



United Utilities Group PLC
Annual Report and Financial Statements
for the year ended 31 March 2015



United Utilities at a glance

United Utilities is the UK's largest listed water company.

Through its subsidiary, United Utilities Water Limited, it manages the regulated water and wastewater network in the North West of England, providing services to around seven million people and businesses. The vast majority of the group's assets and profit are derived from its regulated UK water business.

WHERE WE OPERATE



KEY FACTS

- We look after more than **55,000** hectares of catchment land, helping to protect the quality of our water resources
- We manage around **120,000** km of water pipes and sewers to help our customers' lives flow smoothly
- Our **567** wastewater treatment works help to ensure that the water returned to the environment meets all UK and European legislation
- Our **93** water treatment works deliver around **1,700** million litres of water to **3.2** million customers every day
- We own **178** reservoirs, ensuring our customers can enjoy a resilient water supply
- We've invested around **£3.8** billion in 2010-15 which has delivered significant customer and environmental benefits and grows the regulatory capital value

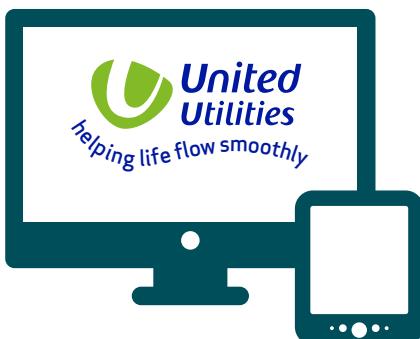
REASONS TO INVEST

- We have a clear vision to be a leading North West service provider and one of the best UK water and wastewater companies
- Our management team has extensive commercial, operational and regulatory experience
- Our wholesale revenue and asset base is linked to RPI inflation
- Clarity on allowed returns through to 2020
- We've made significant improvements in customer service and operational performance, with more to come
- Externally recognised responsible business credentials
- We're delivering customer and environmental benefits through substantial capital investment, which drives long-term growth in the regulatory capital value
- Track record of regulatory outperformance; exceeded our 2010-15 targets
- We have a robust capital structure: stable A3 credit rating
- Our sustainable dividend policy targets a growth rate of at least RPI inflation per annum to at least 2020
- Total dividend per share of 37.70 pence for 2014/15

Integrated report

This annual report has been prepared in accordance with the principles set out in the International <IR> Framework published by the International Integrated Reporting Council in December 2013.

ONLINE ANNUAL REPORT



Our annual report is available online at:
corporate.unitedutilities.com

Important information

Cautionary statement:

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

Terms used in this report:

Unless expressly stated otherwise, the 'group', 'United Utilities', 'UU' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water Limited (formerly United Utilities Water PLC) in the North West of England.

Strategic report

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Look out for these icons

Read more online at corporate.unitedutilities.com

Read more information in [Strategic Report](#)

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Read more information in [Shareholder Information](#)

Operational highlights 2014/15

Delivered a strong overall performance for the benefit of all our stakeholders

2010-15 outperformance

Exceeded regulatory outperformance targets, enabling us to reinvest

£280m

to benefit customers

Capital investment

Much improved delivery of capital investment programme:

£869m

up 4%

further enhancing our assets for the benefit of customers

Customer service

Significant customer service improvements over 2010-15 recognised in Ofwat's final determination

Asset serviceability

Met water and wastewater asset serviceability standards

Ofwat and Environment Agency KPIs

Upper quartile operational performance on Ofwat and Environment Agency KPI assessments

Responsible business

Retained 'World Class' rating in Dow Jones Sustainability Index for the 7th consecutive year



See how we performed against our operational KPIs on page 33



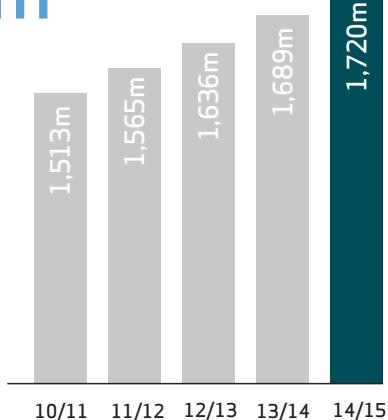
Read more about our operational performance on pages 34 to 39

Financial highlights 2014/15

Revenue

£1,720m

(2013/14: £1,689m)

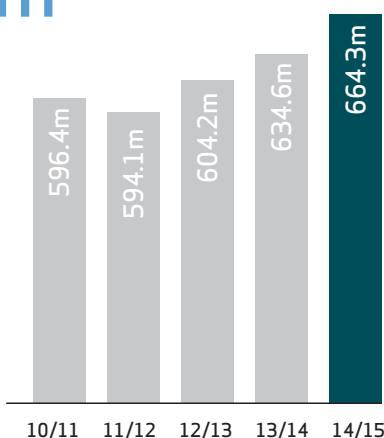


Revenue was up by £31 million, or 1.9 per cent, to £1,720 million. This increase is lower than the allowed regulated price rise for 2014/15 of 3.8 per cent nominal (1.2 per cent real price increase, plus 2.6 per cent RPI inflation), mainly reflecting the previously announced special customer discount which has been applied to this year's bills.

Underlying operating profit*

£664.3m

(2013/14: £634.6m)

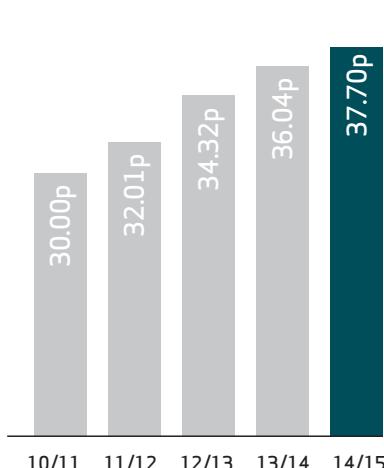


Underlying operating profit increased by £30 million to £664 million, as we continue to tightly manage our cost base, despite the expected increase in depreciation and other cost pressures, including bad debt. There was also a planned, phased reduction in infrastructure renewals expenditure in the year, as we completed the five-year regulatory period.

Total dividend per share

37.70p

(2013/14: 36.04p)



Total dividend per ordinary share for 2014/15 of 37.70 pence. This is an increase of 4.6 per cent on last year, as we delivered our 2010-15 dividend policy.



See how we performed against our [financial KPIs](#) on page 32



Read more about our [financial performance](#) on pages 40 to 45

* A reconciliation between underlying operating profit and reported operating profit is shown on page 45

A photograph of a worker in a yellow high-visibility vest and white hard hat, wearing blue gloves, working on a complex system of pipes and valves in an industrial setting. The worker is seen from the side and back, focused on their task.

Anytime

Whenever our customers need us, we'll be there,
giving them the kind of service that's as good
as our wonderful water.



STRATEGIC REPORT

Detailing the past year's performance and how it has been achieved alongside our future vision and strategy, the strategic report gives a comprehensive picture of where the business is and where it is going.

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Chairman's and Chief Executive Officer's statement

The last 12 month period was the fifth and final year of the 2010-15 regulatory period. Our objective over this period was to deliver improved and sustainable underlying performance for the benefit of customers, the environment and shareholders. We are pleased to report that we achieved this.

We were the most improved water company for customer satisfaction over 2010-15

We invested
£3.8bn
in the renewal and upgrade of our assets across the last five years



Steve Mogford Chief Executive Officer and Dr John McAdam Chairman

Customers

Customer satisfaction remains a priority and we were the most improved water company over the 2010-15 regulatory period. Our improvements have helped reduce further the number of customers who need to contact us about the service they receive by around 75 per cent over the five-year period. We continually review the causes of customer dissatisfaction and revise our training, policies, processes and systems to drive improvement. We were pleased that our improved customer satisfaction performance over the period took us out of Ofwat's service incentive mechanism (SIM) penalty zone, thereby also benefiting shareholders.

Ofwat will change the process it uses to assess customer satisfaction during the next five-year regulatory period. This new SIM measure has been piloted over the last 12 months and has helped us identify that, while customer satisfaction with our services is continually improving, we could do better in keeping customers informed

whilst we are resolving their issue. This will be a key area of focus for us in continuing to deliver improving satisfaction.

Modern customer relationship management (CRM) systems can offer a much improved customer experience as well as efficiencies in customer-facing operations. We were pleased to receive Ofwat's support for our plan to invest in a new CRM system in the 2015-20 period and we are already in the detailed design phase before implementation.

Our assets

The reliable and efficient operation of our assets is critical to both customer service and our environmental performance.

Targeted investment in our assets, processes and the people who operate them has supported an improvement in our environmental performance as measured by the Environment Agency (EA), positioning us again as one of the best performers in our sector.

Performance against indices used by the Drinking Water Inspectorate (DWI) to measure water quality has also improved and we achieved our best ever performance over the last year.

Asset serviceability was assessed as stable or improving over the last 12 months, representing a significant and sustained improvement since the start of the 2010–15 regulatory period. We were delighted to outperform our leakage target for the year – the ninth successive year in which we have met or beaten our target.

The improvements made early in the 2010–15 regulatory period to our project and risk management processes have supported the successful delivery of our capital programme. We invested a substantial £3.8 billion in the renewal and upgrade of our assets across the last five years, with over £850 million invested over the last 12 months. We measure the effectiveness of our investment using our Time, Cost and Quality index for which we scored 97 per cent this year – ahead of our targets and consistent with the good performance of the previous year.

We have already invested around £40 million to accelerate project delivery relating to schemes due to be delivered early in the 2015–20 period and to secure associated benefits.

A difficult economic environment

Although unemployment in the North West has reduced over the last 12 months, our region has the highest proportion of disadvantaged households in England and therefore customer indebtedness continues to be a significant challenge for us.

Our collections team continues to work hard to contain bad debt levels. During the year we implemented data sharing with the credit reference agency ‘Experian’ and this is helping to identify those customers who could pay their bill but choose not to. For those struggling to pay, we continue to offer a wide range of ways to help them back into regular payment. This includes an independently administered trust fund for which we increased our annual contribution using a cash tax refund from HMRC. We also gained customer support to launch a social tariff for those customers who receive Pension Credit.

Business retail

Having secured a retail licence in 2012, we have been a leading competitor in the Scottish business retail market securing over 200 customers, covering over 2,800 sites, and representing future annual revenue of £15 million. During this period we have seen the number of active market participants increase to around 18 and as a consequence, pricing is becoming increasingly competitive. We continue to bid selectively for profitable business where our value-added solutions offer benefits to customers.

The Water Act 2014 confirmed plans to open the English business retail market for water and wastewater services in 2017. Our experience of the Scottish business retail market is invaluable ahead of the English market opening and work is in hand to prepare our business retail and wholesale teams to address this development. We are actively engaged in the creation of a market operating company that will govern and facilitate the switching of their retailer by business customers.

Strategy

Our Strategic Direction Statement, ‘Playing our part to support the North West’ reflects extensive consultation with customers and other stakeholders to create our best view of what the next 25 years holds for our region. This includes economic, social and environmental developments such as the predicted impact of climate change.

Our recently updated Water Resources Management Plan, which describes the projected pattern of water resource activity in our region until 2040, was approved by the Secretary of State in February 2015. This plan projects that the majority of the North West will be in surplus, benefiting from an integrated network that supports movement of water around the region to accommodate its changing supply and demand balance. Our plan includes a new Thirlmere pipeline to extend our integrated network to encompass West Cumbria. This will reduce abstraction from Ennerdale, thus protecting sensitive ecology, and improve security of supply for customers.

As a lone agent, United Utilities could not deliver the scale of required environmental improvement at an acceptable level of cost. Instead we are committed to partnering with others who can support the achievement of our required outcomes – such as our ‘Turning tides’ partnership with the EA, local authorities, the Marine Conservation Society and other interested parties to improve bathing waters in the North West.

Chairman's and Chief Executive Officer's statement

Pictured: Our new £1.5 million purpose-built technical training centre in Bolton is part of our training and apprenticeship programme to source the next generation of water engineers. Facilities include mechanical and electrical workshops, a laboratory and a mock sewer system, with around 70 trainees attending each day.



Sharing success

We have sought to share the benefits of our improvements over the last five years between customers, the environment and shareholders.

Around £200 million of capital savings has been reinvested in projects that deliver benefits to customers or the environment. We have also used a portion of our financing outperformance to support our private sewer network.

We received a cash tax refund from HMRC in 2013/14 and we have committed to share this with customers. We provided a special customer discount in 2014/15 of around £20 million and have committed further support to help customers struggling to pay their bills.

Our customers are set to benefit from both continued significant levels of investment and below inflation growth in average household bills for the decade to 2020.

Price Review

The 2015-20 Price Review represented a significant departure from previous reviews and proved to be a demanding period for both companies and regulators. Building on some of the changes introduced in the Water Act 2014, the Price Review introduced:

- significantly enhanced customer consultation on the content and pricing of companies' business plans;
- a new pricing structure involving four price caps: business retail, domestic retail, wholesale water and wholesale wastewater;
- new outcome delivery incentives (ODIs) providing penalties or rewards for company performance in aspects of its performance identified by customers as a priority;
- a new SIM measure providing continuing focus on customer satisfaction; and
- preparation for full opening of the retail market for business customers.

In formulating our 2015-20 business plan, we sought the views of over 27,000 customers, as well as the views of our regulators and other stakeholders, to shape a plan that strikes the right balance for all our stakeholders. We worked closely with our regulators over the last year and our final plan resubmission in October 2014 took account of Ofwat's upper-quartile efficiency

targets across many aspects of our operations. Ofwat's final determination in December represented a further efficiency challenge of £188 million, in the context of a wholesale total expenditure (totex) allowance of £5.3 billion. Whilst challenging to deliver, the final determination has not required us to revisit the key components of our business plan.

In the final analysis, the board considered Ofwat's proposal tough but, on balance, acceptable and confirmed its acceptance in January 2015.

Attractive to shareholders

We set out to deliver improved performance for customers and shareholders over the last five-year period. We delivered for both sets of stakeholders with improved customer satisfaction, better underlying operational performance and effective capital programme management.

Revenue increased by 1.9 per cent to £1.72 billion and underlying operating profit was up 4.7 per cent to £664 million. Underlying earnings per share increased by 16 per cent to 51.9 pence.

We exceeded our outperformance targets for the five years, supporting our dividend growth target throughout the period and building dividend cover as we approached the changes introduced in the 2015-20 Price Review.

The board is proposing a final dividend of 25.14 pence per ordinary share, making a total of 37.70 pence per ordinary share for the 2014/15 financial year.

This represents an increase of 4.6 per cent compared with last year. The final dividend is expected to be paid to shareholders on 3 August 2015.

In accepting our final determination, the board approved a policy of maintaining the existing level of dividend and targeting a growth rate of at least RPI inflation each year through to 2020.

To support the retention of a robust capital structure, we aim to maintain efficient access to debt capital markets throughout the economic cycle. The board believes that it is appropriate to keep gearing, measured as net debt to regulatory capital value, within our existing target range of 55 to 65 per cent. We also aim to maintain, as a minimum, our existing credit ratings of A3 with Moody's and BBB+ with Standard & Poor's for United Utilities Water Limited.

2015-20 performance

We are focused on continuous improvement and our new operating model for our wholesale business is employing technology and new work processes to deliver enhanced customer satisfaction and operational efficiency.

Measurement of our progress across the next five years will use a mix of existing and new measures, which reflect the revised structure and features of this price control. This forthcoming period will see a greater emphasis on operational excellence as a means of earning financial rewards.

We expect that our environmental and water quality regulators, the EA and the DWI respectively, will continue to use a basket of established measures to assess our performance. New for the next period is a revised SIM measure and a series of ODIs, to which are attached penalties and rewards. We will also focus more on total expenditure, rather than on the individual measures of opex and capex, in line with Ofwat's move to this way of assessing costs.

We have refined our key performance indicators (KPIs) for the 2015-20

period, which will recognise the tougher operational and financial targets inherent in the final determination settlement. We do not intend to set targets for the 2015-20 period until we have more experience of operating under the new arrangements. However, more detail of these KPIs is provided within this report on pages 50 and 51 and we intend to publish our performance annually.

Responsible business

Our aim is to operate in an environmentally sustainable, economically beneficial and socially responsible manner. In recognition of this focus, we retained our 'World Class' rating as measured by the Dow Jones Sustainability Index, achieving industry leading status in the multi-utility/water sector in the most recent assessment.

We are delighted to have led a North West pilot for the Energy and Efficiency Industrial Partnership, backed by UK Skills, in which we leveraged our investment in a new apprentice skills training facility in Bolton to help young people find employment. The programme involves skills training, interview technique and work experience and early trials have shown an over 60 per cent success rate in finding full-time employment for participants. Following the success of the pilot, the programme is now being rolled out across the UK.

Our employees

None of our progress over the last 12 months would have been achieved without the enthusiasm and commitment of the people who work for United Utilities – both our employees and those working for our sub-contracting partners that represent us in the field. We would like to thank them for their dedication and hard work in supporting customers and the environment every day of the year.

We work hard to sustain high levels of engagement by our employees. The company has seen significant change over the last four years and our plans

will engage our teams for further improvements. Employee engagement is 79 per cent, well above the UK transitional norm and just below the norm for high performing UK companies.

Health and safety remains a key focus area. This year we placed greater emphasis on the 'health' component with investment in a new gym at our main office, along with measures to assist our employees in assessing their health and in securing faster access to treatment should it be necessary.

Our board

We strive to operate in a manner that reflects the highest standards of corporate governance. Our company structure and governance standards are designed to ensure that our board continues to provide sound and prudent governance in compliance with the principles of the UK Corporate Governance Code.

We are pleased to welcome Lord Stephen Carter to the board following his appointment in September 2014 as an independent non-executive director. Stephen is Chief Executive at Informa plc and his operational expertise and previous public services roles will be an asset to the board.

Outlook

We are encouraged by our operational and customer service performance improvements and believe we can improve further. Substantial investment in our assets will continue, delivering additional benefits for our customers and the environment. We have made significant and sustained performance improvements over the last five years and, combined with our 'systems thinking' approach to operating the business, this provides a solid foundation for the future.



Dr John McAdam
Chairman

Steve Mogford
Chief Executive Officer

The strategic report on pages 4 to 55 was approved at a meeting of the board on 20 May 2015 and signed off on its behalf by Steve Mogford, Chief Executive Officer.

Our vision and strategy

The water industry makes a wide-ranging contribution to society, from the health of people and the environment to the strength of the economy.

Planning for future water demand

Our 25-year Water Resource Management Plan sets out the investment needed to ensure that we have sufficient water to continue supplying our customers, taking into account the potential impact of climate change.



Read more online at unitedutilities.com/waterresourcesplan

Our vision is to become a leading North West service provider and one of the best UK water and wastewater companies

Achieving our vision

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 25-year strategy

In order to maintain a reliable, high quality water service for our customers in the future, we have to look a long way ahead and anticipate those changes and core issues that are likely to impact on our activities. Our long-term strategy helps us to define what we need to deliver over the shorter term.

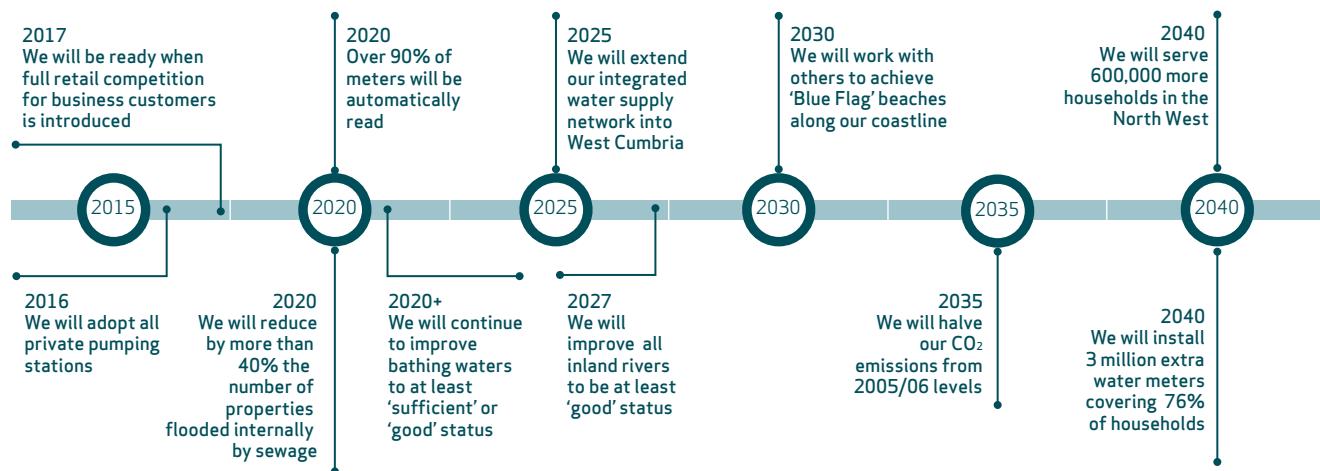
The water industry makes a wide-ranging contribution to society, from the health of people and the environment to the strength of the economy.

In the next 25 years, we will face many challenges and opportunities including:

- climate change and its implications for water resources and flooding;
- the emergence of a more open, competitive UK water market;
- more rigorous environmental regulations; and
- the ever-present need to combine affordable bills with a modern, responsive water and wastewater service.

By anticipating these changes and balancing them with our customers' priorities, we can meet the future with confidence.

What we will aim to do:



How we will achieve our 25-year strategy

Our Strategic Direction Statement, 'Playing our part to support the North West' (which can be downloaded at corporate.unitedutilities.com/future), sets out our long-term strategy for the next quarter century.

It examines the challenges ahead and explains how we will focus our resources and talents in order to meet them. We consulted with thousands of customers and stakeholders to ensure their expectations are reflected in our plans.

Their feedback helped create our five customer promises which, together with the 11 outcomes (shown on page 13), will guide the way we deliver our services, now and long into the future.

Our customer promises

PROVIDE GREAT WATER

DISPOSE OF WASTEWATER

GIVE VALUE FOR MONEY

DELIVER A SERVICE CUSTOMERS CAN RELY ON

PROTECT AND ENHANCE THE ENVIRONMENT

These customer promises are reflected in our business plan for the next five years, which focuses on providing the best service to customers, at the lowest sustainable cost and in a responsible manner (see next page).

Our approach to doing business

Our long-term strategy is underpinned by our responsible approach to doing business, which is explained on pages 20 and 21.

Our vision and strategy

Our focus remains on delivering high levels of service to customers at the lowest sustainable cost, all whilst acting responsibly.

Each five-year investment period is designed to help us achieve our longer term vision

Strategic delivery

Our five-year plan for 2010-15 was focused on improving customer satisfaction, meeting our statutory obligations and delivering shareholder value. This plan was designed to build a platform to enable us to effectively deliver our long-term strategy. A summary of our key achievements across 2010-15 is shown on pages 30 and 31.

As we begin the next five-year period to 2020 we are looking to build on our recent achievements, retaining our focus on delivering high levels of service to customers at the lowest sustainable cost, all whilst acting responsibly. This is designed to help us achieve our vision of becoming a leading North West service provider and one of the best UK water and wastewater companies.

Our focus on delivering for our customers includes striving to be a leading company in the areas our regulator benchmarks for the industry, such as on customer satisfaction (SIM). We also assess our performance against other leading organisations in the North West through an independent brand tracker survey.

As detailed in the economic regulation section on page 29, the regulatory environment has evolved for the 2015-20 period, and our key performance indicators are also evolving to

reflect this. With the move to a more outcomes based approach, the new outcome delivery incentives (ODIs) are key metrics to assess performance across a wide range of operational measures. In the now separated business retail price control, with the expansion of competition, measuring the impact of customer gains and losses is an important metric.

Metrics for assessing lowest sustainable costs include our outperformance against the new totex model (replacing separate opex and capex models for 2010-15) and financing levels set by Ofwat. With the retail household price control now being separated, we are also introducing a new KPI to measure our costs in this area.

The degree to which our actions are viewed as responsible is taken from performance measures set by the industry regulator, the Environment Agency and those which measure global best practice, as defined by the Dow Jones Sustainability Index.

Our KPI performance for 2010-15 is shown on pages 32 and 33 and further details on our 2015-20 KPIs are shown on pages 50 and 51.

In addition, executive bonuses and long-term incentives are intrinsically linked to our financial and operational performance and further details are provided on pages 84 to 103.

Our strategy – to deliver value by providing:

THE BEST SERVICE TO CUSTOMERS

Delivering excellent services to our customers by anticipating and responding to their needs.

AT THE LOWEST SUSTAINABLE COST

Providing services as efficiently as possible on a cost basis that can be sustained over the long-term.

IN A RESPONSIBLE MANNER

Managing responsibly our interaction with the environment, the communities where we operate and our employees.

Customer outcomes:

Deliver a service customers can rely on, provide great water and dispose of wastewater

- 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

Give value for money

- 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

Protect and enhance the environment

- 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

How we measured our performance – KPIs 2010-15:

- Serviceability
- SIM – qualitative
- SIM – quantitative

- Opex outperformance
- Financing outperformance
- Capex outperformance

- Leakage
- EA performance assessment
- Dow Jones Sustainability Index

How we will measure our performance – KPIs 2015-20

- Wholesale ODI composite
- SIM – qualitative
- SIM – quantitative
- Business retail customer growth

- Totex outperformance
- Financing outperformance
- Domestic retail cost to serve

- Leakage
- EA performance assessment
- Dow Jones Sustainability Index

How we create value

We create value for our stakeholders principally by agreeing and then delivering, or outperforming, our regulatory contract.

A long-term approach is essential to creating value

Today we benefit from the strategic decisions and work delivered by our predecessors over the last 150 years to provide the North West with good quality water and to reduce the environmental impact of the wastewater we treat.

