until the Government develops its proposals and publishes guidance, it is not possible to quantify the impact of this change.

Reporting

The results of the latest funding valuations at 31 March 2013 have been adjusted in order to assess the position at 31 March 2015, by taking account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus/(obligations) of UUPS and ESPS were as follows:

	2015 % pa	2014 % pa
Group and Company		
Discount rate	3.1	4.3
Pensionable salary growth and pension increases	3.0	3.3
Price inflation	3.0	3.3

In assessing the financial assumptions, the group has taken into account the average duration of the schemes' liabilities.

Demographic assumptions

Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA year of birth tables with a one year age rating for males, reflecting actual mortality experience; and CMI 2014 (2014: CMI 2013) long-term improvement factors, with a long-term annual rate of improvement of 1.5 per cent per annum. The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

	2015 years	2014 years
Group and Company		
Retired member - male	26.6	26.6
Non-retired member - male	28.3	28.4
Retired member - female	30.2	30.0
Non-retired member - female	32.0	31.9

Notes to the financial statement – appendices

A4. Retirement benefits (continued)

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

	Schemes' assets %	2015 £m	Schemes' assets %	2014 £m
Group				
Equities	9.9	308.7	6.6	157.0
Other non-equity growth assets	10.2	320.4	10.0	238.3
Gilts	14.7	461.8	11.9	283.9
Bonds	43.6	1,365.8	52.2	1,240.7
Other	21.6	677.0	19.3	457.1
Total fair value of schemes' assets	100.0	3,133.7	100.0	2,377.0
Present value of defined benefit obligations		(3,054.5)		(2,554.4)
Net retirement benefit surplus/(obligations)		79.2		(177.4)

	Schemes' assets %	2015 £m	Schemes' assets %	2014 £m
Company				
Equities	10.0	81.5	8.0	52.2
Other non-equity growth assets	10.1	82.3	10.3	67.4
Gilts	9.7	79.4	7.5	48.8
Bonds	44.7	365.0	48.8	318.3
Other	25.5	208.2	25.4	165.3
Total fair value of schemes' assets	100.0	816.4	100.0	652.0
Present value of defined benefit obligations		(812.0)		(683.8)
Net retirement benefit surplus/(obligations)		4.4		(31.8)

The fair values in the table above are all based on quoted prices in an active market, where applicable.

The assets, in respect of UUPS, included in the table above, have been allocated to each asset class based on the return the assets are expected to achieve as UUPS has entered into a variety of derivative transactions to change the return characteristics of the physical assets held in order to reduce undesirable market and liability risks. As such, the breakdown shown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

Both of the schemes employ a strategy where the asset portfolio is made up of a growth element and a defensive element. Assets in the growth portfolio are shown as equities and other non-equity growth assets above, while assets held in the defensive portfolio represent the remainder of the schemes' assets.

The 'other' element of the portfolio is set aside for collateral purposes linked to the derivative contracts entered into, as described above. The collateral portfolio, comprising cash and eligible securities which are readily converted to cash, provides sufficient liquidity to manage the derivative transactions and is expected to achieve a return in excess of LIBOR.

Notes to the financial statement – appendices

A4. Retirement benefits (continued)

Further reporting analysis (continued)
Movements in the fair value of the schemes' assets were as follows:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At the start of the year	2,377.0	2,442.0	652.0	815.2
Interest income on schemes' assets	101.0	111.3	27.6	37.0
The return/(loss) on plan assets, excluding amounts included in interest	705.2	(125.1)	155.2	(182.0)
Member contributions	6.3	6.6	0.4	0.3
Benefits paid	(92.5)	(83.7)	(22.6)	(20.9)
Administrative expenses	(2.6)	(2.2)	(1.0)	(0.8)
Company contributions	39.3	28.1	4.8	3.2
At the end of the year	3,133.7	2,377.0	816.4	652.0

The actual return on the schemes' assets was a gain of £806.2 million (2014: £13.8 million loss) for the group and a gain of £182.8 million (2014: 145.0 million loss) for the company, principally due to gains (2014: losses) on derivatives hedging the schemes' liabilities.