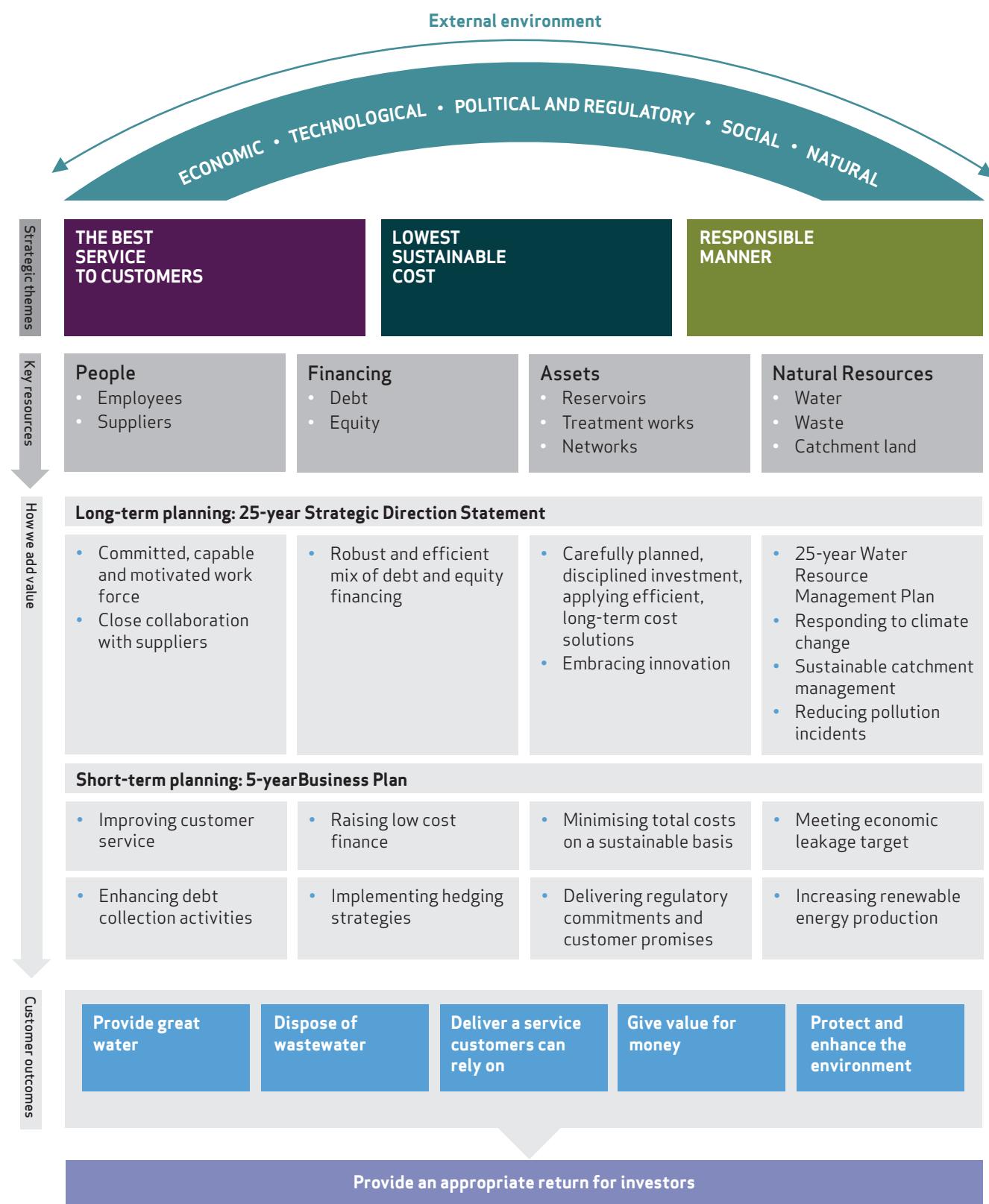
The work we do today will help to ensure customers of the North West continue to enjoy an effective, efficient service for many generations to come.

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.

Pictured: The £100 million Davyhulme sludge recycling centre treats the wastewater sludge from half the North West's population, with the potential to generate up to 80GWh of electricity each year.



How we create value



How we create value

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. More details about the economic environment are described on page 29.

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.

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. More detail across each of these areas is provided within the 'Our natural environment' section on page 25.

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. More information on how we are embracing innovation is shown within our 2014/15 performance on pages 34 to 45.

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.

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. Our latest engagement score is reported in 'Our performance 2014/15' on page 38. 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 benefits 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. 'Our responsible approach to doing business' on pages 20 and 21 outlines the standards we expect of our suppliers.

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.

Our employees play a critical role in increasing long-term value generation

The average life of our term debt is over

20 years

How we create value

Key resources

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.

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 (see the 'Regulatory environment' section on page 26 for further details).

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. Some of the key ways we create value over this shorter time frame are by:

- improving customer service – which will improve efficiency, reduce costs and reduce potential penalties/increase rewards from Ofwat, under its service incentive mechanism (SIM);
- enhancing our debt collection activities – which will reduce our retail costs. Alongside this, we continue to provide comprehensive support for customers struggling to pay;
- raising low-cost finance – which helps us outperform the finance costs allowed in our regulatory contract;

- implementing our hedging strategies, such as fixing medium-term interest rates and power costs, to reduce the volatility of these costs, helping us meet our regulatory contract;
- minimising total costs on a sustainable basis, such as on power, materials and property rates – which helps us meet or outperform totex costs allowed in our regulatory contract;
- delivering our operational and regulatory commitments – which helps ensure we achieve high levels of customer service and meet environmental standards. Our performance can also result in potential financial rewards or penalties such as those linked to our outcome delivery incentives (ODIs), which include reliably delivered high-quality water and reducing pollution and sewer flooding incidents;
- meeting our regulatory leakage target – which provides water resource and customer supply benefits and avoids any unfunded expenditure requirements from our regulators; and
- increasing our production of renewable energy from waste – which helps protect us from rising energy costs and reduces our carbon footprint.

Over the 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, and how we performed is described within the 'Our performance 2014/15' section on pages 34 to 45. 'Key achievements 2010–15' on pages 30 and 31 also outlines our progress over the last five years, particularly in the important area of customer service.

Ofwat has evolved the regulatory framework so that, over the 2015–20 period, the way we can add value has changed. Operating costs and capital investment are no longer separately assessed as they are now combined into a new 'totex' methodology. There will be additional rewards or penalties based on performance as measured through a range of ODIs. Ofwat is continuing with its SIM assessment for household customers with a similar incentive and penalty framework. Companies are still incentivised to outperform in the area of financing costs. The progressive opening up of the retail market for business customers will also encourage companies to improve service. We will continue to improve our service to help us win more out of area customers and, importantly, to retain our existing customers.

Our KPIs for 2015–20 have evolved to reflect the changes in the regulatory framework and further details of these are shown on pages 50 and 51.

Our responsible approach to doing business

Our aim is to protect public health and provide excellent services to our customers

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

We continue to invest in our local communities both financially and through employee volunteering

We are committed to delivering our services in a responsible way and our approach to responsible business practice is outlined in our Business Principles document available on our website at corporate.unitedutilities.com/united-utilities-business-principles. Some of the key components of our approach are set out in more detail below:

Customers: Our aim is to protect public health and provide excellent services to our customers. This means removing the need for customers to contact us unnecessarily, to taking ownership of queries and satisfactorily resolving them as quickly as possible, while keeping our customers informed along the way. We aim to provide bills that represent good value for money.

Environment: Whether it's treating and delivering drinking water for our customers, or returning treated wastewater to rivers and the sea, we're acutely aware of our responsibility to the environment. We continue to invest to protect and, where appropriate, enhance the natural environment of the North West. We continue to consider the impacts of climate change on the services we deliver and adapt

accordingly. Our greenhouse gas disclosures can be found on pages 104 and 105.

Communities: The communities in which we operate are of great importance to our business – it is where our customers and employees live and work. We continue to invest in our local communities both financially and through employee volunteering. We recognise the effect that our operations can have on the community and invest in programmes that support affected areas or help tackle current social issues.

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

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

2015	Male	Female
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'.

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.

Delivering good value: We are committed to honouring our responsibility to our shareholders, credit investors and those who provide us with goods and services. How we create value for our stakeholders is set out on pages 14 to 19. We work with suppliers whose business principles, conduct, and standards align with our own. Our key suppliers have committed to our Sustainable Supply Chain Charter, supporting us in the delivery of wider social, economic and environmental benefits.

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 (see pages 82 and 83) develops and oversees our CR strategy and this continuing focus helped the group retain our Dow Jones Sustainability Index 'World Class' rating.

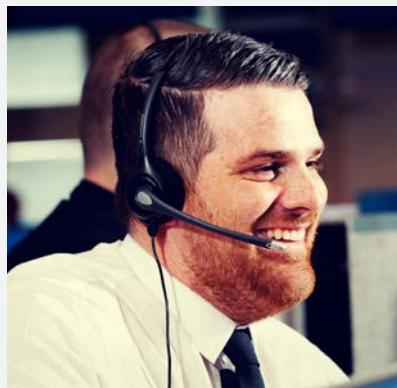
 Read more about our Responsible Business Performance on pages 37 and 38

 Our business principles document can be found at corporate.unitedutilities.com/united-utilities-business-principles

Business Insight

What our customers think of us

Every month, an independent agency contacts around 600 households who we have recently had contact with. They are asked to rate their experience and to say how satisfied they are with our service and what would make it better.



This gives us great insight into how to make improvements in our customer service, whether it's how we deal with water supply problems, bill payments or other enquiries. According to those surveyed across 2014/15, the majority of customers rated our service in the highest category of 'very satisfied'. This is supported by the improvements we have seen in customer satisfaction over recent years, as evidenced by Ofwat's SIM assessment – see 'Key achievements 2010–15' on pages 30 and 31. However, a minority of customers suggested we could have done better and we are listening carefully to their feedback as we strive for continuous improvement. Another valuable source of information is provided through our programme of proactively texting around 1,000 customers a day who have recently contacted us by mobile phone, inviting them to rate our service and provide any feedback.

Our WOW Awards scheme gives customers a forum to say 'thank you' to any individual employee who has provided excellent customer service.

The forum allows the customers to suggest ways in which we can improve our overall customer experience. Some of the comments have been truly inspiring and demonstrate the dedication and commitment of our staff.

To assess customers' perceptions of United Utilities and how they compare to nine other major service providers in our region, every quarter we commission an independent agency to contact over 1,000 household and business customers. Throughout the quarterly surveys we have consistently ranked 3rd out of 10 overall for customer service, behind only John Lewis and Marks & Spencer but ahead of seven other major organisations covering sectors including utilities, telecoms, media and banking services. Across 2014/15, we ranked particularly highly on the attributes of being 'Socially responsible' (2nd out of 10) as well as being 'Trustworthy' (3rd out of 10) and having a 'Good reputation' (3rd out of 10). Our lowest ranking was on 'Innovation' (5th out of 10) although this is an area of renewed focus for us and customer perceptions on this attribute have been gradually improving over the last few years.

Personality traits customers associate with United Utilities

- Efficient
- Reliable
- Helpful

Our operating environment



We provide services to approximately seven million people in the North West of England

The water industry currently invests around £80 million a week in maintaining and improving assets and services

Our industry and market

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

Additionally, there are licensed companies which provide water-only services and tend to be smaller in size. As each company in the water sector operates as a regional monopoly for its services, they are subject to regulation in terms of both price and performance.

The privatisation of the industry over two decades ago has been widely perceived as a success, making a significant contribution to public

health. It has led to improvements in the quality of services provided to customers, higher environmental standards and superior quality drinking water at lower estimated costs to customers than if the water sector was still owned by the UK Government. The water industry currently invests around £80 million a week in maintaining and improving assets and services.

Pictured: We celebrated 100 years of sewage treatment at Davyhulme this year. The 'activated sludge' process began life at our own Davyhulme treatment works back in 1914 and harnessed the power of micro-organisms which meant that waste from millions of people could be treated in a relatively small space.

Our customers

United Utilities Water holds 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.

For our business customers we have been extending the range of value-added services we offer, including our on-site engineering solutions and water efficiency advice. By offering value for money, as well as the increased range of services, we have been winning customers out of area. More details on how we are winning customers in the Scottish market, which offers attractive margins, can be seen on page 28.

Our households pay just over £1 per day on average for the combined water and wastewater services we provide. Our price determination for 2015–20 means customers will benefit from below inflation increases to average household bills for the decade to 2020.

Our objective is to continue to provide our customers with high quality drinking water to meet all their daily needs and environmentally responsible wastewater collection and treatment at a price that represents good value for money.

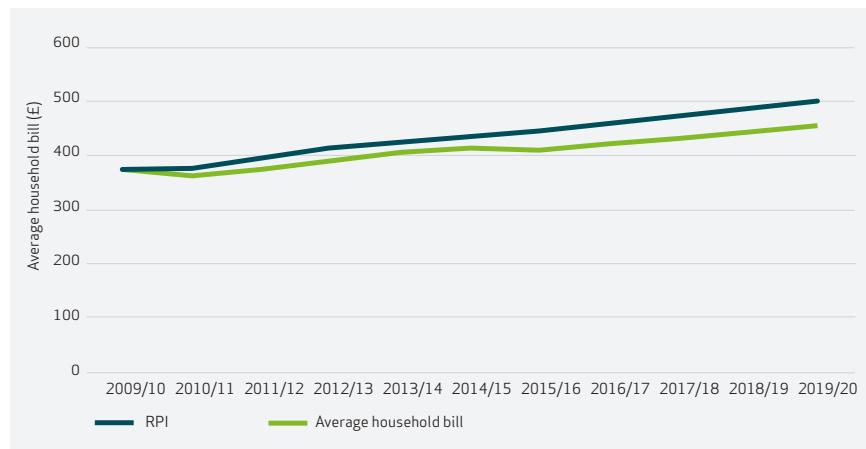
We are continuing to invest heavily for our customers. During the five-year period to 2015, we delivered a capital investment programme of around £3.8 billion as we continued to improve our asset base, delivering further benefits for customers. Capital investment will continue at high levels in the 2015–20 period and is expected to remain high beyond 2020 as we continue to:

- upgrade our region's water and wastewater networks;
- maintain our ageing assets;
- deliver a cleaner environment;
- provide high quality water to our customers; and
- improve our customers' experience.

We have a strong focus on effective delivery of our capital programme, a key driver of value, for customers, the environment and shareholders.

Customers will benefit from below inflation increases in average household bills for the decade to 2020

Average household bill*



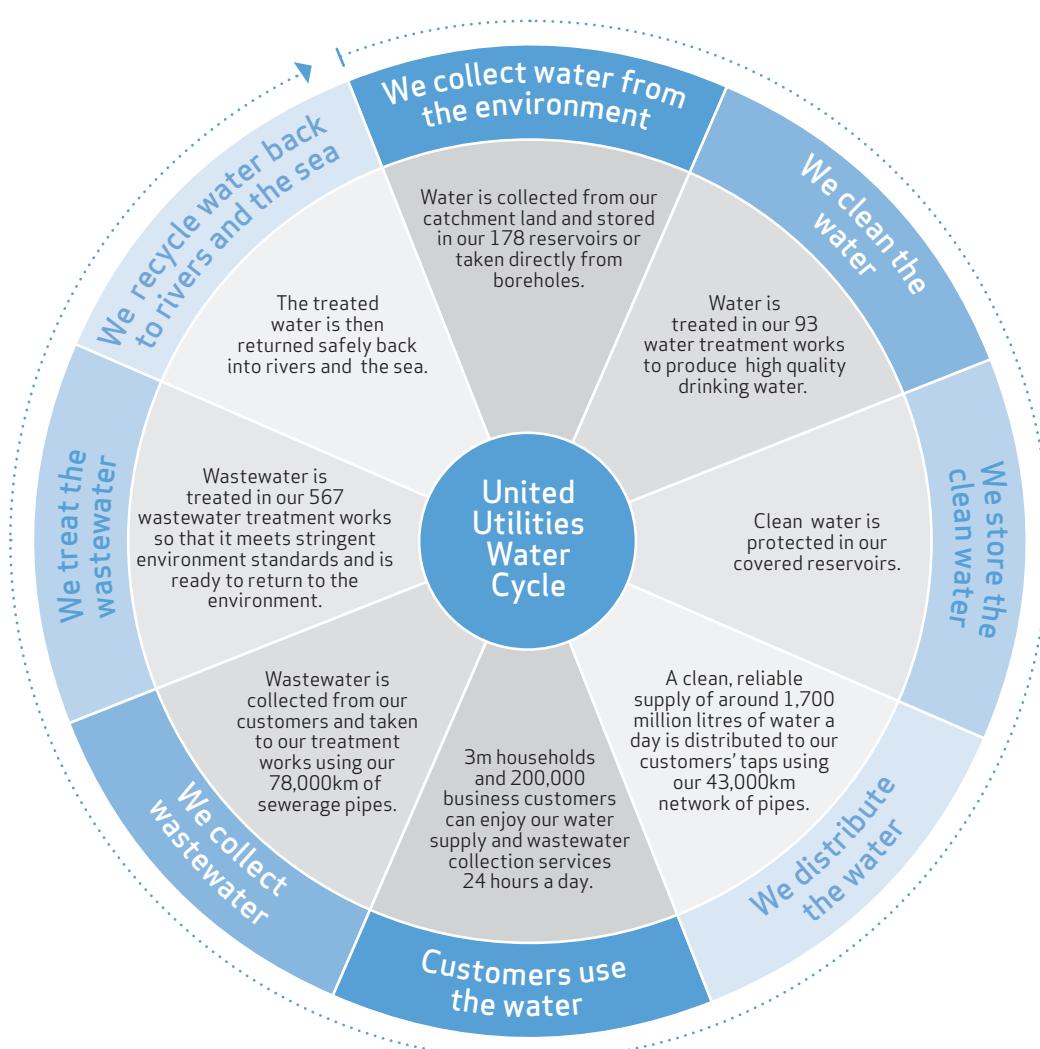
* Assumes 3% p.a. RPI inflation from 2016/17 to 2019/20

Our operating environment

Our business uses a combination of technology and the natural environment to become part of the water cycle

Our water cycle

We collect water from the environment, clean and distribute it to our customers before collecting it, treating it, and then returning it back to the environment.



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.

We have a responsibility to return water to the environment safely. Spills from our network can lead to pollution which can damage the natural environment and could lead to loss of reputation and financial penalties, depending on

their severity. Our number of serious pollution incidents has decreased over recent years and it is an important area of focus within our 25-year Strategic Direction Statement. The Environment Agency assesses water companies' performance across a basket of measures including pollution and its overall assessment is included as one of our KPIs (see page 33) with all of the pollution sub-measures also reported within our Corporate Responsibility pages on our website.

We can make an important contribution to protecting and enhancing the natural environment by using fewer natural resources. We have been driving down our carbon footprint over the last decade and have plans to halve emissions by 2035, from a 2005/06 starting position. Our greenhouse gas disclosures can be found on pages 104 and 105. Less than 10 per cent of our waste goes to landfill and our use of recycled products is increasing. We are increasing our renewal energy production with plans to further increase this over the longer term, including wind and solar opportunities. This will provide environmental benefits and add value to shareholders through energy cost savings.

We can make an important contribution to protecting and enhancing the natural environment by using fewer natural resources



Pictured: As part of a £90 million scheme to improve water quality in the Manchester Ship Canal, we took ownership of 'Gloria', a 140 tonne tunnel-boring machine used to dig a 700 metre long tunnel underneath Trafford Park.

Our operating environment

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. Operational performance and customer service remain high priorities for us, as they are key contributors in our drive to create value, as explained in more detail on pages 14 to 19 in the 'How we create value' section.



Ofwat (The Water Services Regulation Authority) is the economic regulator of the water and sewerage sectors in England and Wales, responsible for ensuring the companies provide customers with a good-quality, efficient service at a fair price.
www.ofwat.gov.uk

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.

Separate retail price controls should provide retail businesses with greater incentives and focus on delivering more efficient service to business customers as competition expands, and also to household customers under a new average cost to serve approach.

This new retail household model allows each water company only to charge its customers an amount based on the average costs of the industry plus any allowed company-specific adjustments, such as our £20 million per annum special allowance to reflect the very high levels of deprivation in the North West (see 'Economic environment' on page 29).

The way companies' operating and capital costs are assessed has been modified to encourage companies to utilise the most efficient, sustainable solutions under a new 'totex' model.

There is also a move to a more outcomes-based approach, with greater emphasis being placed on customer engagement to agree the outcomes.

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, among other factors, the quality of drinking water supplied, wastewater treatment and the effects of their activities on the natural environment.

Defra is the UK Government department responsible for water policy and regulations in England and Wales; it also sets drinking water quality and environmental standards (many based on European law) which water companies must meet.
www.gov.uk/defra



The Environment Agency controls how much water can be drawn from the environment and the quality of water returned to rivers and the sea. The EA produces an assessment of water and wastewater companies' annual performance, and we include this as one of our KPIs, see page 33. www.gov.uk/government/organisations/environment-agency



The Drinking Water Inspectorate is responsible for ensuring compliance with the drinking water quality regulations.
www.dwi.gov.uk



The Consumer Council for Water represents customers' interests relating to price, service and value for money. It also investigates customer complaints about water quality.
www.ccwater.org.uk



WATRS – an independent service designed to adjudicate disputes that have not been resolved through the water company's customer service teams or by referring the matter to the Consumer Council for Water.
www.watrs.org



Natural England is responsible for the protection of designated sites for nature conservation, e.g. Sites of Specific Scientific Interest. Companies are required to manage these sites and to protect and enhance biodiversity.
www.naturalengland.org.uk



We aim to maintain and enhance wide-ranging relationships with key people within all of these regulatory bodies to help shape balanced investment programmes which address the needs of all of our stakeholders and contribute to our ability to create value.

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. See pages 52 to 55 for more details in respect of these risks.

Impact of environmental legislation

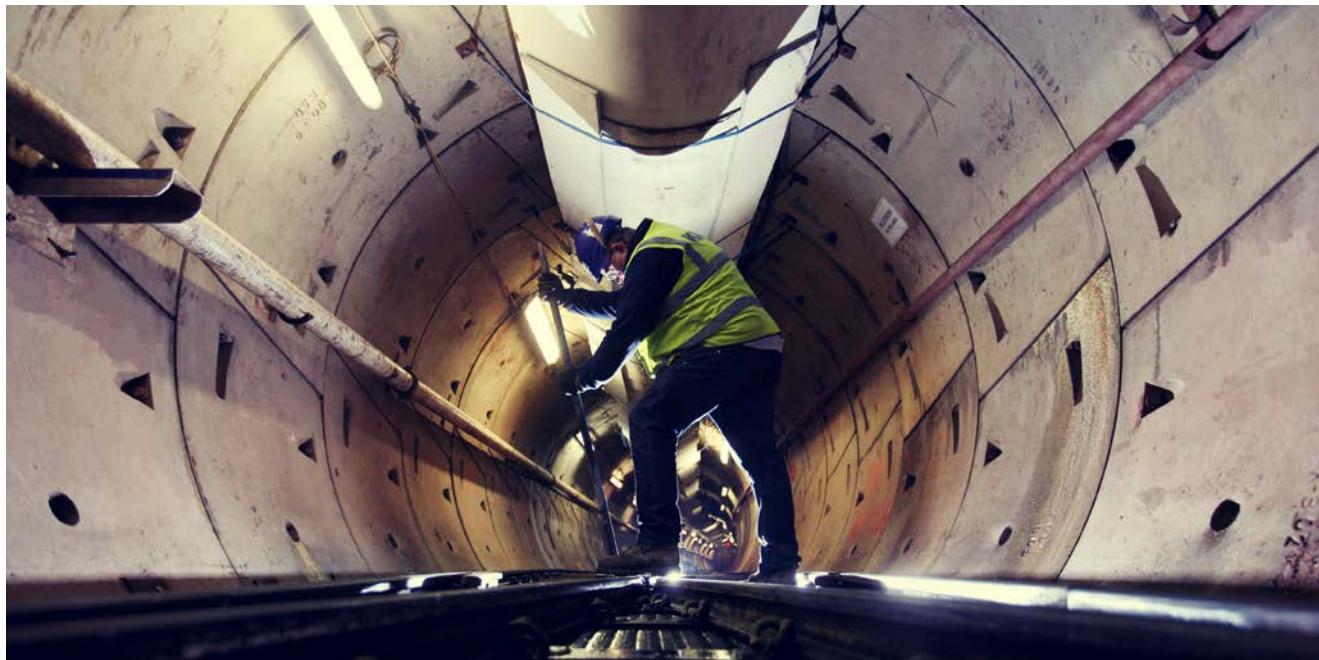
European Union environmental legislation will require us and other UK water companies to incur additional capital investment to ensure compliance with more stringent standards. We do, however, recognise that in our region we cannot achieve this alone and we are partnering with others who also have a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

The revised Bathing Water Directive, effective from 2015, sets higher standards for bathing waters. Under the previous standards North West beaches achieved over 90 per cent bathing water compliance. The new standards are likely to prove very challenging to meet. As one of many contributors to bathing water and shellfish quality we have planned investment of over £200 million across 2015–20 to achieve our 'Contribution to Bathing Waters Improved' performance commitment to help ensure compliance with the higher standards. We will work in partnership with other organisations to ensure investment is as efficient as possible.

The Water Framework Directive sets an objective that European member states should achieve 'good' status for all surface water beyond 2027. Considerable capital investment is required to meet this, which we are spreading over 12 years, balancing the needs of current and future customers. Our 2015–20 plan includes around £400 million of investment to achieve our 'Contribution to Rivers Improved' performance commitment, which includes schemes relating to a number of environmental drivers within the Water Framework Directive as well as other environmental legislation.

The Habitats Directive requires member states to maintain biodiversity by protecting natural habitats and certain wild species. For example, one of the key drivers for our planned Thirlmere pipeline project is to help protect England's largest species of freshwater mussels in West Cumbria. See our business insight on page 47.

Our operating environment



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, as depicted on the pie chart on the right.

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

We have a strong drive on improving both absolute and relative performance as we aim to deliver good service to our customers, thereby helping to build a platform for us to create value.

Away from the water sector, in line with our vision to be a leading North West service provider, we also benchmark our customer service performance

against other leading service providers in our region. In addition, as a publicly listed FTSE 100 company, the other UK and worldwide listed utilities are competitors from an investment perspective.

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. After attaining a Scottish water supply licence in 2012, we quickly grew and are one of the most successful new entrants in Scotland. We have continued our expansion in 2014/15 and have now won over 200 customers, covering over 2,800 sites and representing future

annual revenue of c£15 million. We remain a leading new entrant, although our selective bidding for business at attractive margins means we are not solely focusing on growing market share. We also continue to offer and develop our range of value-added services, such as leak detection and repair, waste digestion and wastewater system optimisation.

The Water Act also paves the way for the future introduction of competition for certain parts of the wholesale, or upstream, business (for example the input of raw or treated water into a water company's network or the removal of wastewater for treatment), although any such reforms are not expected until 2020 at the earliest. We are fully engaged with regards to market reform, being always mindful of the potential impact on our customers and the value implications for our shareholders.

Pictured: Construction on our £160 million Preston tunnel project, helping to enhance the city's sewer system and prevent storm water spilling back into watercourses. The 3.5km tunnel can hold 40 million litres of water during heavy rainfall.

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 ending 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. Even as the North West economy recovers it is unlikely to have a significant impact on deprivation, which is the principal driver of our higher than average costs to serve our household customers.

This is currently recognised by Ofwat through a special allowance for deprivation of £20 million per annum over the 2015–20 period.

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.

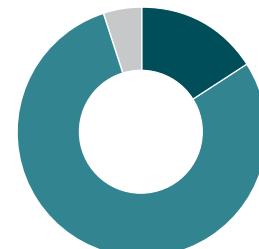
RPI inflation has declined recently, impacted by the significant fall in oil prices over the winter, and was 0.9 per cent at March 2015. The prices we charge our customers (and therefore revenues), as well as our asset base, are linked to RPI inflation, so lower RPI will mean slightly lower growth on 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.

United Utilities' total contribution to the regional economy over 2010–15 was estimated at £7 billion. Direct economic contributions from our activities include the purchase of goods and services and providing extensive employment. There is also an indirect economic contribution, for example when our suppliers, in turn, make purchases from their suppliers and when people whose jobs are supported by United Utilities spend their personal incomes.

United Utilities' total contribution to the regional economy over 2010–15 was estimated at £7 billion

Water sector RCV

United Utilities	16%
Other nine water and wastewater companies	79%
Total RCV for all water-only companies	5%



Key achievements 2010-15

We have continued to develop our systems and processes to deliver the experience our customers seek when they need to contact us

75%

Reduction in customer complaints over the 2010-15 period.

Significant operational improvements providing a solid platform for the next five years

Our focus on improving customer service

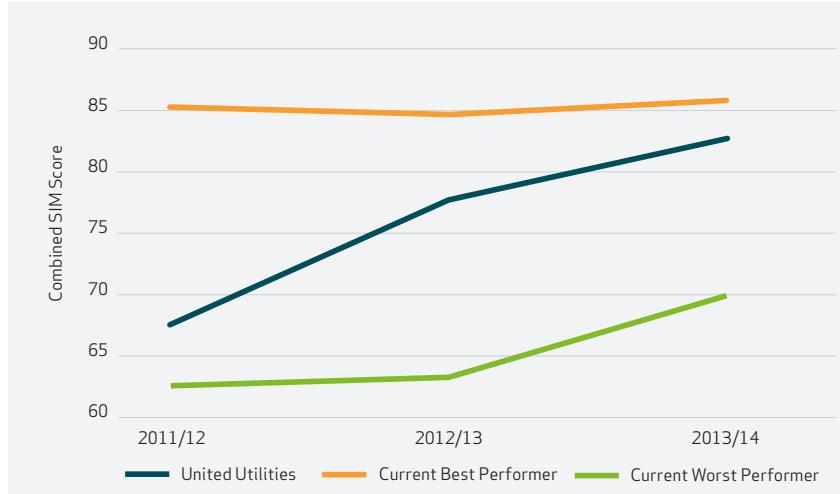
Great customer service relies on understanding what our customers need, anticipating problems, resolving complaints quickly and courteously and developing new, innovative services that fit into people's busy lifestyles. We want our customers to trust us and have confidence in our service.

Over the last five years, we have continued to develop our systems and processes to deliver the experience our customers seek when they need to contact us, including multi-channel contact centre technology. We have placed a strong emphasis on striving for first time resolution of customer enquiries, keeping customers informed

of progress until resolution. This has been underpinned by investment in our people in terms of better training and improved systems. We have enhanced our customer feedback process to help us respond to customers' evolving needs and continuously improve.

The introduction of the service incentive mechanism (SIM) as a measure of customer satisfaction over this regulatory period has provided us with a strong benchmark of water industry comparative performance. SIM results sit alongside our other, ongoing, research on customer expectations and satisfaction.

Customer satisfaction improvement



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 (the chart on the previous page shows how we have moved from just above the worst performer to just below the best performer). 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 investigation by the Consumer Council for Water (CCW) 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;

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

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.

Overall, we are pleased with the significant progress we have made over the last five years, although we know that we still have plenty more to do.

Shareholder returns

Over the 2010-15 period, we have delivered a strong total shareholder return (TSR) of 115 per cent, outperforming the market. A longer term view of our TSR relative to the FTSE 100 is shown on page 100.

Our key performance indicators (KPIs) 2010-15

We focus on a range of financial and operational KPIs to help assess our performance. We believe that the KPIs defined below provide a rounded view as to how we are performing against our primary objectives, helping us on our path to reaching our long-term strategic vision. These KPIs encompass the important areas of customer service and environmental performance, as well as financial indicators, taking into consideration the interests of all of our stakeholders.

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.

KPI	Definition	Performance										
Revenue	A definition of revenue is included within the 'Accounting policies' note on page 125.	£1,720m +1.9% <table> <tr> <td>14/15</td> <td>£1,720m</td> </tr> <tr> <td>13/14</td> <td>£1,689m</td> </tr> <tr> <td>12/13</td> <td>£1,636m</td> </tr> <tr> <td>11/12</td> <td>£1,565m</td> </tr> <tr> <td>10/11</td> <td>£1,513m</td> </tr> </table>	14/15	£1,720m	13/14	£1,689m	12/13	£1,636m	11/12	£1,565m	10/11	£1,513m
14/15	£1,720m											
13/14	£1,689m											
12/13	£1,636m											
11/12	£1,565m											
10/11	£1,513m											
Regulatory capital expenditure	Total regulatory capital expenditure during the year (including infrastructure renewals expenditure).	£869m +3.9% <table> <tr> <td>14/15</td> <td>£869m</td> </tr> <tr> <td>13/14</td> <td>£836m</td> </tr> <tr> <td>12/13</td> <td>£787m</td> </tr> <tr> <td>11/12</td> <td>£680m</td> </tr> <tr> <td>10/11</td> <td>£608m</td> </tr> </table>	14/15	£869m	13/14	£836m	12/13	£787m	11/12	£680m	10/11	£608m
14/15	£869m											
13/14	£836m											
12/13	£787m											
11/12	£680m											
10/11	£608m											
Underlying operating profit	The underlying operating profit measure excludes from the reported operating profit any restructuring costs and other significant non-recurring items. A reconciliation is shown on page 44.	£664m +4.7% <table> <tr> <td>14/15</td> <td>£664m</td> </tr> <tr> <td>13/14</td> <td>£635m</td> </tr> <tr> <td>12/13</td> <td>£604m</td> </tr> <tr> <td>11/12</td> <td>£594m</td> </tr> <tr> <td>10/11</td> <td>£596m</td> </tr> </table>	14/15	£664m	13/14	£635m	12/13	£604m	11/12	£594m	10/11	£596m
14/15	£664m											
13/14	£635m											
12/13	£604m											
11/12	£594m											
10/11	£596m											
Underlying earnings per share	This measure deducts underlying net finance expense and underlying taxation from underlying operating profit to calculate underlying profit after tax and then divides this by the average number of shares in issuance during the year. Underlying net finance expense makes adjustments to the reported net finance expense, including the stripping out of fair value movements. Underlying taxation strips out any prior year adjustments, exceptional tax or any deferred tax credits or debits arising from changes in the tax rate from reported taxation. Reconciliations to the underlying measures above are shown on page 44.	51.9p +16.1% <table> <tr> <td>14/15</td> <td>51.9p</td> </tr> <tr> <td>13/14</td> <td>44.7p</td> </tr> <tr> <td>12/13</td> <td>38.7p</td> </tr> <tr> <td>11/12</td> <td>35.3p</td> </tr> <tr> <td>10/11</td> <td>35.1p</td> </tr> </table>	14/15	51.9p	13/14	44.7p	12/13	38.7p	11/12	35.3p	10/11	35.1p
14/15	51.9p											
13/14	44.7p											
12/13	38.7p											
11/12	35.3p											
10/11	35.1p											
Dividend per share	This measure divides total dividends declared by the average number of shares in issuance during the year.	37.70p +4.6% <table> <tr> <td>14/15</td> <td>37.70p</td> </tr> <tr> <td>13/14</td> <td>36.04p</td> </tr> <tr> <td>12/13</td> <td>34.32p</td> </tr> <tr> <td>11/12</td> <td>32.01p</td> </tr> <tr> <td>10/11</td> <td>30.00p</td> </tr> </table>	14/15	37.70p	13/14	36.04p	12/13	34.32p	11/12	32.01p	10/11	30.00p
14/15	37.70p											
13/14	36.04p											
12/13	34.32p											
11/12	32.01p											
10/11	30.00p											
Gearing: net debt to regulatory capital value	Group net debt (including derivatives) divided by UU's regulatory capital value (Ofwat's published RCV in outturn prices adjusted for actual capital expenditure to date). Ofwat's assumed range for 2010-15 is 55% to 65%.	59% +1% <table> <tr> <td>14/15</td> <td>59%</td> </tr> <tr> <td>13/14</td> <td>58%</td> </tr> <tr> <td>12/13</td> <td>60%</td> </tr> <tr> <td>11/12</td> <td>59%</td> </tr> <tr> <td>10/11</td> <td>59%</td> </tr> </table>	14/15	59%	13/14	58%	12/13	60%	11/12	59%	10/11	59%
14/15	59%											
13/14	58%											
12/13	60%											
11/12	59%											
10/11	59%											

Operational KPIs

These operational KPIs feed through from all of our strategic themes: the best service to customers; at the lowest sustainable cost; and in a responsible manner.

Company objective/ KPI	Definition	Target	Performance
Best service to customers			
Serviceability	Ofwat rates each company's assets as 'improving', 'stable', 'marginal' or 'deteriorating' across four categories covering water and wastewater infrastructure and non-infrastructure	To hold at least a stable rating for all four asset classes, which is consistent with Ofwat's target	2014/15: 2 x improving, 2 x stable 2013/14: 1 x improving, 3 x stable 2012/13: 1 x improving, 3 x stable 2011/12: 1 x improving, 2 x stable, 1 x marginal 2010/11: 3 x stable, 1 x marginal
Service incentive mechanism – qualitative	Ofwat derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 19 water companies (previously 21 up to 2012/13). Each company receives a score in the range of zero to five, with five being the highest attainable score	To move to the first quartile in the medium-term	Significant improvement recognised by Ofwat in the final determination 14/15 n/a - AMP6 pilot year 13/14 7th 12/13 14th 11/12 16th 10/11 21st
Service incentive mechanism – quantitative	Ofwat derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 19 water companies (previously 21 up to 2012/13). Each company receives a SIM point total, where the lowest score represents the best performance	To move to the first quartile in the medium-term	Significant improvement recognised by Ofwat in the final determination 14/15 n/a - AMP6 pilot year 13/14 135 12/13 179 11/12 273 10/11 539
Lowest sustainable cost			
Opex outperformance	Progress to date on cumulative operating expenditure outperformance versus Ofwat's allowed operating costs over the 2010–15 period	Total opex outperformance over the 2010–15 period of at least £50m	2010–15: Exceeded £50m target
Financing outperformance	Progress to date on financing expenditure outperformance secured versus Ofwat's allowed cost of debt of 3.6% real over the 2010–15 period	Total financing outperformance over the 2010–15 period of at least £300m	2010–15: Exceeded £300m target
Capex outperformance	Capital expenditure (excluding private sewers and transitional investment) progress to date against Ofwat's capital expenditure allowance for the 2010–15 period, after adjusting, through the regulatory methodology, for the impact of construction output prices	To meet Ofwat's revised capital expenditure allowance for the 2010–15 period (after reinvesting around £200m of outperformance)	2010–15: Reinvested over £200m of outperformance
Responsible manner			
Leakage – average annual leakage	Average annual water leakage from our network quantified in megalitres per day	To meet our regulatory leakage target, as set by Ofwat, each year	2014/15: 454Ml/d - Met target 2013/14: 452Ml/d - Met target 2012/13: 457Ml/d - Met target 2011/12: 453Ml/d - Met target 2010/11: 464Ml/d - Met target
Environment Agency performance assessment	Composite assessment produced by the Environment Agency, measuring the absolute and relative performance of the 10 water and wastewater companies across a broad range of areas, including pollution.	To be a first quartile performer on a consistent basis	Delivered another upper quartile performance in 2013/14 (latest available) assessment 13/14 2nd 12/13 2nd 11/12 3rd 10/11 7th 09/10 6th
Dow Jones Sustainability Index rating	Independent rating awarded using sustainability metrics covering economic, environmental, social and governance performance	To retain 'World Class' rating each year	2014/15: 'World Class' 2013/14: 'World Class' 2012/13: 'World Class' 2011/12: 'World Class' 2010/11: 'World Class'

Our performance and the progress we have made against our objectives and their associated KPIs are included within the business performance section on pages 34 to 45.

Our performance 2014/15

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2015

Continuing operations	Year ended 31 March 2015	Year ended 31 March 2014 (Restated ⁽¹⁾)
Revenue	£1,720.2m	£1,688.8m
Underlying operating profit ⁽²⁾	£664.3m	£634.6m
Operating profit	£653.3m	£630.2m
Total dividends per ordinary share (pence)	37.70p	36.04p
Regulatory capital expenditure ⁽³⁾	£869m	£836m
RCV gearing ⁽⁴⁾	59%	58%

(1) The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'.

(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 44.

(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's RCV (outturn prices).

Step change in performance in 2010-15 regulatory period delivers benefits for all stakeholders

- Significant customer service improvements, as measured through Ofwat's SIM mechanism
- Much improved delivery of capital investment programme; Time:Cost:Quality index above 95 per cent
- Investment totalling c£3.8 billion over the five years, enhancing assets and services for customers
- Upper quartile operational performance on Ofwat and Environment Agency KPI assessments
- Strong shareholder returns and dividend policy delivered
- Exceeded regulatory outperformance targets, enabling us to reinvest c£280 million to benefit customers
- Responsible business practice, reflected by Dow Jones Sustainability Index 'World Class' rating

Strong 2014/15 financial performance

- Underlying operating profit up £30 million to £664 million
- RCV gearing at 59 per cent, well within our target range of 55 per cent to 65 per cent
- Final dividend of 25.14 pence per share (total for the year of 37.70 pence), in line with policy

Good platform to deliver further value in next regulatory period

- Already a leading operational performer, providing a solid foundation for further improvements
- 'Systems thinking' approach, leveraging technology and data intelligence to improve efficiency
- Regulatory capital investment of £3.5 billion+; network resilience, customer and environmental benefits
- Robust capital structure and strong credit ratings
- Dividend growth rate target of at least RPI inflation each year through to 2020
- Below inflation growth in average household bills for the decade to 2020

OPERATIONAL PERFORMANCE

We aim to deliver long-term shareholder value by providing:

- the best service to customers;
- at the lowest sustainable cost; and
- in a responsible manner.

Throughout the 2010–15 period, we demonstrated a strong link between performance and employee remuneration and we intend to continue with this approach across the new regulatory period.

Best service to customers

Improving customer service will continue to be a significant area of management focus and we see opportunities to deliver further benefits for our customers.

Customer service – our continuing strong focus on dealing effectively with customer enquiries has helped us deliver further improvements in our performance, as measured by Ofwat's service incentive mechanism (SIM) and outlined in the KPIs section (see panel). This is also reflected in a reduction in the number of customer complaints received, which has contributed to improvements in opex efficiency. The overall number of customer complaints has reduced by approximately 75 per cent across the 2010–15 period.

Our significant improvements over the regulatory period were recognised by Ofwat in the final determination in December 2014, resulting in the company avoiding a revenue penalty. Over this period, we have continued to develop our systems and processes to deliver the experience our customers seek when they need to contact us, including multi-channel contact centre technology. We have placed a strong emphasis on striving for first time resolution of customer enquiries, keeping customers informed of progress until resolution. This has been underpinned by investment in our people in terms of better training and improved systems. We have also enhanced our customer feedback process to help us respond to customers' evolving needs and continually improve.

Leading North West service provider

– we are pleased to have been consistently ranked third out of 10 leading organisations in the North

West, through an independent brand tracker survey which is undertaken quarterly. This covers key attributes such as 'reputation', 'trustworthy' and 'customer service'. We are behind only Marks & Spencer and John Lewis, and ahead of seven other major organisations covering utilities, telecoms, media and banking services.

Robust water supply – our customers continue to benefit from our robust water supply and demand balance, along with high levels of water supply reliability. We continue to supply a high level of water quality, with mean zonal compliance in excess of 99.9 per cent.

Mitigating sewer flooding – we have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes, including incidence-based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys. Our plan for the 2015–20 period includes a target of reducing sewer flooding incidents by over 40 per cent, in line with customers' affordability preferences. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

Asset serviceability – we have a range of actions to help support the serviceability of our assets. We are improving the robustness of our water treatment processes, refurbishing service reservoir assets, continuing with our comprehensive mains cleaning programme and optimising water treatment to reduce discoloured water events. Our good asset serviceability performance over the last few years was recognised by Ofwat in the final determination, in December 2014, with United Utilities not receiving any penalty.

Ofwat KPIs – our overall good operational performance is reflected in Ofwat's latest (2013/14) key performance indicators report. The balance of ratings for United Utilities across the 15 assessment measures represented an upper quartile performance, in respect of the 10 water and sewerage companies. Our performance in 2014/15 has improved further, although the industry comparatives are not available until later in the year.

Key performance indicators:

Serviceability – long-term stewardship of assets is critical and Ofwat measures this through its serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). We are currently assessed as 'improving' for our water infrastructure and wastewater non-infrastructure assets and 'stable' for our water non-infrastructure and wastewater infrastructure assets. The aim is to continue to hold at least a 'stable' rating for all four asset classes, which aligns with Ofwat's target.

Service incentive mechanism (SIM) – United Utilities continued its progress on Ofwat's combined (qualitative and quantitative) SIM assessment for 2013/14 (latest available), moving up to 9th place out of the 18 water companies. This compares with joint 13th position for 2012/13 (although Ofwat previously measured out of 21 water companies). At the start of this regulatory period, United Utilities was an outlier in last position. Our continued progress is encouraging, although we recognise that there is still more to do. Ofwat is amending its SIM methodology for the 2015–20 period, based on domestic retail only and with more emphasis on qualitative performance, and Ofwat and the water companies have been piloting the new process. This revised methodology is based on a different data set and quarterly results may well produce wider fluctuations compared with the last regulatory period.

Our performance 2014/15

Lowest sustainable cost

Power and chemicals – our asset optimisation programme continues to provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy. We have already substantially locked in our power commodity costs across 2015–20, providing greater cost certainty for the regulatory period.

Proactive network management – we are implementing a more proactive approach to asset and network management, with the aim of improving our modelling and forecasting to enable us to address more asset and network problems before they affect customers, thereby reducing the level of reactive work and improving efficiency.

Debt collection – we highlighted in May 2014 that debt collection was likely to become more challenging for United Utilities, particularly as our region suffers from high levels of income deprivation. Notwithstanding our industry-leading debt management processes and wide-ranging schemes to help customers struggling to pay, including our trust fund, deprivation remains the principal driver of our higher than average bad debt and cost to serve. In 2014/15, bad debt expense has increased by £16 million, from 2.2 per cent to 3.1 per cent of regulated revenue, as a result of four main factors:

- the cumulative impact of economic factors on customers' ability to pay;
- under IFRS accounting, an increase in the number of customers re-commencing payment through our help-to-pay initiatives has resulted in additional revenue recognition and associated bad debt;
- a review of bad debt provisions for business customers in preparation for systems upgrades, ahead of full market opening; and
- a review of operational debt processes and bad debt provisions in domestic retail in preparation for the 2015–20 period.

Although bad debts will continue to be challenging for us, we do expect the level to fall to around 2.5 per cent of regulated revenue in 2015/16 as our recent

reviews have resulted in an additional current year charge which is not expected to continue at the same level.

Pensions – United Utilities placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further. Further details on the group's pension provision are provided in the pensions section on page 43.

Capital delivery and regulatory commitments – the business is strongly focused on delivering its commitments efficiently and on time and has a robust commercial capital delivery framework in place. Regulatory capital investment in the year, including £148 million of infrastructure renewals expenditure and £30 million of transitional spend, was £869 million, an increase of £33 million compared with 2013/14. Following our rapid increase in our internal Time: Cost: Quality index (TCQi) score from around 50 per cent in 2010/11 to approximately 90 per cent in 2012/13, we further improved our score and have achieved over 95 per cent in both 2013/14 and 2014/15.

As we strive to improve efficiency further, we have implemented new contracting arrangements for the 2015–20 regulatory period to help deliver our regulatory capital investment programme of over £3.5 billion. We have re-tendered our engineering and construction partners and selected a single engineering partner and four new design and construction partners. We are involving our partners much earlier in project definition and packaging projects by type, geography and timing to deliver efficiencies. Projects will be allocated to partners on an incentive basis or competed between the partners and, where appropriate, third parties. Early results are encouraging. Our partners have come forward with a range of solutions, innovations and pricing which is building our confidence that the final determination targets we have accepted are tough but within reach.

Pictured: One of our process controllers takes part in a trial of a new custom-built phone application, which aims to makes us an industry leader in how we manage our assets.

Key performance indicators:

Financing outperformance – United Utilities set a financing outperformance target, across the 2010–15 period, of at least £300 million, based on an average RPI inflation rate of 2.5 per cent per annum, and we have exceeded this target. We have reinvested over £30 million of our financing outperformance in private sewers costs, which were not reflected in 2010–15 price limits.

Operating expenditure outperformance – the business targeted total operating expenditure outperformance over the 2010–15 period of at least £50 million, or approximately 2 per cent, compared with the regulatory allowance. This was in addition to the base operating expenditure efficiency targets set by Ofwat, which equated to a total of approximately £150 million over the five years. We are pleased to report that we have exceeded our outperformance target.

Capital expenditure outperformance – United Utilities has delivered significant efficiencies in the area of capital expenditure and we have reinvested over £200 million of capital expenditure outperformance for the benefit of our customers and the environment.



Responsible manner

Acting responsibly is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors in its strategic decision making. Our environmental and sustainability performance across a broad front has received external recognition. United Utilities retained its 'World Class' rating in the Dow Jones Sustainability Index for the seventh consecutive year, achieving industry leading performance status in the multi-utility/water sector in the most recent assessment. Retaining 'World Class' status for this length of time is a significant achievement, particularly as the assessment standards continue to increase and evolve. United Utilities also holds membership of the FTSE 350 Carbon Disclosure Project Leadership Index. We are the only UK water company to hold both accolades.

Leakage – our strong, year round, operational focus on leakage and the implementation of a range of initiatives, such as active pressure management, enabled us to again beat our leakage target in 2014/15. Our leakage performance, alongside the network resilience improvements we are making, are helping us to maintain a robust water supply and demand balance, and deliver high levels of reliability for our customers.

Environmental performance – this is a high priority for United Utilities and we are pleased to be an upper quartile company in the Environment Agency's latest available performance metrics (2013/14), as described in the KPIs section on page 38.

Carbon footprint – we are committed to reducing our carbon footprint and increasing our generation of renewable energy. In 2014/15, our carbon footprint totalled 473,708 tonnes of carbon dioxide equivalent. We set a target of achieving a 21 per cent reduction in carbon emissions by 2015, measured from a 2005/06 baseline. We have achieved significant reductions and were pleased to meet this target in 2013/14. However, we

Business Insight

Energy: increasing self-generation

To supplement the electricity we generate from sludge and hydro, we have created an energy business to exploit other opportunities using the company's land, assets and skills. This business has three key aims: to use less electricity, generate more, and use our assets smarter. This should help to save energy costs, which is one of our biggest expenses at around £65 million a year, and generate revenue from renewable incentives, which currently stands at around £5 million per year.

Using less: through a series of operational projects and behavioural programmes we are targeting energy efficiency savings across our water and wastewater sites over the next five years.

Generating more: we have secured planning approvals for two 500kW wind generation facilities at two of our sites and expect these turbines to be generating power in 2015. We have a number of potential schemes at the early stages of development with two schemes currently in the planning process.

Last year we installed 2 megawatts of solar panels across four sites. This included our Fleetwood treatment works, (pictured below), which, with 5,281 panels, is now one of the biggest solar panel installations in the North West.

We have a further 8 megawatts of solar under construction and plan to

add a further 20 megawatts of solar this year.

Including our sludge to energy programmes, we have increased energy production from our facilities by around a third over the last two years and are targeting to increase energy self-generation to around 35 per cent by 2020, contingent on good projected returns. Using our own energy has helped us avoid energy purchase costs of around £13 million in 2014/15.

Using smarter: we were the first water company to sign up to National Grid's Dynamic Frequency Response scheme under which we reduce our electricity consumption when demand on the network is greater than supply or conversely to consume energy when supply exceeds demand. These schemes offer incentives linked to response times and availability of service.



Our performance 2014/15

narrowly missed the target in 2014/15, being 19 per cent below the baseline, impacted adversely by an 11 per cent increase in the carbon content in the UK energy mix in the year which increased our reported carbon emissions. Notwithstanding this, in 2014/15, we have purchased less electricity than in any of the previous 10 years and still achieved our highest ever renewable energy production of 144 GWh. This is the equivalent of c18 per cent of our total electricity consumption, up from c17 per cent in the previous year and c13 per cent in 2012/13. We are already implementing plans to significantly increase self-generation over the next few years, with a target of around 35 per cent of our electricity consumption by 2020 (see business insight on page 37).

Employees – we work hard to sustain high levels of engagement by our employees. The company has seen significant change over the last four years and our plans will engage our teams for further improvements. Employee engagement is 79 per cent, well above the norm for UK companies going through business transition and just below the norm for high performing UK companies, so our employees demonstrate a strong capability to adapt. We continue to be successful in attracting and retaining people and have continued to expand our apprentice and graduate programmes, having recruited a further 22 graduates and 32 apprentices in 2014/15, taking the current total to 56 graduates and 97 apprentices. As part of our health and safety improvement programme, we have implemented a number of initiatives which helped reduce the employee accident frequency rate to 0.112 accidents per 100,000 hours for 2014/15, compared with a rate of 0.137 in 2013/14 and 0.188 in the previous year. Whilst we are pleased with our performance improvement, we recognise we still have more to do. Health and safety will continue to be a significant area of focus, as we strive for continuous improvement.

Communities – we continue to support partnerships, both financially and

in terms of employee time through volunteering, with other organisations across the North West that share our objectives. We recently set up Catchment Wise, our new approach to tackling water quality issues in lakes, rivers and coastal waters across the North West, and our 'Beachcare' employee volunteering scheme helps to keep our region's beaches tidy. We continue to support local communities, through contributions and schemes such as providing debt advisory services and our Community Fund, offering grants to local groups impacted by our capital investment programme.

Key performance indicators:

Leakage – we met our economic level of leakage target for the ninth consecutive year in 2014/15, with a performance of 454 megalitres per day versus the regulatory target of 463 megalitres per day.

Environmental performance – on the Environment Agency's latest assessment (2013/14 report), which covers a broad range of operational metrics, United Utilities is an upper quartile company. Based on our performance across the range of metrics, this indicates we were in joint 2nd position among the 10 water and sewerage companies and aligns with our medium-term goal of being a first quartile company on a consistent basis.

Corporate responsibility – we have a strong focus on operating in a responsible manner and are the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group has retained its 'World Class' rating and aims to retain this rating each year.

Systems thinking approach

To support the delivery of our objectives, we are focused on continuous improvement and over the last few years have progressively instilled a 'systems thinking' approach into the way we run our business. This is an engineering-led approach which integrates the use of our assets, leverages data intelligence and employs technology and new work processes to deliver improved customer satisfaction and operational efficiency. We have made good progress over the last few years and this 'systems thinking' approach is expected to deliver benefits of over £100 million over the 2015-20 regulatory period, which are already built into our business plan assumptions.