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

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At the start of the year	(2,554.4)	(2,426.9)	(683.8)	(838.2)
Interest cost on schemes' obligations	(108.0)	(110.0)	(28.9)	(38.0)
Actuarial losses arising from changes in financial assumptions	(500.8)	(108.3)	(128.4)	(26.9)
Actuarial gains arising from changes in demographic assumptions	10.2	34.4	2.2	7.2
Actuarial gains/(losses) arising from experience	35.9	(1.8)	6.8	192.7
Curtailments/settlements	(5.5)	(1.7)	(0.7)	(0.3)
Member contributions	(6.3)	(6.6)	(0.4)	(0.3)
Benefits paid	92.5	83.7	22.6	20.9
Current service cost	(18.1)	(17.2)	(1.4)	(0.9)
At the end of the year	(3,054.5)	(2,554.4)	(812.0)	(683.8)

Notes to the financial statement – appendices

A5. 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 and other investments:

	Sales of services		Purchases of goods and services	
	2015	2014	2015	2014
	£m	£m	£m	£m
Joint ventures	1.0	1.5	0.8	0.8
Other investments	0.1	0.1	-	-
	1.1	1.6	0.8	0.8

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

	Restated* Amounts owed by related parties		Amounts owed to related parties	
	2015	2014	2015	2014
	£m	£m	£m	£m
Joint ventures	2.8	2.6	-	-
Other investments	-	0.1	-	-
	2.8	2.7	-	-

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 30 for details.

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £4.7 million (2014: £5.2 million) in support of its joint ventures (see note 11).

No expense or allowance has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2014: £nil).

Details of transactions with key management are disclosed in note 2.

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

	Interest receivable	
	2015	2014
	£m	£m
Ultimate parent undertaking	26.3	25.3

	Amounts owed by related parties		Amounts owed to related parties	
	2015	2014	2015	2014
	£m	£m	£m	£m
Ultimate parent undertaking	1,618.5	1,592.2	55.5	49.0

Notes to the financial statement – appendices

A5. Related party transactions (continued)

Company

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

Total dividend income received during the year amounted to £976.6 million (2014: £1,355.0 million), total interest receivable during the year from subsidiary undertakings was £22.7 million (2014: £20.1 million), and total fair value losses during the year from subsidiary undertakings was £36.9 million (2014: £29.6 million gain). In addition, total interest receivable during the year from the ultimate parent company was £26.3 million (2014: £25.3 million). Amounts outstanding at 31 March 2015 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 14, 16 and 20.

The company guaranteed intra-group loans made by subsidiary undertakings of £96.5 million (2014: £96.5 million). Balances will be settled in accordance with normal credit terms. An allowance for doubtful receivables of £91.7 million (2014: £90.5 million) has been made for amounts owed by subsidiary undertakings. In the year ended 31 March 2015, an expense of £1.2 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2014: £1.8 million) (see note 14).

The company had a £400 million intercompany interest rate swap with United Utilities Water Limited maturing in March 2015, as part of the 2010-2015 regulatory hedging programme. During the year the company received net interest of £5.4 million (2014: £5.9 million) and £3.7 million was debited through the income statement (2014: £6.5 million debit).

A6. Accounting policies

Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using the equity method of accounting. 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

Subsidiaries are entities controlled by the group. Control is achieved where the group is exposed to, or has the rights to, variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. In the parent company accounts, investments are held at cost less provision for impairment.

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

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture results and assets and liabilities are incorporated using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the group's share of the profit or loss.

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.

Notes to the financial statement – appendices

A6. Accounting policies (continued)

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

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

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

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

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

Current taxation
Current taxation is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date.

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

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

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 tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

The carrying amount of deferred taxation assets is reviewed at each reporting date and is 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.

Notes to the financial statement – appendices

A6. Accounting policies (continued)

Deferred taxation (continued)

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.