The step change in performance of the business over the 2010-15 period has its origins in good management practice; constancy of purpose, clear objectives, attention to detail, good people and performance management. However, it was also clear to us that we could improve further if we took the learning from other sectors to transform the way a water company is run and we started that transformation over three years ago. There are five key phases of transformation:

- **'Systems thinking'** – we have progressively instilled an engineering-led 'systems thinking' approach which integrates the use of our assets, leverages data intelligence and employs technology and new work processes. We have audited our asset base and are investing in a new enterprise asset management system and field force scheduling system, supported by the recruitment of new people from other sectors with experience in these areas. By capturing and processing data from multiple information points, we are aiming for ever-improving asset intelligence. We have fitted sensors in our water networks to provide visibility as to how they are performing, helping us to reduce burst frequency, and we are currently piloting drainage system performance monitoring

in our wastewater networks. We are building enhanced visibility of our assets and more effective monitoring and control, enabling us to make more informed and proactive management decisions. This should lead to better modelling and prediction of events before they occur, reducing reactive work and thereby improving efficiency, operational performance and, importantly, customer service.

- **Production lines** – for the last few years we have considered our treatment works as ‘factories’, each with its own production line. We have over 600 of these ‘factories’ small and large, producing clean water, bio waste and energy. Our business has been restructured to create a strong focus on accountability and delivery, integrating the disciplines often found as functional silos in other companies. Our managers are responsible for the performance of their production lines including investment of capital to optimise operational performance, to deliver environmental or water quality requirements and to maximise energy production, providing a more integrated approach.
- **Organisational structure aligned with new price control** – we recognised that we would best address the regulatory reform agenda by aligning our organisational structure with the new price control, with three business areas: Wholesale, Domestic Retail and Business Retail. We did this nearly three years ago and recruited a business retail team experienced in competitive utility markets.
- **Wholesale business split** – we subsequently subdivided our Wholesale business to concentrate on three business areas: Water, Wastewater and Energy, with a strong focus on increasing our renewable and self-generation to reduce the amount of electricity we purchase. Our people are all aligned to this model and our production leadership team has responsibility,

authority and accountability for the performance of their assets using a total expenditure, whole life cost approach to decision management.

- **Integrated control centre** – underpinning our ‘systems thinking’ ethos is our recently opened integrated control centre in Warrington (see ‘business insight’ below).

This has all been supported by a significant cultural change in the company over the last few years, which has helped United Utilities progress into a leading operational performer in the sector. A critical enabler has been our people and we continue to invest in attracting talent and in developing the best, giving us a powerful mix of water experience and knowledge of other sectors.

Business Insight

New integrated control centre acts as the ‘digital brain’ of our systems

Like many companies in our sector, we have no real time view of how our gigantic water and wastewater system is performing. Too often our customers tell us when the service has failed and then we react but incidents are expensive, disruptive for us and more importantly for our customers.

In April 2015, we opened our new integrated control centre (ICC) (pictured below) at our head office in Warrington. This acts as the ‘digital brain’ of our network, providing visualisation of the service we are providing right across the region.

In preparation, we have been investing in a new digital network with over 3,000 facilities which are now able to talk to each other and the ICC over our data highway. We are now beginning to share real time information about the performance of our assets.

With our new ‘systems thinking’ approach, our goal is to improve both efficiency and performance and aim to prevent a problem or fix it before a customer’s service is disturbed.



Our performance 2014/15

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 £30 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 £222 million was £29 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. The lower RPI inflation charge contributed to the group's average underlying interest rate of 4.0 per cent being lower than the rate of 4.6 per cent for 2013/14.

Reported investment income and finance expense of £317 million was significantly higher than the £92 million expense in 2013/14. This £225 million increase principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £129 million gain in 2013/14 to a £105 million loss in 2014/15. The £105 million fair value loss is largely due to losses on the regulatory swap portfolio, resulting from a significant decrease in medium-term sterling interest rates during the period, partly offset by a gain

from the unwinding of the derivatives hedging interest rates to 2015. The group uses these swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by the regulator at each price review. The group fixed the majority of its non index-linked debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5 per cent.

Profit before tax

Underlying profit before tax was £447 million, £59 million higher than last year, due to the £30 million increase in underlying operating profit and the £29 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 £202 million to £342 million, primarily due to the aforementioned fair value movements.

Taxation

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on a regular basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in aggressive or abusive tax avoidance; and
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers via reduced bills. For 2013/14, the group agreed, over and above the normal regulatory rules, to voluntarily share

with customers the one-off net cash benefit of £75 million due to the group, following the industry-wide agreement with HMRC in relation to the abolition of industrial buildings allowances in 2008.

In any given year, the group's effective cash tax rate may fluctuate from the standard UK rate due to the available tax deductions on pension contributions and capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to taxation.

The group's effective cash tax rate may also fluctuate from the standard UK rate due to unrealised profits or losses in relation to treasury derivatives where the corresponding profits or losses are only taxed when realised. These movements are purely timing differences and are expected to continue going forward, following HMRC's recent review of the relevant tax rules.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than the group's 35 per cent holding in Tallinn Water which generates around £6 million profit before tax with around £1 million Estonian tax paid).

In 2014/15, we paid corporation tax of £62 million, which represents an effective cash tax rate of 18 per cent, 3 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 group 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 £57 million in 2014/15, compared with a charge of £75 million in the previous year. In addition, there were current tax credits of £10 million in 2014/15 and £141 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 £71 million for 2014/15 represents a rate of 21 per cent, similar to the rate in 2013/14.

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £140 million per annum, in the form of business rates, employer's national

insurance contributions, environmental taxes and other regulatory service fees such as water abstraction charges.

Profit after tax

Underlying profit after tax of £354 million was £49 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 £271 million, compared with £739 million for 2013/14, impacted by the £234 million movement in fair value on debt and derivative instruments and the £266 million net increase in tax between the two periods.

Earnings per share

Underlying earnings per share increased from 44.7 pence to 51.9 pence. This underlying measure is derived from underlying profit after tax. This includes the adjustments for the deferred tax credits in 2013/14 associated with the reductions in the corporation tax rate and an adjustment for the tax credit arising from agreement of prior years' tax matters. Basic earnings per share decreased from 108.3 pence to 39.8 pence, for the same reasons that reduced profit after tax.

Dividend per share

The board has proposed a final dividend of 25.14 pence per ordinary share in respect of the year ended 31 March 2015. Taken together with the interim dividend of 12.56 pence per ordinary share, paid in February, this produces a total dividend per ordinary share for 2014/15 of 37.70 pence. This is an increase of 4.6 per cent, compared with the dividend relating to last year, in line with group's dividend policy of targeting a growth rate of RPI+2 per cent per annum through to 2015. The inflationary increase of 2.6 per cent is based on the RPI element included within the allowed regulated price increase for the 2014/15 financial year (i.e. the movement in RPI between November 2012 and November 2013).

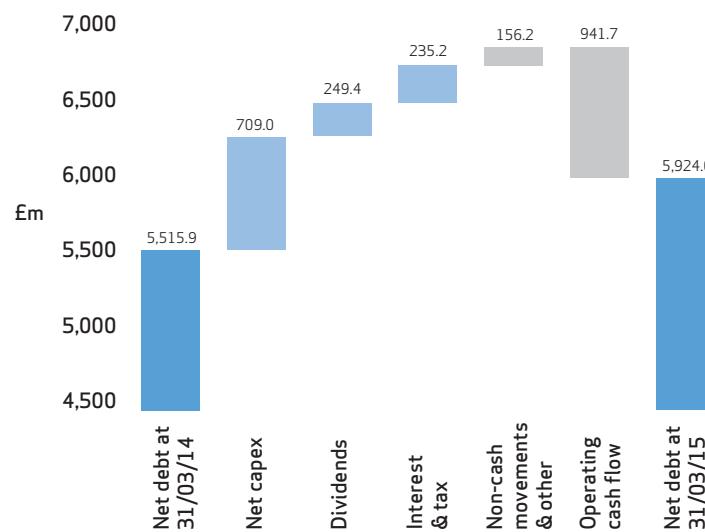
The final dividend is expected to be paid on 3 August 2015 to shareholders on the register at the close of business on 26 June 2015. The ex-dividend date is 25 June 2015.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2015 was £707 million, compared with £797 million in the previous year. This reduction mainly reflects the receipt of the aforementioned exceptional tax refund in 2013/14. The group's net capital expenditure was £709 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS.

Net debt including derivatives at 31 March 2015 was £5,924 million, compared with £5,516 million at 31 March 2014. This increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and tax, alongside fair value losses on the group's debt and derivative instruments, partly offset by operating cash flows.

Summary of net debt movement



Our performance 2014/15

Fair value of debt

The group's gross borrowings at 31 March 2015 had a carrying value of £6,645 million. The fair value of these borrowings was £7,350 million. This £705 million difference principally reflects the significant fall in real interest rates, compared with the rates at the time we raised our index-linked debt. This difference has increased from £267 million at 31 March 2014.

Gross debt

Yankee bonds (USD)	£782.5m
Euro bonds (EUR)	£424.1m
GBP bonds	£1,718.8m
GBP index-linked bonds	£1,711.3m
EIB and other index-linked bonds	£1,372.5m
Other EIB loans	£350.0m
Other borrowings	£286.2m



Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value) was 59 per cent at 31 March 2015, an increase of 1 per cent compared with the position at 31 March 2014, remaining well within our target range of 55 per cent to 65 per cent.

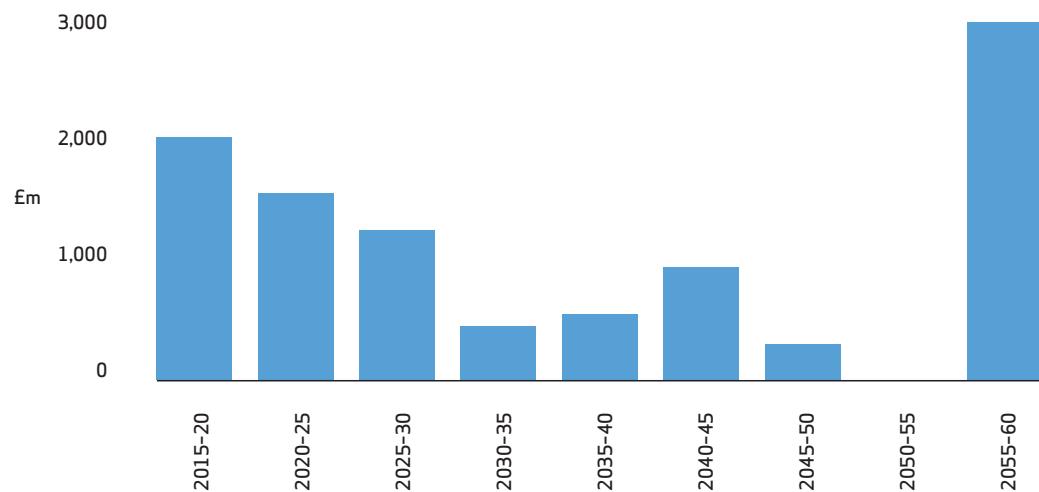
UUW has long-term credit ratings of A3/BBB+ and United Utilities PLC has long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies. Both agencies have the group's ratings on stable outlook.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme (EMTN). On 19 November 2014, the EMTN programme was updated adding a new financing subsidiary of UUW, United Utilities Water Finance PLC (UUWF), to issue new listed debt on behalf of UUW going forwards following UUW's re-registration as a private limited company. The EMTN programme provides for the periodic issuance by United Utilities PLC and UUWF (guaranteed by UUW) of debt instruments on terms and conditions

determined at the time the notes are issued. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

Cash and short-term deposits at 31 March 2015 amounted to £244 million. Over 2015–20 we have financing requirements totalling around £2.5 billion to cover refinancing and incremental debt, supporting our 2015–20 investment programme. In December 2013, UUW agreed a new £500 million term loan facility with the European Investment Bank (EIB) and as at 31 March 2015 UUW had drawn down £350 million on this facility, all on a floating rate basis. The remaining £150 million is expected to be drawn down during the first half of 2015/16. In March 2015, UUW signed a new £250 million index-linked term loan facility with the EIB. This is an amortising facility with an average loan life of 10 years and a final maturity of 18 years from draw down and we expect to draw the new loan in tranches over the next year or so. In the same month, UUW arranged a new £100 million, 10-year index-linked loan with an existing relationship bank, at a real interest rate of around 0.5 per cent. The group also agreed £150 million of committed bank facilities during 2014/15.

Term-debt maturity per regulatory period



Following the year-end, UUWF issued two index-linked notes totalling £60 million, split by a £25 million, 10-year maturity and a £35 million, 15-year maturity. UUWF also issued a €52 million note (swapped to floating sterling) with a 12-year maturity. All these notes were issued via private placement off our EMTN programme. The group now has headroom to cover its projected financing needs into 2017.

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

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2015, approximately 52 per cent of the group's net debt was in index-linked form, representing around 31 per cent of UUW's regulatory capital value, with an average real interest rate of 1.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term-debt maturity profile, which is over 20 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to 10 years on a reducing balance basis. This is supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination.

In line with this, the group has now fixed interest costs for substantially all of its floating rate exposure over the 2015–20 period, locking in an average annual interest rate of around 3.75 per cent (inclusive of credit spreads). For 2015/16, the rate is slightly higher, as we transition between the two regulatory periods.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. The group's €7 billion euro medium-term note programme provides further support.

In line with the board's treasury policy, United Utilities aims to maintain a robust liquidity position. Available headroom at 31 March 2015 was £616 million based on cash, short-term deposits, medium-term committed bank facilities, along with the undrawn portion of the EIB term loan facilities, net of short-term debt.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. United Utilities' cash is held in the form of short-term money market deposits with prime commercial banks.

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

Pensions

As at 31 March 2015, the group had an IAS 19 net pension surplus of £79 million, compared with a net pension deficit of £177 million at 31 March 2014. This £256 million favourable movement mainly reflects a decrease in inflation expectations alongside an increase in corporate credit spreads. In contrast, the scheme specific funding basis does not suffer from volatility due to inflation and credit spread movements as it uses a fixed inflation assumption via the inflation funding mechanism and a prudent, fixed credit spread assumption. Therefore, the recent inflation and credit spread movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

The triennial actuarial valuations of the group's defined benefit pension schemes were carried out as at 31 March 2013 and the overall funding position has improved since March 2010. Following the de-risking measures we have implemented over recent years, our pension funding position remains well placed and in line with our expectations. There has been no material change to the scheduled cash contributions as assessed at the previous valuations in 2010.

Further detail is provided in note 18 ('Retirement benefit obligations') of these consolidated financial statements.

Our performance 2014/15

Underlying profit

In considering the underlying results for the period, the directors have adjusted for the items outlined in the table below to provide a more representative view of business performance. Reported operating profit and profit before tax from continuing operations are reconciled to underlying operating profit, underlying profit before tax and underlying profit after tax (non-GAAP measures) as follows:

	Year ended 31 March 2015 £m	Restated ⁽¹⁾ Year ended 31 March 2014 £m
Continuing operations		
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
Net finance expense	£m	£m
Finance expense	(317.8)	(98.7)
Investment income	1.0	6.8
Net finance expense per published results	(316.8)	(91.9)
Adjustments:		
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 net finance expense	(222.0)	(251.5)
Profit before tax	£m	£m
Share of profits of joint ventures	5.1	5.0
Profit before tax per published results	341.6	543.3
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 tax	447.4	388.1
Profit after tax	£m	£m
Underlying profit before tax	447.4	388.1
Reported tax (charge)/credit	(70.4)	195.3
Deferred tax credit - change in tax rate	-	(156.8)
Agreement of prior years' UK tax matters	(0.7)	(154.3)
Tax in respect of adjustments to underlying profit before tax	(22.2)	32.6
Underlying profit after tax	354.1	304.9
Earnings per share	£m	£m
Profit after tax per published results (a)	271.2	738.6
Underlying profit after tax (b)	354.1	304.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	39.8p	108.3p
Underlying earnings per share, in pence (b/c)	51.9p	44.7p

(1) The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

(2) Relates to restructuring costs within the business.

Underlying operating profit reconciliation

The table below provides a reconciliation between group underlying operating profit and United Utilities Water Limited (UUW) historical cost regulatory underlying operating profit (non-GAAP measures) as follows:

	Year ended 31 March 2015	Restated ⁽¹⁾ Year ended 31 March 2014
	£m	£m
Continuing operations		
Underlying operating profit		
Group underlying operating profit	664.3	634.6
Underlying operating profit not relating to UUW	2.5	(0.4)
UUW statutory underlying operating profit	666.8	634.2
Revenue recognition	9.8	(0.2)
Infrastructure renewals accounting	30.6	52.9
Other differences (including non-appointed business)	(5.9)	(5.3)
UUW regulatory underlying operating profit	701.3	681.6

(1) The prior year has been restated to reflect the requirements of IFRS11 and to reflect that UUW now reports in accordance with IFRS accounting standards, rather than UK GAAP previously.

Our plans for 2015–20



The final determination delivers value for all of our stakeholders

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.

We aim to maintain efficient access to debt capital markets throughout the economic cycle and believe that it is appropriate to keep gearing, measured as net debt to regulatory capital value, within our existing target range of 55 per cent to 65 per cent. This is supported by our aim to maintain, as minimum, our existing

UUW credit ratings of A3 with Moody's and BBB+ with Standard & Poor's. We are targeting growth in the dividend per share, from 2014/15 base, of at least RPI inflation each year through to 2019/20. This target reflects detailed analysis and assessment of the final determination, including the lower allowed regulatory return for 2015–20.

The key features of the delivery plans for each of the four price controls are set out below.

Wholesale water

The North West benefits from one of the youngest water networks in the country, with over 50 per cent of our network constructed or renewed in the last 30 years. This is a consequence of significant investment over previous regulatory cycles to improve water

quality. We benefit from historic investment in the integration of our networks to create a core 'integrated supply zone'. The most recent addition to this was the West–East pipeline running approximately 50 kilometres between Liverpool and Manchester. As a consequence, we are able to provide one of the most efficient and flexible water services in the sector.

Customers told us they want to retain their current level of water services, but do not want to pay for water service improvements. This has driven our proposals for the next five years, where our core focus is to continue ongoing maintenance of the existing service to keep it working reliably now and in the future, managing costs carefully and reducing the number of customer contacts.

Key features of our plan mean that we aim to:

- maintain existing high levels of reliability in the delivery of day-to-day water services, making better use of technology to monitor remotely and control more of our source-to-tap assets;
- maintain existing high levels of water quality as measured at customers' taps and our water treatment works;
- reduce the number of contacts from customers regarding water quality;
- maintain leakage at or below the sustainable economic level;
- limit the impact on customers of increases in operating costs, such as chemicals and rates, by making cost savings elsewhere through the continuous improvement in the efficiency of our operations; and
- commence work to link 150,000 customers in West Cumbria to Thirlmere reservoir to ensure a long-term, reliable supply of drinking water and to support the sensitive ecology in that area (see business insight opposite).

Business Insight

Securing a sustainable water supply for Cumbria

Our 25-year Water Resources Management Plan forecast that the vast majority of our region (covering 97 per cent of our customer base and including our large integrated supply zone) will be in water surplus, despite expected increases in population and the impact of climate change.

The only exception was West Cumbria, where we predicted a supply/demand deficit. This was driven by the Environment Agency's determination that, in future, we will have to extract less water from Ennerdale lake in West Cumbria, in order to protect England's largest population of freshwater mussels in the River Ehen.

With the support of the EA and other stakeholders, our plan is to use surplus water from our integrated resource zone to supply West Cumbria to ensure its population has a long-term sustainable, secure

supply of water. We will build over 90km of pipeline from Thirlmere reservoir to supply West Cumbria as shown in the diagram below. A new water treatment works is planned to be built in Keswick to replace five existing water treatment works and avoid significant future maintenance at these sites. We received funding of around £200 million for this project over 2015–20, making it our largest capital scheme.



Our plans for 2015-20

We are expanding our options for assistance to hard-pressed customers

We are increasing our production of renewable energy from waste to protect customers from rising energy costs and reduce our carbon footprint

Wholesale wastewater

The region's geography and weather, the legacy of the Industrial Revolution, population growth and long-term under investment in the region's wastewater infrastructure mean that new European environmental legislation has a significant impact on our plans for the next five years and beyond. Furthermore, the North West has one of the country's largest combined waste and surface water infrastructures and this has significant implications for river and bathing water quality in the heavy rainfall events anticipated under climate change. These are significant new challenges for our wastewater service and will drive high levels of capital expenditure in meeting statutory obligations.

Against this backdrop, customers told us that for the most part they wanted their wastewater services to remain stable. Whilst they want to see progress in reducing sewer flooding and in improving the environment, they are concerned about the impact that service improvements will have on their bills. We have responded to this by devising a balanced programme of work over the 2015-20 period and beyond that will progressively deliver our contribution to the UK Government's compliance with European legislation. This also takes account of customers' views on the acceptable level of future bill increases.

In the next five-year period we aim to:

- build on the customer satisfaction improvements we have already delivered. We will continue to improve the way we operate our wastewater business, making better use of technology, automation and control to drive better customer service at reduced cost;
- reduce the number of our customers' properties exposed to sewer flooding by over 40 per cent, seeking opportunities to work in partnership with others to deliver schemes cost-effectively and promote the use of more sustainable drainage systems;
- improve the region's bathing waters, in light of tougher regulatory standards;
- work with other organisations to support them in delivering improvements to our region's beaches;
- improve the water quality in the North West's rivers and lakes through investment in our treatment works and at overflows, reducing pollution. We are engaging with stakeholders to explore innovative catchment management techniques to control diffuse pollution in our catchments;
- increase our production of renewable energy from waste to help protect customers from rising energy costs and reduce our carbon footprint; and
- constrain costs associated with taking responsibility for all private sewers and private pumping stations across the region, through improvements to our operating model and efficient delivery of our programme.

Household retail

Our focus for the current regulatory period has been, and continues to be, to improve the customer experience. This involves being more proactive with customers, anticipating problems before they materialise and improving our communication channels so that we are easier to do business with. We aim to reduce further the number of complaints and to resolve them whenever we can, avoiding the need for complaints to be referred to the Consumer Council for Water.

We aim to reduce the debt burden on the company and its customers by engaging with those who are struggling to pay, helping them to return to sustained payment behaviour. We are extending our options for assistance to hard-pressed customers by developing a social tariff that secures a high level of acceptability from customers. We remain committed to contributing annually to the United Utilities Trust Fund, which has proven effective in helping customers in difficulty return to regular payment.

Our domestic retail plan also sees us continuing our efforts to reduce the costs to serve our customers through systems and process improvement. This is particularly important under the new price control methodology which uses an industry average retail cost to serve to determine part of customer bills.

Non-household retail

We welcome the opportunity offered through the opening of the English non-household retail market to competition. Over the last three years we have recruited a management team with other sector experience to lead our business retail area, and separated this team from our domestic retail and wholesale business areas. This team has embarked on a transformation programme focused on getting the basics right against core customer needs, creating the culture of a business-to-business retailer.

Our early progress has been encouraging and our success in growing our United Utilities Scotland business has allowed us to learn about the propositions, processes and systems required to win, serve and retain non-household customers. Research has highlighted a need for a broader range of services targeted to different segments. We are developing these in our non-appointed business, ensuring that they are only paid for by customers who want these services.

Non-household customers tell us that the three most important things they look to their water supplier to deliver are: value for money; a reliable supply; and great customer service. With this in mind, through the course of the 2015-20 period we aim to:

- install meters in all business customer premises that give automated meter reads (AMR) to facilitate billing for actual consumption;
- build stronger relationships with customers to develop tailored plans to meet their needs;
- give customers greater choice in how they contact and transact with us; and
- increase first point resolution and case ownership, reducing cost to serve and improving customer satisfaction.

Our key performance indicators (KPIs) 2015-20



Pictured: Construction of a storm tank as part of a £5 million sewer improvement scheme in St Helens. Underground tanks such as this help to store huge amounts of water during heavy rainfall, preventing flooding.

As we enter the next five years, we have refined our KPIs to reflect the changing regulatory environment

We will first report against these refined KPIs for the year ending 31 March 2016.

Our financial KPIs will remain the same except that we will no longer be including capital investment specifically due to Ofwat's move away from opex and capex and into the new totex-based price control for 2015-20. The definitions are as outlined in our 2010-15 KPIs on pages 32 and 33.

Financial KPIs 2015-20

- Revenue
- Underlying operating profit
- Underlying earnings per share
- Dividend per share
- Gearing: net debt to regulatory capital value

Our operational KPIs have evolved to reflect the move to a totex price control, with a totex outperformance measure replacing the previous separate opex outperformance and capex outperformance measures. We are including an outcome delivery incentive (ODI) KPI in our wholesale business to monitor our performance against these important new operational measures. This replaces the previous serviceability KPI which is incorporated within the ODI measures. With the retail household price control now being separated, we are introducing a new KPI to measure our costs in this area. In the business retail price control, with the expansion of competition, we are including a new KPI measuring the impact of customer gains and losses.

Operational KPIs 2015-20

Company objective/KPI	Definition
Best service to customers	
Wholesale outcome delivery incentive (ODI) composite	Net reward/(penalty) accrued across United Utilities' 18 wholesale financial ODIs
Service incentive mechanism – qualitative	Ofwat derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 18 water companies. Each company receives a score in the range of zero to five, with five being the highest attainable score
Service incentive mechanism – quantitative	Ofwat derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 18 water companies. Each company receives a SIM point total, where the lowest score represents the best performance
Business retail customer growth	Amount of additional revenue from winning customers from other water retail providers less the amount of revenue lost from losing customers to other water retail providers
Lowest sustainable cost	
Totex outperformance	Progress to date on cumulative totex outperformance across the wholesale water and wastewater price controls versus Ofwat's allowed totex over the 2015-20 period
Financing outperformance	Progress to date on financing expenditure outperformance secured versus Ofwat's allowed cost of debt of 2.59 per cent real over the 2015-20 period
Domestic retail cost to serve	Average cost to serve in our domestic retail business
Responsible manner	
Leakage – average annual leakage	Average annual water leakage from our network quantified in megalitres per day
Environment Agency performance assessment	Composite assessment produced by the Environment Agency, measuring the absolute and relative performance of the 10 water and wastewater companies across a broad range of areas, including pollution
Dow Jones Sustainability Index rating	Independent rating awarded using sustainability metrics covering economic, environmental, social and governance performance

Principal risks and uncertainties

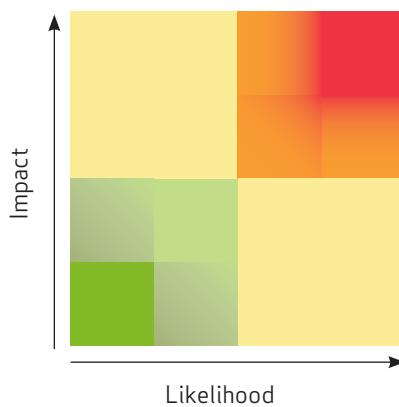
Our risk management framework aims for continuous improvement

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.

By their nature, event-based risks in the context of our strategic themes will include all combinations of high to low likelihood and high to low impact. Heat maps are typically used in various managerial and group reports either as a method to collectively evaluate the extent of all risks within a certain profile or to illustrate the effectiveness of mitigation for a single risk by plotting the gross, current (net of existing controls) and the selected target position in an individual risk statement.



However, reporting a small number of event-based risks ranked by combined event likelihood and potential impact could distort principal risk disclosure as it would overlook other risks with a lesser individual exposure that, if they materialised individually or in aggregate, could have a material impact on the business model, future performance, solvency or liquidity of the group. Equally, event-based risks identified as part of our internal assessment process can be commercially sensitive, the disclosure of which could be detrimental to competitive advantage or our ability to mitigate risk over the longer term.

In order to address this, further understand the nature and extent of our entire profile and support the disclosure of principal risks, event-based risks are categorised (based on the event), when recorded onto the central database, into areas that

define business activity or contributing factors where value can be lost. These categories have been set out in the table on pages 54 and 55 to reflect the principal risks (aggregated), together with associated issues or areas of uncertainty, potential for material effect, the extent of control/mitigation and the link to our main business objectives. We have also included in the three columns 'Likelihood of occurrence', 'Potential aggregated net impact' and 'Trend' more detailed analysis as explained in the key at the top of page 55.

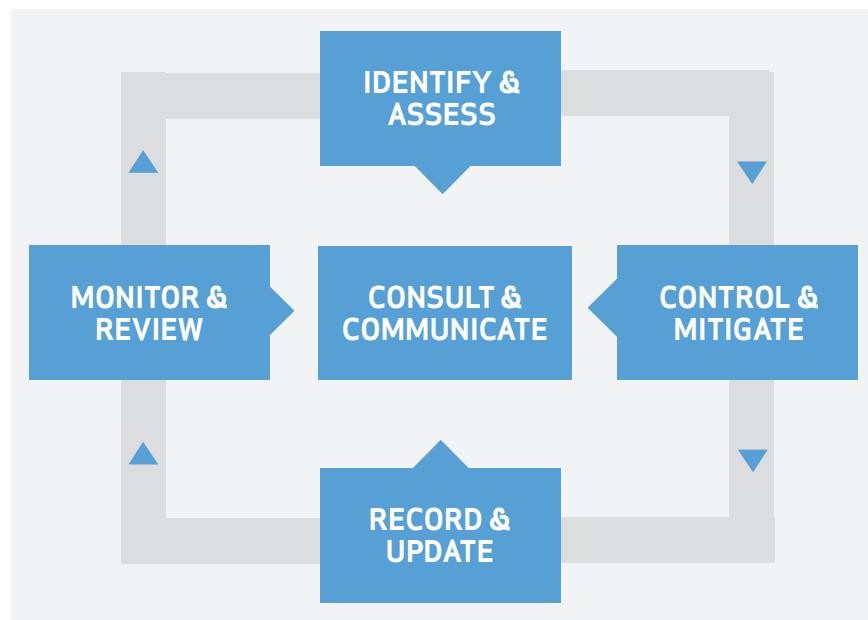
Key features, developments over the last year and looking ahead

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.

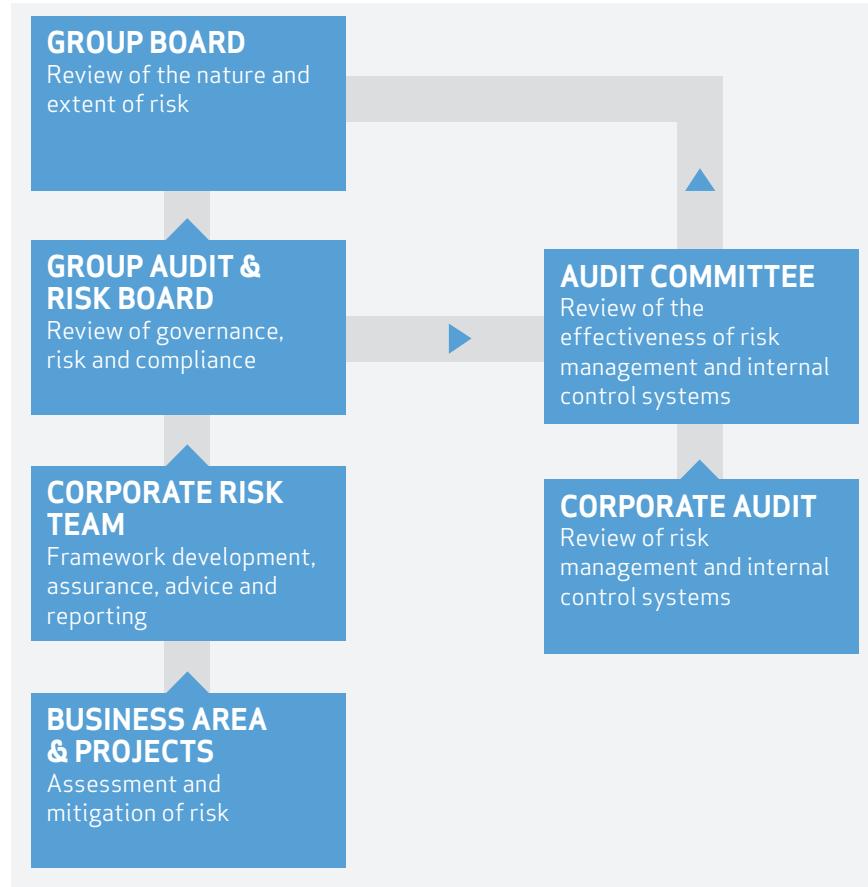
There continue to be two ongoing pieces of material litigation worthy of note but, based on the facts currently known to us and the provisions in our statement of financial position, our directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial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

United Utilities risk management process (adapted from ISO 31000: 2009)



Corporate risk framework – governance and reporting structure

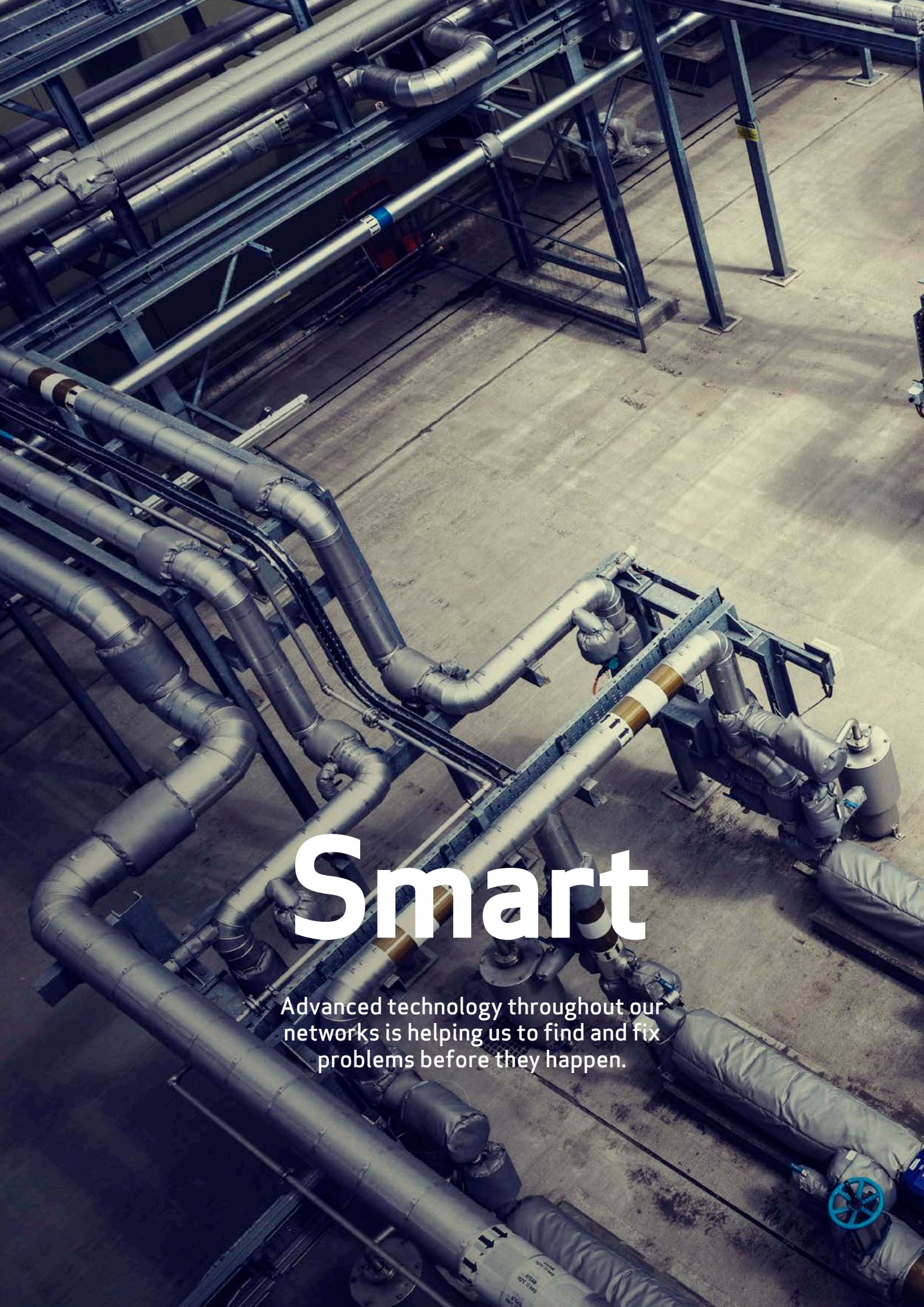


Principal risks and uncertainties

Risk category	Main business objective	Current key risks, issues or areas of uncertainty include:	Potential impacts
Regulatory environment and framework	Lowest Sustainable Cost	<ul style="list-style-type: none"> 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 	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.
Corporate governance and legal compliance	Responsible Manner	<ul style="list-style-type: none"> Competition law and regulatory compliance whilst preparing for and operating within a changing competitive market Material litigation (see page 53) New higher fine levels for environmental offences 	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.
Water service	Best Service to Customers	<ul style="list-style-type: none"> Dealing with the impacts of population growth, climate change and weather conditions 	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.
Wastewater service	Best Service to Customers	<ul style="list-style-type: none"> Meeting infrastructure investment requirements and balancing supply and demand Expected change to the abstraction licensing regime 	
Security, assets and operational resilience	Best Service to Customers	<ul style="list-style-type: none"> The threat of cybercrime and/or terrorism affecting our assets or operations 	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.
Human and IT resource	Responsible Manner	<ul style="list-style-type: none"> Delivering required employee engagement, talent management, technological innovation and IT asset management 	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.
Tax, treasury and financial control	Lowest Sustainable Cost	<ul style="list-style-type: none"> Stability of financial institutions and the world economy The speed of economic recovery Inflation/deflation Financial market conditions, interest rates and funding costs 	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.
Programme delivery	Lowest Sustainable Cost	<ul style="list-style-type: none"> Supply chain security of supply and delivery of solutions, quality and innovation New contract delivery partnerships for the 2015–2020 period with a new approach to construction and design 	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.
Revenues	Lowest Sustainable Cost	<ul style="list-style-type: none"> 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 	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 five 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.
Health, safety and environmental	Responsible Manner	<ul style="list-style-type: none"> Risks associated with excavation, tunnelling and construction work and working with water and wastewater Weather conditions 	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.

Each risk category is made up of lots of individual risks. The value of each individual risk is used to determine the relevant proportions in these illustrations.	Likelihood of occurrence column The proportion of the risks in the category that are classified for likelihood as: 	Potential aggregated net impact column An assessment of impact should every risk in the category occur but ignoring likelihood, timing and duration of this occurring
		Trend column An indication of that category's current exposure relative to the previous year (down = reducing, up = increasing, across = stable).

Likelihood of occurrence	Potential aggregated net impact	Trend	Control mitigation
Unlikely 	Medium	↓	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.
Unlikely 	Low	↔	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.
Remote 	High	↔	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.
Unlikely 	Low	↓	
Remote 	Medium	↔	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.
Unlikely 	Low	↔	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.
Unlikely 	High	↔	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.
Unlikely 	Medium	↔	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.
Unlikely 	Medium	↔	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.
Remote 	Low	↔	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 background image shows a dense network of industrial pipes and valves, primarily made of stainless steel, running across a concrete floor. The pipes are supported by a metal scaffolding system. The perspective is from an elevated position, looking down at the network.

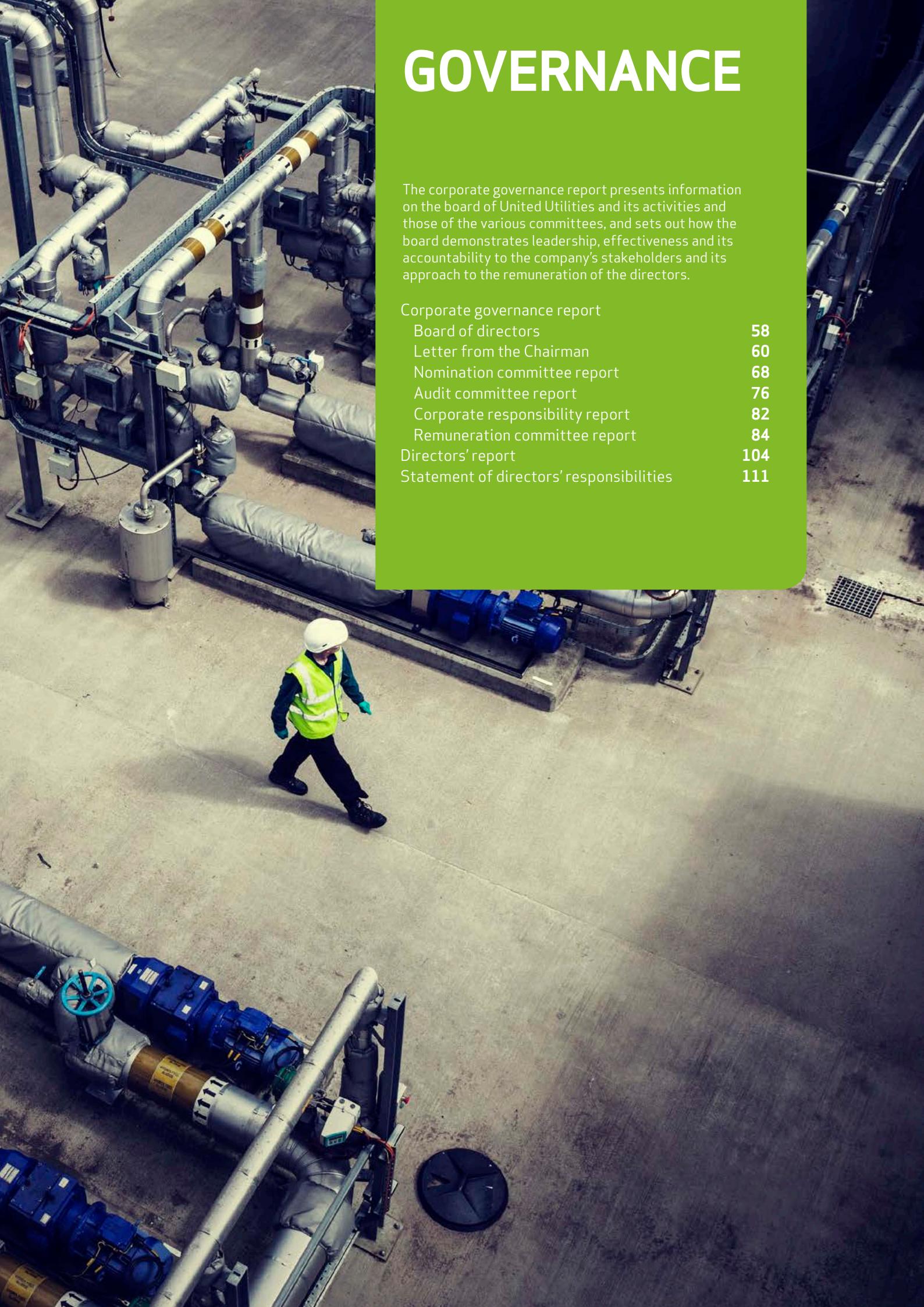
Smart

Advanced technology throughout our networks is helping us to find and fix problems before they happen.

GOVERNANCE

The corporate governance report presents information on the board of United Utilities and its activities and those of the various committees, and sets out how the board demonstrates leadership, effectiveness and its accountability to the company's stakeholders and its approach to the remuneration of the directors.

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Corporate governance report

Board of directors



Dr John McAdam (67)
Chairman

Responsibilities: Responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

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

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

Committee membership: Nomination (chair).

Skills and experience: With over 16 years' service as a board director in a wide range of companies, and as a current non-executive director serving on a number of other boards, John has a wealth of experience on which to draw in his role as Chairman and leader of the board.

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

Current directorships/business interests: Chairman of Rentokil Initial plc, senior independent director of J Sainsbury plc and a non-executive director of Rolls-Royce Holdings plc. He is also Chairman of United Utilities Water Limited.

Independence: John met the Code's independence criteria at the time of his initial appointment as Chairman.



Steve Mogford (58)
Chief Executive Officer (CEO)

Responsibilities: To manage the group's business and to implement the strategy and policies approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Committee membership: Corporate responsibility.

Skills and experience: Steve's experience of the highly competitive defence market and complex design, manufacturing and support programmes has brought renewed focus to customer service and operational performance at United Utilities, and his perspective of the construction and infrastructure sector provides valuable experience relating to United Utilities' capital investment programme.

Career experience: Previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica and chief operating officer at BAE Systems PLC, and a member of its PLC board, he spent his earlier career with British Aerospace PLC.

Current directorships/business interests: Senior independent director of Carillion PLC, vice-president of Liverpool School of Tropical Medicine. He is also chief executive officer of United Utilities Water Limited.



Russ Houlden (56)
Chief Financial Officer (CFO)

Responsibilities: To manage the group's financial affairs and to contribute to the management of the group's business.

Qualifications: BSc (Hons) Management Sciences, Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

Appointment to the board: October 2010.

Committee membership: Treasury.

Skills and experience: Russ's skills and experience in accounting, treasury, tax, M&A and investor relations in other commercial and regulated companies, along with his extensive experience of driving performance improvement and managing large capital investment programmes, provides the group with valuable expertise with regard to its drive for improvements in customer service, business development, operations, capital investment and financing.

Career experience: Chief financial officer at Telecom New Zealand. Previously finance director of Lovells, BT Wholesale, BT Networks and Information Services, ICI Polyurethanes and ICI Japan.

Current directorships/business interests: Member of the supervisory board and chairman of the audit committee of Orange Polska SA, the largest listed telecommunications company in Poland. He is a member of the main committee and chairman of the financial reporting committee of the 100 Group. He is also chief financial officer of United Utilities Water Limited.



Dr Catherine Bell (64)
Independent
non-executive director

Qualifications: MA Geography, PhD Economic History.

Appointment to the board: March 2007.

Committee membership: Nomination, audit, remuneration and corporate responsibility (chair).

Skills and experience: Catherine's civil service background and understanding of the operation of government departments and utility regulation are particularly valued given the regulated framework within which the business operates.

Career experience: Formerly a non-executive director of the Civil Aviation Authority and prior to that a former civil servant and acting permanent secretary at the Department for Trade and Industry. Previously a non-executive director of Ensus Limited and Swiss Re GB Plc.

Current directorships/business interests: Non-executive director and executive board member of the Department of Health and a non-executive director of National Grid Gas plc and National Grid Electricity Transmission plc. She is also an independent non-executive director of United Utilities Water Limited.



Stephen Carter (51)
Independent
non-executive director

Qualifications: Bachelor of Law.

Appointment to the board: September 2014.

Committee membership: Nomination, audit and corporate responsibility.

Skills and experience: As the CEO of a FTSE listed company, Stephen brings current operational experience to the board. His time spent in public service will provide additional insights to the board regarding regulation and government relations, and his experience in the media and technology industries will provide a new perspective for the board's discussions.

Career experience: Prior to his appointment as group chief executive at Informa plc on 1 January 2014, he was appointed CEO designate on 1 September 2013, having previously served on its board as an independent non-executive director and member of the audit committee. He has also held non-executive director positions at Travis Perkins plc and Royal Mail Holdings plc. Previous roles include president/managing director, Europe, Middle East & Africa, and a member of the executive management board at Alcatel Lucent Inc. Stephen has also held a number of public service roles, serving a term as the founding chief executive of Ofcom. He was formerly chairman of the board at Ashridge Business School. He is a Life Peer.

Current directorships/business interests: Group chief executive at Informa plc and a governor of the Royal Shakespeare Company. He is also an independent non-executive director of United Utilities Water Limited.



Mark Clare (57)
Senior independent
non-executive director

Qualifications: Chartered Management Accountant (FCMA).

Appointment to the board: November 2013.

Committee membership: Nomination, remuneration.

Skills and experience: As the CEO of a FTSE listed company, Mark brings additional current operational experience to the board. His time at British Gas and BAA means he has a strong background operating in a regulated environment and his extensive knowledge of customer-facing businesses is particularly valuable as the industry prepares for increased competition and pursues its continuous drive to improve customer service.

Career experience: Mark has been group chief executive at Barratt Developments plc since October 2006 and is also a trustee of the Building Research Establishment and the UK Green Building Council. Prior to joining Barratt, he was an executive director of Centrica plc and held a number of senior roles within both Centrica plc and British Gas. Mark has also been a non-executive director of BAA plc, the airports operator.

Current directorships/business interests: Group chief executive at Barratt Developments plc. He is also an independent non-executive director of United Utilities Water Limited.



Brian May (51)
Independent
non-executive director

Qualifications: BSc (Hons) Actuarial Science, Chartered Accountant FCA.

Appointment to the board: September 2012.

Committee membership: Nomination, audit (chair), treasury (chair).

Skills and experience: Brian joined Bunzl plc in 1993 as head of internal audit before becoming group treasurer, then finance director, Europe and Australasia, and is currently finance director. Brian's background and the various finance roles that he has held are major assets to the board in chairing both the audit and the treasury committees.

Career experience: Brian has been finance director at Bunzl plc since 2006 and prior to that held a number of senior finance roles within the company. Prior to joining Bunzl, Brian qualified as a chartered accountant with KPMG.

Current directorships/business interests: Finance director at Bunzl plc. He is also an independent non-executive director of United Utilities Water Limited.



Sara Weller (53)
Independent
non-executive director

Qualifications: MA Chemistry.

Appointment to the board: March 2012.

Committee membership: Nomination and remuneration (chair).

Skills and experience: Sara's experience of customer-facing businesses, together with her knowledge of operating within a regulated environment, is a major asset to the board as the water industry prepares for the opening up of the sector to more competition and in improving customer service.

Career experience: Sara has wide-ranging business experience having worked for Mars, Abbey National and J Sainsbury plc and latterly as managing director of Argos from 2004 to 2011. She served as the senior independent director at Mitchells and Butlers from 2003 to 2006 and also chaired its remuneration committee from 2003 to 2010.

Current directorships/business interests: Non-executive director of Lloyds Banking Group plc and lead non-executive director for the Department for Communities and Local Government. Sara is chair of the Planning Inspectorate, (an executive agency of the Department of Communities and Local Government), a board member at the Higher Education Funding Council for England and a council member at Cambridge University. She is also an independent non-executive director of United Utilities Water Limited.

Corporate governance report

Letter from the Chairman

Quick facts

- The Chairman met the independence criteria as set out in the 2012 UK Corporate Code (the Code) when he was appointed as Chairman
- The Code requires that at least half of the board is made up of independent non-executive directors (the test excludes the Chairman). At United Utilities, five out of the remaining seven directors (excluding the Chairman) are independent non-executive directors
- The company secretary attends all board and committee meetings and advises the Chairman on governance matters. The company secretariat team provides administrative support
- All directors are subject to annual election at the AGM held in July. Following the completion of the annual evaluation process all the non-executive directors were considered by the board to be independent and making a valuable and effective contribution to the board. As a result, the board recommends that shareholders vote in favour of those standing for a further term at the forthcoming AGM

Quick links

The details of the matters that the board has reserved for its own decision can be found in the 'Schedule of matters reserved for the board'. A copy can be found at corporate.unitedutilities.com/corporate-governance

A copy of the FRC 2012 UK Corporate Governance Code can be found at frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf



Dr John McAdam
Chairman

Dear shareholder,

Our year

The focus of the board has been in the planning for United Utilities Water's (UUW's) next five-year regulatory period for 2015 to 2020, and endeavouring to ensure the long-term success of the company and the group for that period and beyond. The board has concentrated on pursuing the company's continuing strategy to provide the best service to customers, at the lowest sustainable cost and in a responsible manner, and in meeting the challenges of the financial year ended 31 March 2015.

Having the same directors on both the UUG and UUW boards (with the addition of Steven Fraser, managing director of UUW's Wholesale business, on the UUW board) reflects our vision which is to focus on our core water and

wastewater business and become a leading North West service provider. So, whilst both the UUG and UUW boards' agendas have been dominated by the next regulatory period, the UUG board has also been addressing the strategic and directional challenges of the group. Our governance processes also address Ofwat's published principles on board leadership, transparency and governance, and our statement can be found on our website at corporate.unitedutilities.com/corporate-governance

We have achieved considerable progress against our strategy, particularly in customer service, although this is still a primary area of focus for the board. The implementation of our new operating

Our intention is to hand over the business to our successors in a better and more sustainable position for the future

model for our wholesale business employing new technology and new work processes will support us in achieving this target. The board is determined to maintain the rate of progress that has been achieved to date as we enter the next five-year period.

In January 2015, the UUW board met to consider the best course of action in terms of accepting or rejecting Ofwat's 2015-20 final determination. The board concluded that, although this was a challenging price control, we have plans in place to maintain and improve services for customers and provide an appropriate return for our investors.

Our approach

As individual directors we are cognisant of our statutory duties and in particular to promote the long-term success of our company. Our role as the board is to set the strategy of the group, and ensure its long-term success and create shareholder value. Our intention as directors is to hand over the business to our successors in a better and more sustainable position for the future. Information on our vision and strategy and the way in which we create value is included in the strategic report on pages 4 to 55.

Our governance structure

We held eight scheduled board meetings during the year, which were attended by all directors. There were also a number of ad hoc board meetings held which directors attended either in person or via telephone conferencing facilities, a number of which related to the board's involvement in the price review process. A diagram showing the inter-relationships of the various board committees can be found on page 64, and reports from each of the committee chairs about their work can be found on the following pages. The diagram also describes some of the group's principal management committees.

Our people

Nick Salmon retired as a director at the AGM on 25 July 2014 and at that time Mark Clare replaced him as senior independent director. We welcomed Stephen Carter to the board as an independent non-executive director and member of the audit committee on 1 September 2014. On Stephen's appointment, Mark Clare stepped down from the audit committee and was appointed as a member of the remuneration committee.

Stephen brings to the board table a strong career in government and regulation, having held a number of public sector roles, including serving a term as the founding chief executive of Ofcom. He is currently group chief executive at Informa plc, a FTSE 250 listed company. Further information on the process for Stephen's appointment can be found in the report of the nomination committee on pages 68 to 72.