Property, plant and equipment

Property, plant and equipment comprises of water and wastewater infrastructure assets and overground assets (including properties, plant and equipment).

The useful economic lives of these assets are primarily as follows:

- Water and wastewater infrastructure assets:
  - Impounding reservoirs 200 years;
  - Mains and raw water aqueducts 30 to 300 years;
  - Sewers and sludge pipelines 60 to 300 years;
  - Sea outfalls 77 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network is treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost (or deemed cost for infrastructure assets held on transition to IFRS), less the estimated residual value, evenly over their useful economic lives.

Other assets

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

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

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

Depreciation methods, residual values and useful economic lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating costs.

Transfer of assets from customers and developers

Where the group receives from a customer or developer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a credit of the same amount to deferred grants and contributions. The assets are

Notes to the financial statement – appendices

A6. Accounting policies (continued)

Transfer of assets from customers and developers (continued)
depreciated over their useful economic lives and the deferred contributions released to revenue over the same period (or where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue). This interpretation has been applied to transfers of assets from customers received on or after 1 July 2009. Assets transferred from customers or developers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

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

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

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

Intangible assets, which relate primarily to computer software, are amortised over a period of three to ten years.

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

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-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 cash flows have not been adjusted.

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

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

Financial instruments
Financial assets and financial liabilities are recognised and derecognised on the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

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

Notes to the financial statement – appendices

A6. Accounting policies (continued)

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

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

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

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

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

Borrowings
The group's default treatment is that bonds, loans and overdrafts are initially measured at fair value being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

The default treatment of measuring at amortised cost, whilst associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IAS 39 'Financial Instruments: Recognition and Measurement' to fair value its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. In order to apply fair value hedge accounting, it must be demonstrated that the hedging derivative has been, and will continue to be, a highly effective hedge of the risk being hedged within the applicable borrowing instrument.

Borrowings designated within a fair value hedge relationship
Where designated, bonds and loans are initially measured at fair value being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Borrowings designated at fair value through profit or loss
Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received and are subsequently measured at fair value at each reporting date with changes in fair value being charged or credited to finance expense in the income statement.

Notes to the financial statement – appendices

A6. Accounting policies (continued)

Derivative financial instruments
Derivative financial instruments are measured at fair value at each reporting date with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A3).

Derivatives and borrowings – valuation
Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

The valuation of debt designated in a fair value hedge relationship is calculated based on the risk being hedged as prescribed by IAS 39 'Financial Instruments: Recognition and Measurement'. The group's policy is to hedge its exposure to changes in the applicable underlying interest rate and it is this portion of the cash flows that is included in the valuation model (excluding any applicable company credit risk spread).

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

Inventories
Inventories are stated at the lower of cost and net realisable value. For properties held for resale, cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable.

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

Employee benefits

Retirement benefit obligations
The group operates two defined benefit pension schemes, which are independent of the group's finances, for 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 statement of financial position.

The cost of providing pension benefits to employees relating to the current year's service (including curtailment gains and losses) is included within the income statement within employee benefits expense. The net interest on the schemes' obligation/surplus is included in the income statement within investment income or finance expense.

Remeasurement gains and losses are recognised outside the income statement in retained earnings and presented in the statement of comprehensive income.

In addition, the group also operates a defined contribution pension section within the United Utilities Pension Scheme. 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, issued to certain employees. The equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on estimates

Notes to the financial statement – appendices

A6. Accounting policies (continued)

Share-based compensation arrangements (continued)
of the number of options that are expected to vest. Fair value is based on simulation models, according to the relevant measures of performance. The group has the option to settle some of these equitysettled share-based payments in cash.

At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Provisions
Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

Foreign currency translation

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

In order to hedge its exposure to certain foreign exchange risks, the group enters into derivative instruments (see note A3).

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

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

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

Leases
Leases are classified according to the substance of the transaction. Operating leases are leases that do not transfer substantially all the risks and rewards of ownership to the lessee.

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