We have maintained our target of at least 25 per cent of our board comprising of women, and in terms of diversity of experience, skills and personal attributes, we have great diversity around our board. Good board dynamics are vital to the proper interaction and working of a board of directors. Board directors need to work together effectively for the good of the company and, in short, they need to get on with each other; clashes of personality are to be avoided as they do not facilitate constructive debate and challenge and effective communication.

Collectively, the directors have many years of experience gained across a variety of areas and industries. Some have spent part of their careers overseas, and whilst there is a huge diversity in their skills and experience, they have predominantly worked in regulated industries, as is appropriate. Around our board table, I believe we have individuals who will apply their skills and experience to the benefit of our business and speak up if they disagree but, equally, listen to the views of others.

The focus of the group has been in the planning for UUW's next five-year regulatory period for 2015 to 2020 and endeavouring to ensure the long-term success of the company and the group for that period and beyond.

Code principles

Leadership

 Read more on page 63

Effectiveness

 Read more on page 66

Accountability

 Read more on page 74

Relations with shareholders

 Read more on page 73

Remuneration

 Read more on page 84

Corporate governance report

Letter from the Chairman

Although there are time constraints for non-executive directors who also have an executive role, these individuals bring valuable current market experience to any board table. Similarly, we encourage our executive directors to serve as a non-executive director elsewhere to help broaden their experience, although this is restricted to one other directorship in a company which does not conflict with United Utilities' business.

Our CEO, Steve Mogford, has made some changes during the year to the structure of his executive team of senior managers. This has resulted in a change of reporting lines and a related change in the male:female ratios of the executive team (excluding the CEO and CFO) of 4:3, (2014: 5:5).

Our ethos and culture

One of our key core values, both at board level and as a company, is to act with integrity, by applying the highest standards of responsible business practice. The company has complied with the 2012 UK Corporate Governance Code in accordance with the FCA's Listing Rules with which we were required to comply for the year ended 31 March 2015. For the period from 25 July 2014 (on the retirement of Nick Salmon) until 1 September 2014 (on the appointment of Stephen Carter), there were only two independent non-executives directors appointed to the remuneration committee, notwithstanding the fact that the Code requires that three independent non-executive directors be appointed. During this

time no meetings of the remuneration committee were scheduled or held and as a result we do not regard this as being an incident of non-compliance with the Code.

Our approach to risk

We adopt a prudent approach to the way we manage the risks to our business; we feel this is appropriate for an organisation such as ours that provides a vital service to its customers, and is an approach that permeates the culture of our business. That being said, we are a commercial organisation operating within a regulated framework, and accepting some level of risk is a normal consequence of doing business. It is the board's and the executive team's role to understand the risks associated with each activity of the business and that actions are taken to mitigate these risks as they feel appropriate. The greatest risk to our business is ensuring that we get the constituent elements of our five-yearly business plans correct to ensure our financeability, and that they are agreed by Ofwat in its final determination, as we are bound by these plans for the following five-year period with limited opportunity to change them.

Our investors

The remuneration committee, under Sara Weller's leadership, has been instrumental in updating the executive directors' remuneration packages to ensure they align the directors' and senior managers' interests with the long-term interests of the company and its shareholders. At the time the changes were introduced in 2013, the committee went to considerable effort to consult on the changes with a number of the company's large investors. At the 2014 AGM, 98.48 per cent of the vote was in favour of the directors' remuneration policy and, although only an advisory vote, 99.39 per cent of the votes cast were in favour of the directors' remuneration report, which would suggest that our investors are comfortable with our approach to reward.

We welcome any feedback you may have on this annual report - please email any comments you may have to secretariat@uuplc.co.uk

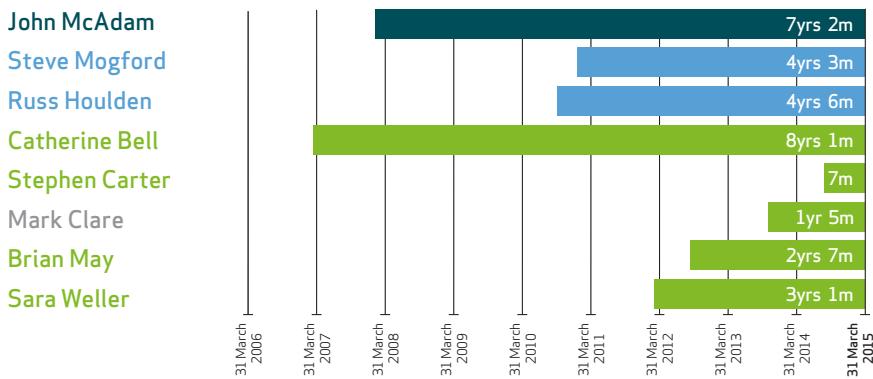
Dr John McAdam
Chairman

Code principle: Leadership

Overview of the board's responsibilities

- The board is responsible for setting the strategy of the group and ensuring the long-term success of the group for customers, investors and wider stakeholders; and in creating shareholder value
- The board is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set
- The board is responsible for ensuring the company's internal control systems (including financial, operational and compliance) and processes are sound and fit for purpose. See the 'accountability' section of this report on page 74 for more detail
- The board is responsible for ensuring that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It also reviews managerial performance annually
- The UUG board has oversight of capital expenditure projects within UUW which exceed £50 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business
- Full details of the matters that the board has reserved for its own decision making due to their importance to the business or the working of the board, can be found on our website at corporate.unitedutilities.com/corporate-governance

Directors' tenure as at 31 March 2015



Governance structure for our board and our committees

In line with the Code, the board delegates certain roles and responsibilities to its various principal board committees, as shown in the diagram on page 64. Whilst the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matter more deeply and gain a greater understanding of the detail, and then report back to the board on the matters discussed. The reports of the principal board committees required by the Code can be found on the subsequent pages. Minutes of the board and principal committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees verbally report to the board on their activities.

The executive team is chaired by the CEO, and its members are the senior

managers who have a direct reporting line to the CEO. The executive team meets monthly and is responsible for operational matters and implementing the strategies that the board has set, and the day-to-day running of the business. Short biographies of the executive team can be found on our website at corporate.unitedutilities.com/united-utilities-executive-team

The structure chart shown on page 64 also shows the principal management committees and a brief description of their roles. These committees enable senior management to understand and, if necessary, challenge the business in its interpretation of the implementation of the strategies the board has set. The board received reports from the CEO and CFO at every scheduled board meeting, providing the board with an updated overview of the business and its financial position.

Directors' key responsibilities

Title	Name	Responsibility
Chairman	John McAdam	Is responsible for the leadership of the board, setting its agenda and ensuring its effectiveness in all aspects of its role
Chief Executive Officer	Steve Mogford	To manage the group's business and to implement the strategy and policy approved by the board
Chief Financial Officer	Russ Houlden	To manage the group's financial affairs and to contribute to the management of the group's business
Independent non-executive directors	Catherine Bell Brian May Stephen Carter Sara Weller	To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board
Senior independent non-executive director	Mark Clare	Is responsible, in addition to his role as an independent non-executive director, for discussing any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chairman or chief executive officer

Corporate governance report

Governance structure of the board and its principal committees and the principal management committees



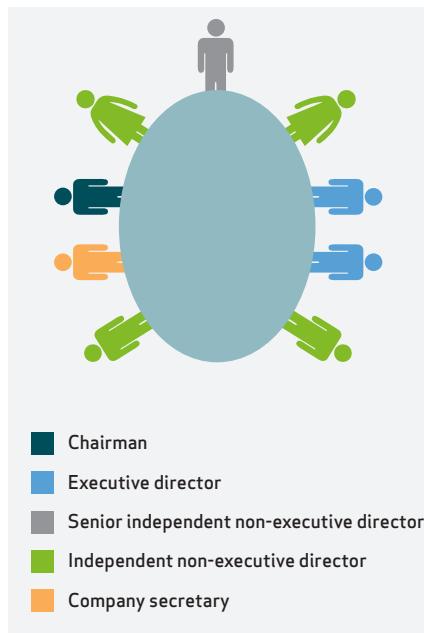
Board activity in 2014/15	Cross reference	Link to strategic objectives
Shareholder relations		
<ul style="list-style-type: none"> Received and discussed a presentation by Makinson Cowell on investors' views and perceptions Received and discussed feedback from roadshows/presentations to investors by the CEO and/or CFO 	See page 73	
	See page 73	
Leadership and employees		
<ul style="list-style-type: none"> Reviewed and discussed the health and safety of employees Considered board succession planning and the appointment of Stephen Carter as a new non-executive director Reviewed and discussed executive succession plans and the needs of the business and an update on the activities to develop talented employees Discussed the results of the annual employee engagement survey 	See page 38 See page 70 See pages 71-72 See page 38	
Strategy		
<ul style="list-style-type: none"> Debated and discussed developments in shale gas in the North West of England Reviewed the group's energy strategy and the progress with the installation of renewable sources of energy production at treatment works and other facilities Held a strategy session debating and discussing the future direction of Wholesale, Domestic Retail and Business Retail business units 	See page 37	
Governance		
<ul style="list-style-type: none"> Reviewed and debated the risk profile of the group and in particular the principal risks Reviewed and discussed updates on cyber security and information management strategies Approved revised terms of reference for the audit, remuneration, treasury and corporate responsibility committees Reviewed biannual updates on changes and developments in corporate governance Reviewed and discussed the evaluation of the board, its committees and individual directors and conflicts of interest Reviewed the performance of the external auditor and recommendation for reappointment Reviewed the effectiveness of the risk management and internal control systems 	See page 54 See page 54 See page 54 See page 66 See page 78 See page 74	
Regulation (UUW business)		
<ul style="list-style-type: none"> Reviewed, challenged and approved the 2015-20 business plan submission Reviewed the award of the framework contracts for capital programme contractors for the 2015-20 period Approval of capital expenditure to modernise Davyhulme wastewater treatment works 	See page 8 See page 8 See page 14	
Financial		
<ul style="list-style-type: none"> Reviewed and challenged the dividend policy Reviewed and approved the half and full year results and associated announcements Reviewed and approved the company's tax strategy Reviewed and approved the company's treasury policy and insurance arrangements Reviewed progress with material cases of litigation involving the group 	See pages 8-9 See page 40 See page 53	

Key to strategic objectives

Best service to customers Lowest sustainable cost Responsible manner

Corporate governance report

The boardroom table



Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2014: eight). A number of other board meetings and telephone conferences were also held during the year, as the need arose. The table below shows the actual number of scheduled meetings attended and the maximum number of scheduled meetings which the directors could have attended. As directors, our intention is always to attend all scheduled board and committee meetings; only in exceptional circumstances would we not do so. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of our non-executive directors have raised concerns over the time commitment required of them to fulfil their duties.

On the evening before each scheduled board meeting all the non-executive directors meet together with the CEO; this time is usefully spent enabling us to share views and cross-check our understanding of certain issues.

Code principle: Effectiveness

Board evaluation

We engaged Lintstock Consultants (Lintstock) to undertake our external evaluation; they also conducted the external evaluation in 2012. Other than conducting the 2012 evaluation, Lintstock had no other connection with the company.

The process, facilitated and evaluated by Lintstock, was based on the completion of online questionnaires by board members addressing the performance of the board and its committees, the Chairman and individual directors.

In addition to board members, other members of the executive team who regularly attend and support committee meetings were asked to complete the same questionnaires.

The anonymity of all respondents was ensured throughout the process in order to encourage an open and frank exchange of views. The results were then analysed by Lintstock; were then discussed with the Chairman, the chair of the relevant committee, and the company secretary; tabled at a meeting of the relevant committee; and then presented to the board.

	Board meetings	Audit committee	Remuneration committee	Nomination committee	Corporate responsibility committee	Treasury committee
John McAdam	8 8	n/a	n/a	4 4	n/a	n/a
Steve Mogford	8 8	n/a	n/a	n/a	2 2	n/a
Russ Houlden	8 8	n/a	n/a	n/a	n/a	4 4
Catherine Bell	8 8	4 4	5 5	4 4	2 2	n/a
Stephen Carter	4 4	2 3	n/a	1 1	2 2	n/a
Mark Clare	8 8	1 1	3 3	4 4	n/a	n/a
Brian May	8 8	4 4	n/a	3 4	n/a	4 4
Nick Salmon	4 4	0 1	2 2	2 2	n/a	n/a
Sara Weller	8 8	n/a	5 5	3 4	n/a	n/a

● Actual number of meetings attended

● Maximum number of scheduled meetings which the directors could have attended

- (1) Nick Salmon retired from the board and the relevant committees with effect from the close of the AGM held on 25 July 2014. Nick was unable to attend the meeting of the audit committee in May 2014.
- (2) Stephen Carter was appointed to the board and the audit, nomination and corporate responsibility committees on 1 September 2014, at which time Mark Clare stepped down from the audit committee and joined the remuneration committee. Stephen was unable to attend the November 2014 meeting of the audit committee due to a pre-existing commitment arranged prior to him joining the board.
- (3) Sara Weller and Brian May were not able to attend the August 2014 meeting of the nomination committee, as it was arranged at short notice.

A summary of Lintstock's analysis of the 2014/15 evaluation is as follows:

Board composition and expertise	Board members' skills and expertise were felt to be appropriate, and in particular the board members' knowledge and understanding of the regulatory environment the company operates within, along with their understanding of the views of regulators, customers and investors.
Board agenda	The allocation of time spent on the key strategic issues of the price review during the year was appropriate as were the other topics devoted to board discussion. With the completion of the price review, more time could now be allocated to address the advent of further market reform and competition in the sector.
Board support	Presentations to the board and the timeliness of board documentation were appropriate, although improvements could be made to the content and format of papers. The support and training needs of board members continued to be addressed.
Wider strategic oversight	The involvement of the board in the development of the strategic direction of the group was considered to be appropriate. The board would consider what improvements could be made to the format of the board strategy day.
Risk management and internal control	The board's approach to the management of risk was considered to be appropriate, with suggestions being made to refine the management and oversight of risk overall.
Succession planning and human resource management	Board members felt that the senior management structure and the succession planning for executive and key management positions supported the strategic objectives. The visibility by the board of potential internal candidates for succession should be maintained and enhanced.
Committees	The composition and performance of the audit, remuneration, nomination, corporate responsibility and treasury committees were considered to be appropriate.
Individual directors	The individual performance of the directors was assessed; all of which were considered to be effective and all directors demonstrated the expected level of commitment to the role. The review of the Chairman's performance, led by the senior independent director and that of Catherine Bell concluded that both continued to demonstrate an independent approach, notwithstanding they had each served in excess of six years as a director.

The internal evaluation conducted in 2013/14 identified the following actions:

- There was a need to improve further the visibility and engagement of the executive team and a wide range of senior managers with the board and provide more opportunities for such engagement; and
- Maintain the strong focus on succession planning for executives and those in critical posts in the talent pipeline.

Whilst progress has undoubtedly been made during the year, these are enduring themes which will continue to be pursued.

Training

Specific training has been provided to the directors during the year on a number of areas including regulatory matters and changes in reporting and governance requirements and their responsibilities in accordance with the Goods Vehicles (Licensing of Operators) Act 1995. On the appointment as a director to the UUG and/or the UUW board, directors receive information on the key duties of being a director of a regulated water company including the role of the regulated company's holding company. This information is kept continually under review.

Corporate governance report

Nomination committee

Nomination committee members

- Dr John McAdam (chair)
- Dr Catherine Bell
- Stephen Carter
- Mark Clare
- Brian May
- Sara Weller

 Read biographies of the directors on pages 58 and 59



Dr John McAdam
Chair of the nomination committee

Quick facts

- The Code requires that a 'majority of members of the nomination committee should be independent non-executive directors'
- The role of the committee is to make recommendations to the board on its composition, balance and membership and on refreshing the membership of the board committees
- The company secretary attends all meetings of the committee
- The business services director, who has responsibility for human resources, regularly attends meetings and is responsible for engaging with executive search recruitment advisors
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chairman nor the CEO would participate in the recruitment of their own successor

Quick links

Terms of reference – [corporate.unitedutilities.com/corporate-governance](#)

Dear shareholder,

We have, for the fourth successive year, undertaken the recruitment of a new non-executive director, which culminated in the appointment of Stephen Carter to the board on 1 September 2014.

We feel as we move forward into a new regulatory period that our directors have an excellent mix of skills and experience for leading the company into the new five-year period. The combination of relatively new directors, coupled with those that have served for a number of years, provides us with the benefit of new ideas, whilst not losing sight of what has gone in the past. We have maintained a 25 per cent gender diversity ratio, and the board gender diversity policy is taken into account during every candidate

selection process. Ultimately, we strive to appoint the person we believe is best matched to the role in terms of what they have to offer the company and to make a positive contribution to the board conversation and board dynamics.

With the retirement of Nick Salmon, Mark Clare took over the role of senior independent director. When Stephen Carter joined the board he replaced Mark Clare as a member of the audit committee and Mark joined the remuneration committee.

Dr John McAdam
Chair of the nomination committee

We have maintained a 25 per cent gender diversity ratio and the board gender diversity policy is taken into account during every candidate selection process

Main responsibilities of the committee

- Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary
- Consider the succession planning of directors and members of the executive team
- Make recommendations to the board on refreshing the membership of the board's principal committees
- Review directors' conflict authorisations
- Consider the request from executive directors for election to the boards of other companies and make a recommendation to the board
- Consider requests from non-executive directors for the election to the boards of other companies; this role has been delegated to the Chairman (other than in respect of his own position)

What has been on the committee's agenda during the year

1. Board succession

The committee:

- considered the succession requirements of the board;
- appointed executive search consultants Russell Reynolds Associates (Russell Reynolds) to begin the process of the recruitment of a non-executive director and provided a brief to Russell Reynolds setting out the attributes of a preferred candidate;
- considered and reviewed the long list of candidates and identified those to be shortlisted for interview initially with the Chairman, CEO and the business services director. A number of candidates were then invited to meet with the other non-executive directors and the CFO; and
- discussed the candidates and the 'best fit' with the skills matrix (as shown below); took into account the board diversity policy and the specification provided to the executive search consultants; and duly made a recommendation to the board to appoint Stephen Carter as the successful candidate. Stephen brings to the board table a strong career in government and regulation, having held a number of public sector roles including serving a term as the founding chief executive of Ofcom. He is currently group chief executive at Informa plc, a FTSE 250 listed company.

Russell Reynolds is a signatory to the voluntary code of conduct on gender diversity for executive search firms; it has no other connection with the group other than being used on previous occasions for executive search purposes.

2. Refreshing the membership of the principal committees

Nick Salmon's departure from the board left a vacancy on each of the board's principal committees.

The conclusion was reached that this provided us with an opportunity to switch Mark Clare to the remuneration committee and to appoint Stephen Carter to the audit committee given his familiarity with the role of the audit committee from his time as a non-executive director at Informa plc. Stephen was also appointed as a member of the corporate responsibility committee.

3. Board diversity

We have retained the 25 per cent gender diversity ratio on our board, in accordance with our board diversity policy, and the recruitment process for a new non-executive director was in line with the policy in terms of gender diversity. Of the 10 candidates in the long list, two were female, and of the shortlist of four, one was female.

Skills matrix of board directors

	Finance/ accounting	Utilities	Regulation	Government and civil service	Construction/ engineering/ industrial	Customer facing	FTSE companies
John McAdam		✓			✓	✓	✓
Steve Mogford		✓			✓	✓	✓
Russ Houlden	✓	✓		✓	✓	✓	✓
Catherine Bell		✓	✓		✓		
Stephen Carter		✓	✓	✓	✓		✓
Mark Clare	✓	✓	✓		✓	✓	✓
Brian May	✓				✓	✓	✓
Sara Weller		✓	✓	✓		✓	✓

Corporate governance report

Nomination committee

Q&A - Stephen Carter



Gaining an insight into the culture of the company

How has your induction process so far been insightful?

My induction has provided a reassuring window into the company's culture. It has been thorough, detailed, professional and enjoyable. At all levels within the business, I have been met with individuals committed to delivering for their customers, open to change, and excited about the future of this industry.

Have your perceptions of United Utilities changed since you joined the board?

Like many people, I associate water and wastewater services with a simple turn of the tap or flush of the loo! The deeper I delve into the business, gaining a greater understanding of what lies behind the service delivery, the commitment to the environment, and the large capital demands placed on a business like United Utilities, the more I recognise the importance of a clear strategy, effective leadership and a coherent board providing oversight and constructive challenge.

In what way do you think you can best share your previous experience with United Utilities?

My experiences in technology industries and in regulation are directly relevant to United Utilities, today and even more so in the future. We are seeing the ever-increasing deployment of monitoring technology, increasingly demanding customers, both in business and residentially, and critically, a new regulatory landscape emerging across the water industry.

Having seen and participated in major regulatory change in another industry that was broadly successful and helped deliver, in both telecommunications and media, real investment, innovation and significant price reductions, I recognise the importance of ensuring that the incentives and the level of return are right for both consumers and the industry.

Finally, as CEO of a business that is facing a different set of challenges, but many the same, I hope to be able to contribute another perspective on leadership and strategy to the executive team.

Whilst the committee was mindful of the benefits of gender diversity, it was felt that Stephen was the strongest candidate and had the most relevant experience.

We are keen to develop our female senior managers so that, over time, they can be considered for board appointments at United Utilities or as potential candidates for non-executive directorships in other companies. We believe a non-executive appointment provides an excellent opportunity for both personal and career development and is a way of gaining valuable experience that may be applied at United Utilities.

As is the case in many UK companies, certain activities remain more widely populated by men (e.g. in operational and engineering activities) or women (e.g. customer contact centre roles and support services). United Utilities is no exception, but we are continuing our activities to try and address gender imbalances at all levels and in all areas of our business.

Summary of board diversity policy

Ensure the selection process for board candidates provides access to a range of candidates, although any appointments will be made on the basis of equal merit but with due regard for the benefits of diversity on the board, including gender diversity

Ensure that the policies adopted by the group will, over time, promote gender diversity among senior managers who will in turn aspire to a board position

In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms as recommended by Lord Davies

Adopt measurable objectives from time to time for achieving gender diversity at board level – which shall currently be to maintain at least 25 per cent female representation

What have we done in 2014/15?

Improving gender diversity across the talent pool

Our graduate scheme continues to be successful in attracting female applicants. This year the number of female graduates offered roles with United Utilities increased to 42 per cent. The overall number of female graduates on the scheme has also increased from 35 per cent to 39 per cent.

In 2014, there was a 34 per cent increase in female applications to our apprentice scheme and an overall increase in the number of female apprentices joining the company. The 2014 intake was 25 per cent female and our overall apprentice population is now 14 per cent female. This is above the national industry average of seven per cent. Research from the Sector Skills Council for Science, Engineering and Manufacturing Technologies shows the average number of women in apprenticeships is between five and seven per cent.

In our executive team of nine (including the CEO and CFO), three are women, namely Sue Amies-King (business retail director), Sally Cabrini (business services director) and Gaynor Kenyon (corporate affairs director). We are actively working with these individuals on their personal development plans, which include building their external portfolio.

Women hold 23 per cent of senior leadership positions. For this group, we actively support their individual personal development plans, which include encouraging them to broaden their external network. We have run a number of successful events for our female talent population, including an Army leadership day. Gary Dixon, our domestic retail director and a member of our executive team, is the executive sponsor of our diversity activities.

This year we have launched our women's network and a number of our senior managers have hosted events and explained how they have developed their own careers and overcome barriers. In addition, we have invited guest speakers from external organisations to share their career experiences. This has inspired the group to set up a self-managed women's network group.

We have an active partnership with the Energy and Efficiency Industrial Partnership (EEIP) which has enabled us to leverage initiatives which align and support our diversity plans.

A great example of this is Charlotte Cottam, one of our female apprentices who we have nominated to support an EEIP skills social media campaign to promote employment opportunities in the utility sector to girls.

This campaign was launched at the opening of our Bolton training and technology centre by the then Employment Minister, Esther McVey. Charlotte was interviewed by media sources who then promoted her story in National Apprentice Week. All of our apprentices are supported by a senior manager as part of their career development with us.



"What appealed to me about United Utilities is that it's such an important company. We're always going to need water – it's a vital commodity. I love being employed in a sector that I know has a long-term future."

Charlotte Cottam, apprentice engineer, working with the team looking after our sewer network on Merseyside

We have widened our diversity focus and we have joined Race for Opportunity (RfO), part of Business in the Community and the leading organisation for ethnic diversity and inclusion.

In 2014, we participated in the RfO benchmarking survey which assesses the effectiveness of our policies and processes across recruitment, development, leadership, pay, and customer and supplier management. We achieved a bronze award. Our aspiration to improve our score in 2015 is underpinned by an action plan.

The employee-run lesbian, gay, bisexual and transgender network has recently been relaunched, and a number of employee events are being planned for 2015.

Corporate governance report

Nomination committee

Case study - Jo Matzen , Area Business Manager

Jo Matzen, who has a degree in Biomedical Science, has worked for United Utilities for 20 years.

She started her career as a business analyst and has successfully progressed through a range of operational and technical roles.

Three years ago she was selected for one of the newly created area business manager (ABM) roles which form a key part of our operating model.

As an ABM, Jo is accountable for the effective and efficient delivery of the wastewater operations and asset planning across the Merseyside area. Within Jo's patch is Liverpool wastewater treatment works situated on the banks of the River Mersey. The facility has recently been refurbished and is in the process of being extended at a cost of around £200 million. Construction work is well underway; treated water leaving the new plant will be cleaner and greener, helping the continuing rejuvenation of the River

Mersey and ensuring that it meets strict European standards for water quality.

Jo has actively mentored many colleagues at United Utilities throughout her time at the company and she continues to be committed to supporting others in developing their careers.

Jo says: "I thoroughly enjoy working for United Utilities and am extremely proud to work in such a vital service industry."



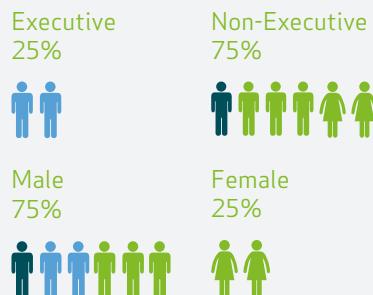
4. Conflicts of interest

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chairman of any potential conflict, and the board reviews the position of each director annually. No changes were recorded which would impact the independence of any of the directors.

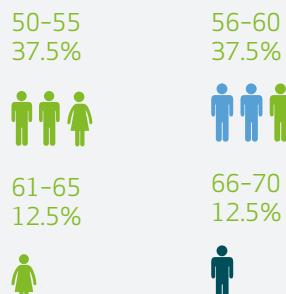
5. Wider succession and talent management

As part of succession planning a number of changes were made to the membership of the executive team. The membership as a whole was reduced to nine (2014:12) including the CEO and CFO, with a ratio of six males to three females.

Board composition



Age profile



Pictured: Members of our female leadership talent pool taking part in a team building day with the Army at Fulwood Barracks in Preston. The day was designed to develop a range of leadership, communication and problem solving skills, all of which will be invaluable in their roles as future leaders of our business.



Corporate governance report

Code principle: Relations with shareholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace including:

- Makinson Cowell produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- the board receives regular updates and feedback on activities within investor relations and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- the board welcomes engagement with institutional investors. The executive and non-executive directors are available to meet with major shareholders; in fact, this is one of the specific roles of the senior independent director.

Institutional investors

We are always keen to hear the views of and engage with our shareholders and investors and we have an active investor relations programme. The activities of the programme include:

- the CEO and CFO have a regular schedule of meetings with representatives from major shareholders. This is supplemented with meetings hosted by our investor relations team. During the year, the programme covered over 100 institutions based in the UK, Europe, North America and Asia Pacific region;
- the CEO and CFO undertake presentations to groups of institutional shareholders and investors, both on an ad hoc basis and linked to our half and full year results announcements;
- the board receives regular feedback on the views of its institutional investors following on from the CEO and CFO's meetings;

- close contact is also maintained between the investor relations team and a range of City analysts that research United Utilities; and
- in total, we met or offered to meet with 39 per cent by value of the overall shareholder base, which represents 72 per cent of the targetable institutional shareholder base (when adjusting for shareholders who do not typically meet with companies, such as indexed funds).

In meetings with investors, frequent areas of common interest include operational and environmental performance, customer service, capital investment, efficiency initiatives and regulatory outperformance. Investors are always keen to observe financial stability, and investors are interested in the level of gearing versus regulatory assumptions, cost of finance, debt portfolio and maturity profile, future financing requirements and dividends. The outcome of the price review, covering the 2015–20 period, was also a key area of interest for them. Looking ahead, investors will be keen to understand how the company is performing relative to the price review allowances and targets.

Retail shareholders

Despite the privatisation process being over 25 years ago, we have retained a large number of shareholders with registered addresses in the North West of England – in fact around 41 per cent. We have historically always held our AGM in Manchester, which enables our more local shareholders to attend the meeting. These shareholders are also our customers.

There is a considerable amount of information on our website, including our online report which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our annual report and financial statements are available on our website; these are the principal ways in which we communicate with our

shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are also on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, with a number of useful website addresses.

Relations with other providers of capital

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise associated funding in order to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle. We are heavily reliant on successfully acquiring long-term funding from banks and debt capital markets to fund our capital investment programme.

This requires a long-term commitment and involvement from our credit investors who lend us the funds with the company paying them a return for doing so. We arrange term debt finance in the bond markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is raised via the group's London listed multi-issuer Euro Medium Term Note Programme, which gives us access to the sterling and euro public bond markets. Committed credit facilities are arranged with various relationship banks on a bilateral basis. Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union, is our single biggest lender, currently providing circa £1.9 billion of term funding (of which circa £1.5 billion has been advanced and £400 million remains available to draw down) used to support our capital investment programme. The group currently has gross borrowings of £6,645 million.

Corporate governance report

Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds, that may be existing holders of the group's debt or potential holders. Regular mailings of company information are sent in order to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks and the EIB. More information can be found on our website at corporate.unitedutilities.com/93

Code principle: Accountability

Board's approach to risk management and internal control

The board is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The board is also responsible for ensuring that the company's risk management and internal control systems are effectively managed across the business and that they receive an appropriate level of scrutiny and board time.

The group's risks are predominantly those of all regulated water and wastewater companies. One of the most significant is that of failing to achieve our regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, leading potentially to the imposition of fines and penalties. 2014/15 has been an important year for the company in managing this risk as this year we submitted our business plan to Ofwat for the 2015–20 period. The board engaged fully with the process to ensure the plan's robustness so that, having received the final determination, we are confident that the business can be managed within the parameters of the determination for the next five-year cycle.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting. Similarly, and as will be required in future years in applying the principles of the 2014 version of the UK Corporate Governance Code (the 2014 Code), the board concluded, following a recommendation from the audit committee, that it was appropriate to provide a long-term viability statement (both statements are set out on page 75). Assurance supporting these statements was provided by the review of: the group's key financial measures; the key credit financial ratios; the group's liquidity and UUW's ongoing ability to meet its financial covenants; and the contingent liabilities of the group.

As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks. These principal risks and uncertainties are detailed on pages 52 and 55, as are the risk management processes and structures used to monitor and manage them. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature – see the structure diagram on page 64) including such matters as liquidity policy, the group's capital funding requirements and interest rate management.

Review of the effectiveness of the risk management and internal control systems

Taking into account the information on principal risks and uncertainties provided on pages 54 and 55, and the ongoing work of the audit committee in monitoring the risk management and internal control systems on behalf of the board (and for whom the committee provides regular updates, see pages 80 and 81), the board:

- is satisfied that it has carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and
- has reviewed the effectiveness of the risk management and internal control systems including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

In the review of the effectiveness of risk management and internal controls systems the board also took into account the:

- biannual review of significant risks;
- oversight of treasury matters;
- reviewing and assessing the activities of internal audit and the external assessment of its activities;
- reviewing management's internal control self-assessment;
- reviewing reports from the GARB;
- reviewing the outcome of annual business unit risk assessment process; and
- reviewing the corporate risk management framework.

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.

Long term viability statement

The directors have assessed the viability of the group over a five-year period to March 2020, taking account of the group's current position and the potential impact of the principal risks documented in the strategic report. Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

In making this statement the directors have considered the resilience of the group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The directors have determined that the five-year period to March 2020 is an appropriate period over which to provide its viability statement. In making their assessment, the directors have taken account of the group's robust capital solvency position with a debt to RCV ratio of around 60 per cent, its ability to raise new finance in most market conditions, its key potential mitigating action of restricting dividend payments and the protections which exist under the regulatory model that a primary legal duty of UUW's economic regulator is to ensure that water and wastewater companies can finance their functions.

Code principle: Remuneration

Our remuneration policy has been designed in order to promote the long-term success of the company. Sara Weller's report as chair of the committee can be found on pages 84 to 103.

Corporate governance report

Audit committee

Audit committee members

- Brian May (chair)
- Dr Catherine Bell
- Stephen Carter

 Read biographies of the directors on pages 58 and 59



Brian May
Chair of the audit committee

Quick facts

- Brian May has chaired the committee since July 2013. He is a serving finance director of a FTSE 100 company and chartered accountant and is considered by the board to have recent and relevant financial experience
- Other regular attendees at meetings include the Chairman, the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the external auditor KPMG LLP (KPMG)
- KPMG and the head of audit and risk both have time with the committee to freely raise any concerns they may have without management being present
- The committee is authorised to seek independent advice as it sees fit, but has not done so during the year

Quick links

Terms of reference – [corporate.unitedutilities.com/corporate-governance](#)

Dear shareholder,

It has been another year of evolution for the work of audit committees, with the publication by the FRC of the 2014 version of the Code and the publication by the Competition and Markets Authority of the Statutory Audit Services Order 2014*. At the request of the board, the audit committee ('the committee') has considered the new requirements.

We are not required to report against the 2014 Code until our next financial year. However, we decided that it was appropriate for the board to provide the long-term viability statement (see page 75) applying the principles of the 2014 Code, given the long-term nature of our business. For the 2015/16 financial year the committee's terms of reference have been amended to reflect the 2014 Code requirements, and we are committed to ensuring that the committee's agenda is kept under review and keeps abreast of relevant developments.

There have been a number of changes during the year to the membership of the committee. As planned, Nick Salmon stood down at the AGM in July 2014 and Stephen Carter joined the board and the committee on 1 September 2014. I am pleased to welcome Stephen as a member of the committee, his views and previous experience will add considerable breadth of knowledge to the committee. On Nick leaving, Mark Clare replaced him on the

remuneration committee, stepping down from the audit committee on 1 September 2014. Although Mark's time on the committee was relatively short, I would like to thank him for his valuable contribution.

Although audit committees have specific responsibilities rooted in reviewing the group's financial statements and reviewing the internal assurance work and external audit of those financial statements, the committee also reviews the internal control and risk management processes, leaving the review of the significant risks to be undertaken by the board. A lot of the work of the committee is necessarily targeted at the regulated activities of UUW, which represents over 98 per cent of group revenues. This is a reflection of our commitment to safeguarding the interests of our customers; all the members of the committee are also independent non-executive directors of UUW. Details of the committee's activities over the past year are set out on the opposite page.

We have again worked to enhance this report and make it more informative for the reader and we continue to be committed to providing meaningful disclosure of the committee's activities.

The following report was approved by the committee at its meeting held on 14 May 2015.

Brian May
Chair of the audit committee

The committee's agenda is kept under review and keeps abreast with relevant developments

*The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Main responsibilities of the committee

The main responsibilities of the committee are:

- to make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor;
- to establish policies for the provision of any non-audit services by the auditor;
- to review the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded;
- to review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues considered by the committee in relation to the financial statements and how these were addressed;
- to review the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems;
- to review the group's procedures for whistleblowing, reporting fraud and other inappropriate behaviour and to receive reports relating thereto; and
- to report to the board on how it has discharged its responsibilities.

What has been on the committee's agenda during the year

In addition to fulfilling its ongoing duties, the committee has an extensive agenda of items addressing issues relating to the day-to-day activities of the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. There were four scheduled meetings of the committee during the year. Items on the agenda included:

- considering the issues and findings brought to the committee's attention by the internal audit team and satisfying itself that management has resolved or is in the process of resolving any outstanding issues or concerns;
- reviewing the assurance work undertaken by internal audit relating to: the content of the regulatory business plan and the processes supporting the preparation of the plan; and the annual regulatory reports;
- reviewing the reports from the financial reporting team on the financial statements, including the UUW financial statements and other regulatory reports, and considering matters such as the accounting judgements and policies being applied;
- reviewing the audit reports from KPMG on the financial statements and tasking management to resolve any issues relating to internal controls and risk management systems;
- reviewing the going concern and longer term viability assessments prior to making its recommendations to the board;
- annual review and approval of the policy on non-audit services provided by the auditor including the continued use during 2014/15 of Makinson Cowell (now owned by KPMG);
- monitoring incidents of whistleblowing and fraud reporting;
- biannual oversight and monitoring of the group's compliance with the Bribery Act which the board reviews annually;
- overseeing and approving the strategic internal audit planning approach;
- an externally facilitated review of the quality and effectiveness of internal audit; and
- reviewing the committee's terms of reference and the conclusions of the committee's annual evaluation. The externally facilitated evaluation was undertaken as part of the overall board evaluation (see page 66). The review explored: time management and the composition of the committee; the committee's processes and support; and the agenda and work of the committee. It was concluded that the committee was effective.

How we assessed whether 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy'

The committee, further to the board's request, has reviewed the annual report and financial statements with the intention of providing advice to the board on whether, as required by the Code, 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy'.

To make this assessment, all members of the committee received copies of the annual report and financial statements to review early in the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued; and that the narrative sections of the annual report were consistent with the financial statements. The significant issues considered by the committee in relation to the financial statements were consistent with those identified by the external auditor in their report on pages 114 to 117.

Corporate governance report

Audit committee

The presentation of the company's business model (on pages 14 to 19) has been reformatted to make it more understandable for the reader and there are clear linkages to the company's strategic objectives throughout the document.

The committee concluded that the key performance indicators (KPIs) included in the strategic report (see pages 32 and 33) were, amongst others, those used by management and, for consistency and comparative purposes, should be retained unamended (other than to reflect regulatory reporting changes) up until the 31 March 2015 financial year-end. As is described on page 51 of the strategic report, management have refined the KPIs used for 2015–20 reflecting the new measures to be monitored by Ofwat during that period.

In addition, the committee was satisfied that all the key events and issues which had been reported to the board in the CEO's monthly report during the year, both good and bad, had been adequately referenced or reflected within the annual report.

How we assessed the effectiveness of the external audit process

The committee, on behalf of the board, is responsible for the relationship with the external auditor, and part of that role is to examine the effectiveness of the audit process.

Audit quality is a key requirement. Prior to the statutory audit at the half-year, KPMG presented the strategy and scope of the audit for the financial year, highlighting any areas requiring special consideration. KPMG then reported against this audit scope at subsequent committee meetings.

On completion of the audit at the full-year, all members of the committee, as well as key members of the senior management team, were required to complete a questionnaire seeking their views on how well KPMG performed the year-end audit. The views of the respondents was sought in respect of: the robustness of the audit process; the quality of the delivery of the audit; the expertise of the audit team

conducting the audit and that the degree of professional scepticism applied by the auditor was appropriate; the quality of the service they gave; and their views on the quality of the interaction between the audit partner and audit manager and the company. The feedback was collated and presented to the committee's meeting in November 2014, at which the conclusions were discussed and any opportunities for improvement brought to the attention of the external auditor.

Private meetings are held at each committee meeting between the audit committee and the representatives of the external auditor without management being present in order to encourage open and transparent feedback by both parties. The committee was satisfied that the overall external audit process and services provided by KPMG were effective.

How we assessed the independence of our external auditor

There are two aspects to the auditor independence test that the committee monitors.

First, in accordance with the Auditing Practices Board Ethical Standards, KPMG has to implement rules and requirements such that none of its employees working on our audit can hold any shares in United Utilities Group PLC. KPMG is also required to tell us about any significant facts and matters that may reasonably be thought to bear on its independence or on the objectivity of the lead partner and the audit team. The lead partner must change every five years and the quality review partner, who reviews the judgements of the audit team actually doing the audit, rotates every seven years along with the key audit partner.

Secondly, the committee considers and approves all the fees that it pays for audit, audit-related and non-audit services from KPMG. KPMG is prohibited from providing certain services to the group, such as operational consulting, internal

audit services and strategic planning support, as it is felt that these types of services could impede their independence. Furthermore, auditor independence is also safeguarded by limiting the value of non-audit services performed by the external auditor which should not ordinarily exceed 100 per cent of the audit fee. The committee has discretion in exceptional circumstances or where a compelling commercial justification can be provided for this cap on non-audit fees to be exceeded. The CFO can pre-approve expenditure in respect of non-audit services, such as tax compliance work of up to £100,000 (as was the figure for the year ended 31 March 2015) thereafter, any fees for non-audit services up to 100 per cent of the audit fee cap can be approved by the committee chair. Any such fees are reviewed and, if appropriate, ratified by the committee.

For a number of years, the group has engaged the consultancy firm Makinson Cowell to provide it with investment research and advice. As reported in the 31 March 2014 annual report, Makinson Cowell was acquired by KPMG in June 2013, therefore the fees paid to Makinson Cowell are included in the total of 'other non-audit services' paid to KPMG (see the bar chart on page 79). As part of the annual review by the committee of the non-audit services policy the engagement of Makinson Cowell was considered. The committee took into account the board's satisfaction with the services provided by Makinson Cowell and concluded that it was appropriate for their services to be retained for the year ended 31 March 2015.

As part of UUW's licence conditions it is required to prepare audited regulatory accounts, which are derived from the statutory financial statements. Given the audit of the statutory financial statements is already undertaken by KPMG, there are efficiencies and cost savings if KPMG also audits the regulatory accounts. Fees paid to KPMG also include audit related services in relation to UUW regulatory assurance work as shown in the bar chart opposite.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group. As a result, the committee recommended to the board that KPMG be proposed for reappointment at the forthcoming AGM in July 2015. There are no contractual obligations that restrict the committee's choice of external auditor and no auditor liability agreement has been entered into.

Audit tender

The external audit was last competitively tendered in March 2011 when KPMG was appointed and completed the audit for the year ended 31 March 2012. The committee has considered the final Statutory Audit Services Order 2014 published by the Competition and Markets Authority which came into effect on 1 January 2015. The committee's terms of reference already provided for the competitive tender of the external audit contract every 10 years, and for the committee to be responsible for overseeing the tender process and agreeing the scope of the audit, but they have been amended to reflect that the committee shall be responsible for agreeing the audit fee and the

appointment of the audit engagement partner. Terms of reference can be found at corporate.unitedutilities.com/corporate-governance.

The committee is also mindful of the EU Audit Directive and Regulation of the Audit of Public Interest Entities on which the FRC has issued a consultation, the outcome of which was awaited at the time of writing this report.

Significant issues considered by the committee in relation to the financial statements and how these were addressed

In relation to the group's financial statements, the committee reviewed the following principal areas of judgement (as noted in the accounting policies):

Capitalisation of fixed assets

Fixed assets represent a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.

- The committee considered the capital overhead rate which management proposed to apply for the next five-year regulatory period. The capital overhead rate historically has been established at the commencement of each five-year regulatory period and is applied as a

percentage of capital expenditure to charge certain capital overhead costs to capital projects. Management explained the basis upon which the proposed capital overhead rate for the next five-year regulatory period had been determined and why it was considered an appropriate rate to adopt.

The committee challenged management over the factors which had been considered in determining the rate and its consistency against rates applied previously. In addition, the committee considered the views of KPMG, particularly that the proposed capital overhead rate was within the range used by other utility companies of which they were aware. The committee concluded that management had taken appropriate steps in determining the future rate to be applied.

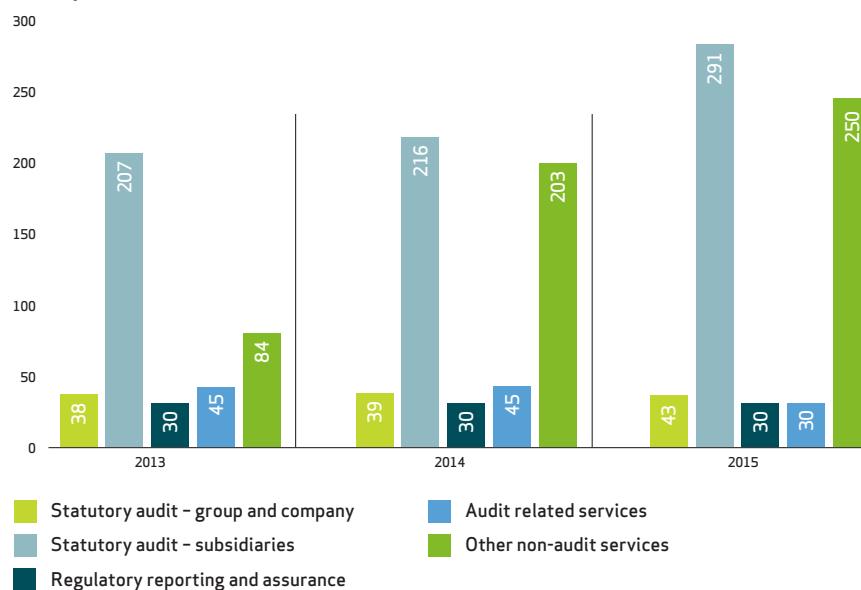
- The committee requested that management provide it with an update on the implementation of a new reactive work order scheduling and settlement system and specifically the realisation of the financial reporting benefits the system would bring in automating the process and enhancing cost allocation accuracy. Management reported to the committee that in May 2014 functional changes had been successfully implemented. The committee noted the improvements resulting from the new system.

Revenue recognition and allowance for doubtful receivables

Due to the nature of the group's business, the extent to which revenue is recognised and doubtful customer debts are provided against is an area of considerable judgement and estimation.

- The committee considered the appropriateness of the existing revenue recognition policy which derecognises revenue for certain customers who have not paid their bills within a particular period of time. After reviewing cash collection history and practice, the committee concluded the revenue recognition policy was appropriate.

Fees paid to KPMG



Corporate governance report

Audit committee

- The committee also questioned the current levels of doubtful debt and credit note provisioning (see note 15 for more detail). The committee challenged management over the adequacy of the overall levels of provisioning following these reviews and were satisfied that the resulting net debtor balance was appropriate.

Provisions and contingencies

The group makes provisions for contractual and legal claims which by their nature are subjective and require management to arrive at a best estimate as to the probable outcomes and costs associated with each individual case.

- The committee received regular updates on new and existing claims being made against the group and the extent to which these have been provided for (see note 20 for details). The committee focused their attention on the more significant items and discussed the judgements made by management in arriving at appropriate provisions in relation to these matters.
- Based on the facts behind each provision and taking account of any relevant legal advice that may have been received as well as the past experience of management in making such provisions and challenging where necessary the views taken by management and through the assurance provided by KPMG who cover these as part of their audit, the committee concluded that the provisions management had made were appropriate.

Retirement benefit obligations

The group's defined benefit retirement schemes are an area of considerable judgement and the performance and position of which is sensitive to the assumptions made.

- The committee sought from management an understanding as to the factors which led to the significant improvement in the IAS19 net retirement benefit position during the period and noted that the scheme-specific funding

basis had not been impacted by this volatility. Management presented an explanatory note (see page 154) in order to communicate most effectively what is a complex area for the benefit of the group's stakeholders. The committee was satisfied with the explanations provided by management and following a review of the explanatory note approved its inclusion in the financial statements.

- The committee reviewed the methodology and assumptions used in calculating the defined benefit scheme positions (see note A4 for more details). The committee employs the services of an external actuary to perform these calculations and determine the appropriate assumptions to make. The external actuary prepared a report showing how the assumptions applied compared to their client base and this was summarised for the committee's information. In addition, KPMG audit these assumptions and provide their own report showing how the assumptions applied compare against other companies. After considering the above, the committee concluded that the approach taken and assumptions made were appropriate and fairly balanced in determining the net retirement benefit surplus.

Derivative financial instruments

The group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made. The committee requires management to perform periodic checks to ensure that the model derived valuations agree back to third party valuations and that KPMG check a sample against their own valuation models. It was confirmed to the committee that such testing had been undertaken during the year and there were no significant issues identified.

Taxation

The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets. In addition, the committee took account of KPMG's assessment of these provisions. Based on the above, the committee was satisfied with the judgements made by management.

The main features of the group's internal controls and risk management systems are summarised below:

a. Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business processes and internal controls.

In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes. Once any recommendations are agreed with management, it monitors their implementation and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach has been developed and adopted during the year. This facilitates a more efficient deployment of internal audit resource in providing assurance coverage over time across the whole business. Following approval by the audit committee, this strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee also approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the

development of the plan considers risk assessments, issues raised by management, prior audit findings and a cyclical review programme. The in-house team is expanded as and when required with additional resource sourced from external providers – primarily PwC at present. The committee keeps the relationship with PwC under review to ensure the independence of the internal audit function is maintained. In the course of its work, the internal audit function also liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the audit committee and board.

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, an annual review of the department's internal quality assurance report, annual stakeholder surveys in which committee members also participate as well as any other periodic quality reporting requested. In addition, during 2015, the quality and effectiveness of the internal audit function was externally assessed. Following this assessment, the committee concluded that the internal audit function was effective and appropriate resources available as required.

Internal audit, led by the head of audit and risk, covers the whole of the group's activities and reports to the committee and functionally to the CFO. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of the committee meetings.

b. Risk management systems

The committee receives updates and reports from the head of audit and risk on activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. The group designs its risk management activities in order to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

The annual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their area of the business, to encourage the identification of new and emerging risks and generally to facilitate improvements in the way risks are managed. The outcome of the BURA process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board. During the year, new risk management software was developed and is in the process of implementation across the business with a view to enhancing the company's risk management process.

A five-year strategic audit planning approach has been developed and adopted to facilitate a more efficient deployment of internal audit resource in providing assurance.

c. Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the CFO, with the support of the GARB, the internal audit team and the financial control team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year. Compliance with the internal control system is confirmed annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited by the internal audit team and reported to the committee.

Corporate governance report

Corporate responsibility committee

Corporate responsibility committee members

- Dr Catherine Bell (chair)
- Stephen Carter
- Steve Mogford

 Read biographies of the directors on pages 58 and 59



Dr Catherine Bell
Chair of the corporate
responsibility committee

Dear shareholder,

I am pleased to report on the work of the corporate responsibility committee (CRC) over the past 12 months.

There have been a number of changes during the year to the membership of the committee. As planned, Nick Salmon stood down at the AGM in July 2014 and Stephen Carter joined the board and the committee on 1 September 2014. I am pleased to welcome Stephen as a member of the committee. His views and previous experience on corporate responsibility issues in other businesses have added valuable perspective to the work of the committee.

The committee examined progress made by the company in delivering its objectives to provide the best service to customers, at the lowest sustainable cost and in a responsible manner. Acting responsibly helps us to be a successful long-term business for shareholders and customers.

We measure ourselves against national and international benchmarks, independently and externally assessed. We were delighted to retain 'World Class' status in the Dow Jones Sustainability Index for the seventh consecutive year and, for the first time, we became the leader in the multi-utility and water sector. Given our long-term stewardship role in managing water and wastewater, we also assess our effectiveness in the management of the risks and opportunities linked to climate change. In 2014, we achieved our best ever result in the Carbon Disclosure Project in which over 90 per cent of the FTSE 100 participate to describe their

approach to climate change; we are now members of their Disclosure Leadership Index. And very recently we secured the Carbon Trust Water Standard for our efforts to reduce water use in West Cumbria.

In addition to these external benchmarks, last year the board approved the development and publication of a detailed corporate responsibility (CR) performance scorecard, to give greater transparency to responsible business performance for those working in the company and for external stakeholders. Performance against the CR scorecard was reported in the United Utilities 2014 corporate responsibility report: **corporateresponsibility2014.unitedutilities.com**. This showed strong performance on most of the measures. As we begin the next five-year investment period, this year the CRC will reset the responsible business measures and targets out to 2020,

recognising the importance of setting targets for the long term. One particular area for sustained scrutiny through the corporate responsibility lens will be the impact of the company's investment programme on customer needs and environmental goals. Further progress on our corporate responsibility programme will be reported periodically on our website.

The CRC also looked closely at how acting responsibly impacts the way stakeholders, including customers, see the company. We concluded that our CR programme is important in sustaining the reputation of the company and helps build trust and confidence over the long term. As we begin the next five-year investment period, the CRC will continue to examine the relevance and value of our CR programme to United Utilities, its customers and shareholders.

Dr Catherine Bell
Chair of the corporate responsibility committee

Quick facts

- The committee comprises three directors appointed by the board, two of whom are independent non-executive directors
- The company secretary attends all meetings of the committee
- The finance director; the corporate affairs director, who has responsibility for company reputation; and the business services director, who has responsibility for human resources, regularly attend meetings

- Senior operational managers attend the committee to report on the environmental and social impact of major investment programmes and projects
- The corporate responsibility committee has existed for over seven years

Quick links

Terms of reference –
corporate.unitedutilities.com/corporate-governance

Main responsibilities of the committee

The board approved a slightly modified set of terms of reference (ToR) for the CRC in April 2015. The main duties are to:

- consider and recommend to the board the broad CR policy taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is in alignment with the group strategy;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually; and
- review the profile of the charitable donations directed by the United Utilities Trust Fund.

One of the small changes to the CRC ToR approved by the board related to approval of the company's CR report. This has been changed from production of an annual report to a yearly performance statement, supported by year-round regular reporting of the company's responsible business activities in enhanced CR pages on the United Utilities website.

What has been on the committee's agenda during the year

In carrying out its duties, in the past 12 months the CRC has paid particular attention to the following:

- governance – the flow of information to the board was further improved through specific reports on responsible business performance provided quarterly by the CEO to the board;
- measuring and reporting CR performance – the CRC approved the publication of a comprehensive update on how well we are meeting our responsible business commitments in the 2014 CR annual report. The committee noted strengthening performance on the majority of measures in the CR scorecard;
- trust and reputation – how the company is addressing the challenges of governance, trust and transparency. The company's key reputation indicators for brand and media were discussed and good progress was noted; and
- preparing for the 2015-20 period – the committee discussed how the CR agenda and United Utilities' strategic intentions for the next five years should be aligned.

Specific topics included:

- CR benchmarks – the committee reviewed the challenge and value of external CR benchmarking indices as a measure of United Utilities' responsible business performance;
- delivering sustainability benefits through investment and efficiency programmes – the CRC considered how the company's investment in transforming its wholesale business activities will bring customer and environmental benefits, whilst at the same time reducing operational cost;

- affordability – given the impact of continuing challenging economic conditions in the North West, the CRC examined what this means for debt, affordability and the payment assistance schemes offered by the company;
- retail competition – the CRC looked at building trust with business customers, and how the United Utilities' brand, underpinned by strong CR credentials, is helping deliver value in the competitive market; and
- trends in corporate reporting – the CRC supported the recommendation that the 2015 annual report should present the CR themes in a way which is integrated with the company's strategic aims.

Looking to the next year, as the water industry begins its next five-year investment programme, the CRC will:

- agree the responsible business measures and targets set out to 2020, aligned with the group's 2015-20 business plan;
- review a number of key CR strategies including:
 - carbon reduction and waste strategy;
 - debt and affordability;
 - talent and young people;
 - diversity and inclusion; and
 - how community spend is targeted.
- continue its focus on the interaction between CR, communications and reputation.

Corporate governance report

Annual statement from the remuneration committee chair

Remuneration committee members

- Sara Weller (chair)
- Dr Catherine Bell
- Mark Clare

 Read biographies of the directors on pages 58 and 59



Quick facts

- The Code requires that 'the board should establish a remuneration committee of at least three independent non-executive directors'
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chairman
- By invitation of the committee, meetings are also attended by the Chairman, the CEO, the company secretary, the business services director, the head of reward and the external advisor to the committee

Quick links

Terms of reference -
corporate.unitedutilities.com/corporate-governance

Directors' remuneration policy -
annualreport2014.unitedutilities.com/site-essentials/downloads/annual-report-2014

Dear shareholder,

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2015, which includes my statement, an abridged version of the directors' remuneration policy which took effect from the date of our 2014 AGM, and the annual report on remuneration for the year ended 31 March 2015.

A successful five-year regulatory period from 2010-15 has been reflected both in total shareholder return (TSR) of around 115 per cent and in executive pay outcomes. Over this period the company has delivered its regulatory outperformance targets alongside significant progress in operational performance and a step change in customer service (reducing customer complaints by approximately 75 per cent and being the most improved water and

Sara Weller
Chair of the remuneration committee

wastewater company as measured under Ofwat's three-year service incentive mechanism (SIM) assessment from 2011/12 to 2013/14). At the same time, customers have benefited from below inflation growth in average household bills.

As we enter a new regulatory period, the committee is committed to continuing to align executive pay with the company's strategy of delivering value by providing the best service to customers, at the lowest sustainable cost and in a responsible manner. We seek to achieve this by strongly linking pay with performance, at both an individual and company level, and by encouraging a significant investment in company shares. We also recognise that a long-term focus is essential to creating value and therefore require executives to defer a significant proportion of their incentives.

A successful five-year regulatory period from 2010-15 has been reflected both in total shareholder return of around 115 per cent, and in executive pay outcomes

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Annual report on remuneration	92

Strong alignment of performance and pay in 2014/15

During the year, performance was strong overall with underlying operating profit growing by five per cent, continued improvement in customer service and successful delivery of the capital investment programme. The company's asset serviceability performance has also been good and we were pleased that the company retained its 'World Class' status in the Dow Jones Sustainability Index for the seventh successive year. The company did not, however, meet its bad debt recovery targets with debt collection continuing to be challenging, particularly as our region suffers from high levels of income deprivation.

This level of financial and operational performance, together with the achievement of a number of stretching personal objectives, has resulted in bonus payments of around 77 per cent of maximum for the executive directors. As the same bonus measures are used throughout the company, employees at all levels have also benefited from this success, receiving bonuses totalling £15 million for the year.

The long-term incentive awards which were granted in 2012, and whose performance was measured over the three years to 31 March 2015, vested at 97.5 per cent. This followed a period of strong share price growth which, together with the dividend policy to grow dividends each year by RPI plus two per cent, resulted in a total shareholder return of around 80 per cent over the three years. The company also delivered excellent results against its operational and capital expenditure targets over the same period.

Key changes for 2015/16

In accordance with our continued conservative approach to overall

remuneration, there will be no changes to the quantum of incentive plans for 2015/16, nor to the structure of the Long Term Plan (LTP), last reviewed in 2013, and it is expected that executive salary increases will continue to be in line with those applied across the wider workforce.

Following the company's acceptance in January 2015 of Ofwat's final determination for 2015–20, the committee reviewed the annual bonus measures to ensure that they fully incentivise delivery of our business strategy and annual plan, and reflect the importance and challenge of regulatory commitments for the next regulatory period. These new bonus measures will apply not only to the executive directors, but also to all managers and employees throughout the company, to ensure alignment to delivery of the business plan at all levels.

The changes to the bonus measures are:

- the introduction of a measure based on newly introduced outcome delivery incentives (ODIs, see page 86);
- changes to the time, cost and quality (TCQi) measure, which measures the extent to which we deliver our capital projects on time, to budget and to the required standard, to reflect the move to a new totex model and to make it more stretching with respect to large capital projects; and
- the removal of three measures (regulatory capital expenditure, serviceability and bad debt) which do not form part of the new regulatory regime or the delivery of which are considered to be adequately incentivised via the other bonus measures.

Further details of the bonus measures for 2015/16 are given in the annual report on remuneration on page 94 and their alignment to the business strategy is shown on page 86.

The performance targets for the 2015 LTP are expected to be as for the 2014 awards, with the exception of the sustainable dividend performance measure. Following the announcement by the board in January 2015 of our dividend policy for the 2015–20 period, the measure will switch focus to dividend cover, with the delivery of our dividend policy as an underpin.

And finally, to provide further alignment with shareholder interests, the board agreed in May 2015 to increase the shareholding guideline for executive directors from 100 per cent to 200 per cent of base salary. Both executive directors have a shareholding in excess of this level.

The committee concluded that no changes to the policy approved at last year's AGM were necessary and so there will not be a separate vote on it at this year's AGM.

Agenda for 2015/16

During 2015/16 the committee will continue to keep executive remuneration arrangements under review, although no substantial changes are expected. As always, we continue to welcome feedback from shareholders.

I hope we will receive your support for the resolution relating to remuneration at the 2015 AGM.

Sara Weller

Chair of the remuneration committee

At a glance summary: Executive directors' remuneration

- Salary increase of 2.5 per cent from 1 September 2014 in line with the wider workforce (see page 93)
- 2014/15 annual bonus outcome of 77.4 per cent of maximum (see page 93)
- 50 per cent of 2014/15 annual bonus deferred in shares for three years (see page 93)
- Long-term incentive payout of 97.5 per cent, supported by TSR of around 80 per cent over the period 1 April 2012 to 31 March 2015 (see page 96)
- Shareholding guideline increased to 200 per cent of salary and personal shareholdings remain above this level (see page 98)
- Annual bonus measures changed for 2015/16 to align with new regulatory period 2015–20 (see page 94)
- Long Term Plan sustainable dividends measure for 2015 grants to focus on dividend cover, with the delivery of dividend policy as an underpin (see page 98)

Aligning remuneration to business strategy

Our remuneration policy has been designed in order to promote the long-term success of the company.

The following table provides a summary of how our incentive framework aligns with our business strategy and the results that it delivers:

	A long-term approach to creating value	The best service to customers	At the lowest sustainable cost	In a responsible manner
Annual bonus				
Underlying operating profit	✓		✓	
Customer service in year	✓	✓		
<ul style="list-style-type: none"> Service incentive mechanism – qualitative Service incentive mechanism – quantitative 				
Maintaining and enhancing services for customers	✓	✓	✓	✓
<ul style="list-style-type: none"> Wholesale outcome delivery incentive (ODI) composite Time, cost and quality of the capital programme (TCQi) 				
Corporate responsibility	✓			✓
<ul style="list-style-type: none"> Dow Jones Sustainability Index 				
Personal	✓	✓	✓	✓
Compulsory deferral of bonus	✓			✓
Long Term Plan (LTP)				
Relative total shareholder return (TSR)	✓			
Sustainable dividends	✓		✓	✓
Customer service excellence	✓	✓		✓
Additional two-year holding period	✓			✓
Shareholding guidelines	✓			

A significant proportion of executive directors' pay is performance-linked and deferred:

- fixed vs performance-linked (%)⁽¹⁾

Fixed	33%
Performance-linked	67%

- short-term vs deferred (%)⁽¹⁾

Short-term	50%
Deferred	50%



Wholesale outcome delivery incentive (ODI) composite: New bonus measure

As part of the development of our business plan for 2015–20, we spoke to more than 30,000 customers across the North West to ask them what they valued most about our service, and what they wanted to see improved. This feedback helped to inform five customer promises, which are at the heart of our strategy for the next five years and beyond.

We have established a set of performance commitments to make sure that we are on track to meet our customer promises. There are 26 performance commitments in total – 18 of which relate to our wholesale business and carry a financial incentive or penalty (known as an 'outcome delivery incentive') which were agreed as part of Ofwat's final determination. Rewards and penalties will be accumulated throughout 2015–20, and applied by Ofwat in the following five-year period from 2020. The size of the reward or penalty is weighted according to the value that customers place on each measure.

(1) Based on maximum payout scenario for executive directors (see page 90). Fixed consists of base salary, benefits and pension. Performance-linked consists of the Long Term Plan (LTP) and annual bonus. Short-term consists of fixed remuneration plus annual bonus paid as cash. Deferred consists of LTP plus annual bonus deferred into shares under the Deferred Bonus Plan (DBP).

Directors' remuneration policy (abridged)

This part of the directors' remuneration report sets out an abridged version of the remuneration policy which was approved by shareholders at the AGM on 25 July 2014. The policy took formal effect from the date of approval and is intended to apply until the 2017 AGM.

A full version of the policy can be found in the Annual Report and Financial Statements for the year ended 31 March 2014
annualreport2014.unitedutilities.com/site-essentials/downloads/annual-report-2014

Overview of remuneration policy

The company's remuneration arrangements are designed so that the overall level of remuneration (including salary and benefits, together with the short and long-term incentive opportunities) is sufficient to attract, retain and motivate executives of the quality required to run the company successfully. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

A significant proportion of senior executives' remuneration is performance related. Senior executives are incentivised to achieve stretching results which are delivered with an acceptable level of risk. There is a strong direct link between incentives and the company's strategy and if the strategy is delivered, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

Policy table for directors

Base salary	 Read more on Base salary on page 93
Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company's strategy.	
Operation Reviewed annually, effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: <ul style="list-style-type: none">• the size of the individual's role;• the size of the company (through mergers and acquisitions); or• the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration and pay levels for comparable companies when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Maximum opportunity Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, unless one or more of the conditions outlined under 'operation' is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance.
	Performance measures None.

Benefits	 Read more on Benefits on pages 92 and 93
Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high calibre executives.	
Operation Provision of benefits such as: <ul style="list-style-type: none">• health benefits;• car or car allowance;• relocation assistance;• life assurance;• group income protection;• all employee share schemes (e.g. opportunity to join the ShareBuy scheme);• travel; and• communication costs. Additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.	Maximum opportunity As it is not possible to calculate in advance the cost of all benefits, a maximum is not pre-determined. Performance measures None.

Directors' remuneration policy (abridged)

Policy table for directors continued

Pension	 Read more on Pensions on pages 92 and 93
Purpose and link to strategy: To provide a broadly mid-market level of retirement benefits.	
Operation	Maximum opportunity
<p>Executive directors are offered the choice of:</p> <ul style="list-style-type: none"> • a company contribution into a defined contribution pension scheme; or • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance. <p>External hires will not be eligible to join a defined benefit pension scheme.</p> <p>Internal promotees who are active members of a United Utilities defined benefit scheme will be offered the choice of staying in that scheme or of choosing one of the above options⁽¹⁾.</p>	
Performance measures	
None.	

Annual bonus	 Read more on Annual bonus on pages 93 and 94
Purpose and link to strategy: To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.	
Operation	Maximum opportunity
<p>50 per cent paid as cash.</p> <p>50 per cent deferred into company shares under the Deferred Bonus Plan (DBP) for three years.</p> <p>DBP shares accrue dividend equivalents.</p> <p>Not pensionable.</p> <p>Bonuses are subject to clawback or malus in the event of a material overstatement in the financial statements of the company because of fraud or error.</p> <p>Deferred shares under the DBP are subject to malus in such negative circumstances as the committee considers is appropriate. For example: material misstatement of audited financial results, serious failure of risk management or serious reputational damage.</p>	
Performance measures	
<p>Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives.</p> <p>Targets set by reference to the company's financial and operating plans.</p> <p>Target bonus of 50 per cent of maximum bonus potential and bonus of 25 per cent of maximum for threshold performance.</p>	

(1) In 2010 the company made a number of changes to defined benefit pension provision including a restriction on salary increases which count for pension purposes. Since that time salary increases above inflation (RPI), including those relating to any promotions, are no longer pensionable.

Policy table for directors continued

Long Term Plan (LTP)  Read more on Long Term Plan on pages 95 to 98	
Purpose and link to strategy: To incentivise long-term value creation and alignment with longer term returns to shareholders.	
Operation	Maximum opportunity
<p>Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions.</p> <p>Each award is measured over a three-year performance period starting at the beginning of the financial year in which awards are granted.</p> <p>An additional two-year holding period applies after the end of the three-year performance period.</p> <p>Vested shares accrue dividend equivalents.</p> <p>Shares under the LTP are subject to malus in such negative circumstances as the committee considers are appropriate. For example: material misstatement of audited financial results, serious failure of risk management or serious reputational damage.</p>	<p>130 per cent of salary per annum.</p> <p>In exceptional circumstances the committee retains the discretion to grant awards up to plan limits of 200 per cent of salary.</p> <p>Performance measures</p> <p>One-third of awards vest based on relative total shareholder return (TSR), one-third based on customer service excellence and one-third based on a sustainable dividends performance condition.</p> <p>Any vesting is also subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.</p> <p>100 per cent of awards vest for stretch performance, 25 per cent of an award vests for threshold performance and no awards vest for below threshold performance.</p>
Non-executive directors' fees and benefits  Read more on Non-executive directors' fees and benefits on page 101	
Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.	
Operation	Maximum opportunity
<p>The remuneration policy for the non-executive directors (with the exception of the Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman is not a member).</p> <p>Fees are reviewed annually taking into account the levels of fees paid by companies of a similar size and complexity. Any changes are effective from 1 September.</p> <p>Additional fees are paid to the chairs of certain board sub-committees and for the senior independent non-executive director.</p> <p>No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes.</p> <p>The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director. In addition, travel, hospitality-related and other modest benefits will be payable on occasion.</p>	<p>Current fee levels are shown in the annual report on remuneration.</p> <p>The value of benefits may vary from year to year according to the cost to the company.</p> <p>Performance measures</p> <p>Non-executive directors are not eligible to participate in any performance-related arrangements.</p>

Directors' remuneration policy (abridged)

Notes to the policy table

Selection of performance measures and targets

Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to stretch targets are then set based on a sliding scale on the basis of relevant commercial factors. Only modest rewards are available for delivering threshold performance levels, with rewards at stretch requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus are given in the annual report on remuneration.

LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long-term incentives - flexibility, discretion and judgement

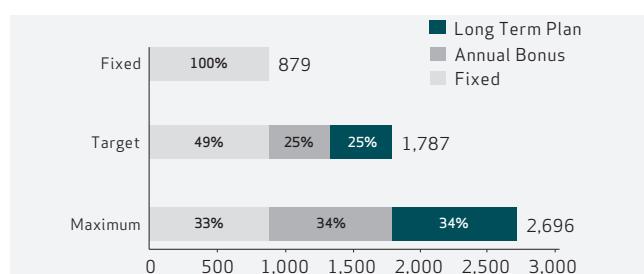
The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards.

Any discretion exercised (and the rationale) will be disclosed in the annual remuneration report.

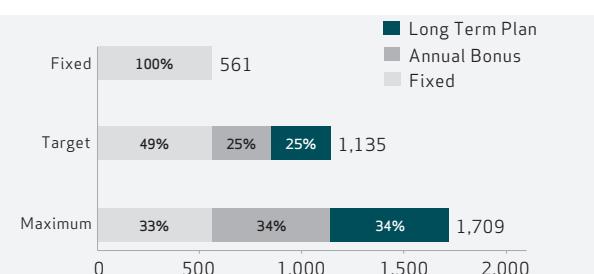
Scenarios for total remuneration

The charts below show the payout under the remuneration policy for each executive director under three different scenarios. Please note that the charts have been updated from those in the policy approved at the AGM on 25 July 2014 to reflect updated fixed pay figures.

CEO
£'000s



CFO
£'000s



In developing the scenarios the following assumptions have been made:

Fixed Consists of base salary, benefits and pension (£'000)

Base salary is latest known salary

Benefits measured at benefits figure shown in single figure table on page 92

Pension measured by applying cash in lieu rate against latest known salary

	Base salary	Benefits	Pension	Total fixed
CEO	699	26	154	879
CFO	441	23	97	561

Target Annual bonus element pays out at 50% of maximum

Long Term Plan element vests at 50% of maximum

Maximum Based on what a director would receive if the maximum level of performance was achieved:

Annual bonus element pays out in full (at 100% of maximum)

Long Term Plan element vests in full (at 100% of maximum)

Annual bonus includes amounts compulsorily deferred into shares.

Long Term Plan is measured at face value i.e. no assumption for changes in share price or dividends.

Service contracts and letters of appointment

Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director. A company notice period longer than one year may be provided if necessary for recruitment, but reducing to a rolling one-year period after the initial period has expired.

The policy on payments for loss of office is set out in the next section.

The Chairman and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at the AGM.

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can also be viewed on the company's website.

Shareholding guidelines

The committee believes that it is important for a significant investment to be made by each executive director in the shares of the company to provide alignment with shareholder interests. Executive directors are encouraged to build up and retain a targeted shareholding of at least 100 per cent of base salary, normally within five years of appointment. There is an expectation that executive directors will continue to build a shareholding throughout their period of employment with the company, after the target shareholding is reached.

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved remuneration policy in force at the time of appointment.

Buy-out awards

In addition, the committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

Maximum level of variable pay

The maximum initial level of long-term incentives which may be awarded to a new executive director will be limited to the maximum Long Term Plan limit of 200 per cent of salary. Therefore, the maximum initial level of overall variable pay that may be offered will be 330 per cent of salary (i.e. 130 per cent annual bonus plus 200 per cent Long Term Plan). These limits are in addition to the value of any buy-out arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue and be disclosed in the next annual report on remuneration.

Base salary and relocation expenses

The committee has the flexibility to set the salary of a new appointment at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance in the role.

For external and internal appointments, the committee may agree that the company will meet certain relocation expenses as appropriate.

Appointment of non-executive directors

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive directors' fees are set by a separate committee of the board; the Chairman's fees are set by the remuneration committee.

Payment for loss of office

The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased in order to mitigate loss. A full version of the policy can be found in the Annual Report and Financial Statements for the year ended 31 March 2014 annualreport2014.unitedutilities.com/site-essentials/downloads/annual-report-2014

Annual report on remuneration

Executive directors' remuneration for the year ended 31 March 2015

Single total figure of remuneration for executive directors (audited information)

Year ended 31 March	Base salary £'000		Benefits ⁽¹⁾ £'000		Annual bonus ⁽²⁾ £'000		Long-term incentives £'000		Pension ⁽⁵⁾ £'000		Other ⁽⁶⁾ £'000		Total £'000	
	2015	2014	2015	2014	2015	2014	2015 ⁽³⁾	2014 ⁽⁴⁾	2015	2014	2015	2014	2015	2014
Steve Mogford ⁽⁷⁾	692	675	26	24	696	687	1,287	843	152	149	31	0	2,884	2,378
Russ Houlden ⁽⁷⁾	437	426	23	23	440	433	804	621	96	94	23	0	1,823	1,597

(1) For executive directors, benefits include: a car allowance of £14,000; health, life and income protection insurance; travel costs and communication costs. The 2014 benefits for Steve Mogford were understated by £3,000 in last year's report.

(2) 50 per cent of bonus was deferred into shares for three years under the Deferred Bonus Plan (DBP). See page 93 for further details of bonus outcomes.

(3) The performance period for the 2012 Performance Share Plan (PSP) and Matching Share Award Plan (MSAP) awards ended on 31 March 2015 and the awards vested on 19 May 2015. The final vesting of those awards was 97.5 per cent resulting in 128,191 shares vesting for Steve Mogford and 80,087 shares vesting for Russ Houlden. The value of these shares shown in the table above has been calculated using the closing share price on date of vesting, which was 1004 pence per share. See page 96 for further details.

(4) The performance period for the 2011 PSP and MSAP awards ended on 31 March 2014 and the awards vested on 20 May 2014. The final vesting of those awards was 93.5 per cent, resulting in 98,686 shares vesting for Steve Mogford and 72,724 shares vesting for Russ Houlden. The value of these shares shown in the table above has been calculated using the closing share price on date of vesting, which was 854 pence per share.

(5) Cash allowance of 22 per cent of base salary paid in lieu of pension.

(6) During the year there were extended restrictions in place on buying and selling shares due to the regulatory price review which meant that executive directors were unable to exercise their vested 2011 PSP and MSAP awards before the record date for the August 2014 dividend. In line with the shareholder approved policy (see page 90), the committee considered it appropriate not to penalise employees (including executive directors) for this lost dividend and exercised its discretion to pay a cash payment in lieu of these dividends forgone (on a net-of-tax equivalence basis). The figures in this column also include the value of matching shares under the ShareBuy scheme which vested in the year, valued using the closing share price on the day they vested (the company offers a one-for-five match on partnership shares bought by employees under ShareBuy which cease to become forfeitable one year after they are awarded).

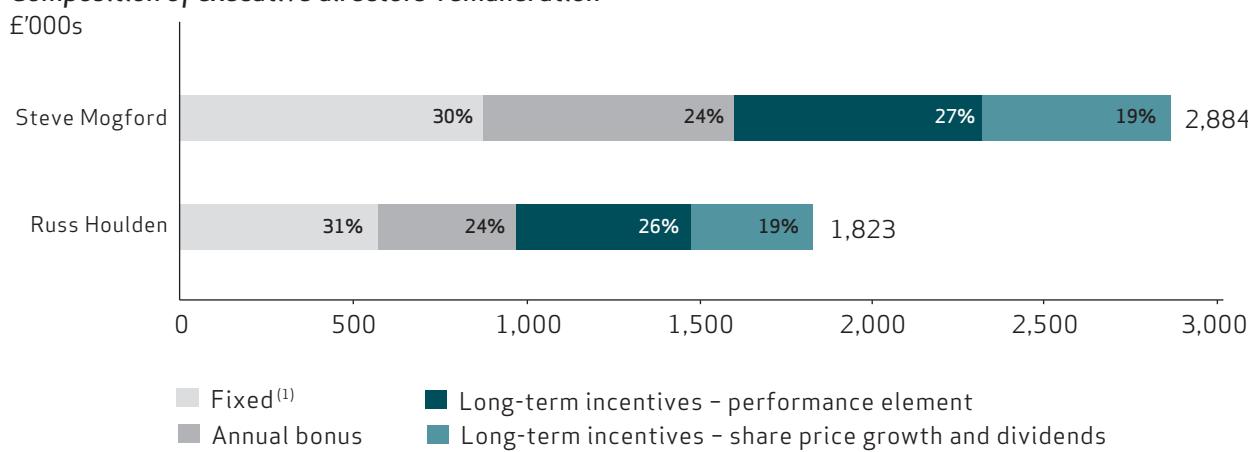
(7) The company recognises that its executive directors may be invited to become non-executive directors of companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Steve Mogford is the senior independent director of Carillion PLC for which he receives and retains an annual fee of £60,200. Russ Houlden is an independent member of the supervisory board, and audit committee chairman of Orange Polska SA for which he receives and retains fees estimated annually at around PLN 323,000 (around £60,000).

Pay and performance

A significant proportion of the executive directors' pay is performance related. Over the last three years, strong operational performance has supported our dividend growth of RPI plus two per cent and driven significant share price growth (our market capitalisation increased from £4.1 billion to £6.4 billion over this period). The committee considers that the remuneration received for the year ended 31 March 2015 fairly recognises the executive directors' contribution in delivering this performance.

The chart below shows that around 70 per cent of executive directors' total remuneration for the year ended 31 March 2015 was delivered in variable pay and 19 per cent related to share price growth and dividends on their vested long-term incentive awards.

Composition of executive directors' remuneration



(1) Fixed consists of base salary, benefits and pension.

Base salary

Executive director salaries were increased by 2.5 per cent with effect from 1 September 2014 as shown below. This was in line with the headline increase applied across the wider workforce.

	Base salary £'000	
	1 Sept 2014	1 Sept 2013
Executive director		
Steve Mogford	699.0	682.0
Russ Houlden	441.3	430.5

Any base salary increases in the year commencing 1 April 2015 will be in line with policy (see page 87 in the policy report).

Benefits and pensions

No changes are expected to benefits or pensions during the year commencing 1 April 2015 (see pages 87 and 88 in the policy report).

Annual bonus

Annual bonus in respect of financial year ended 31 March 2015 (audited information)

As highlighted earlier in the report, the company has had another very successful year and this has again been reflected in the level of bonus awards. The overall bonus outcome for the executive directors for the year ended 31 March 2015 was 77.4 per cent of maximum. This compares to the prior year outcome of 78.2 per cent.

The performance measures, targets and outcomes are set out below:

Measure	Targets Threshold-Stretch	Outcome	% of maximum achieved ⁽¹⁾	Steve Mogford Max %	Steve Mogford Actual %	Russ Houlden Max %	Russ Houlden Actual %
Underlying operating profit⁽²⁾	£775.6m-£817.3m	£811.4m	88	30.0	26.5	30.0	26.5
Customer service in year							
Service incentive mechanism – qualitative ⁽³⁾	4.36-4.43	4.24	0	10.0	0.0	10.0	0.0
Service incentive mechanism – quantitative	107-100	99	100	10.0	10.0	10.0	10.0
Maintaining and enhancing services for customers							
Regulatory capital expenditure ⁽⁴⁾	£822.7m +/- 6% to £822.7m +/- 2%	£822.7m +2.4%	91	8.0	7.3	8.0	7.3
Time, cost and quality of capital programme (TCQi) ⁽⁵⁾	95%-99%	97.3%	58	8.0	4.6	8.0	4.6
Sustainability of service and corporate responsibility							
Serviceability (four measures) Requirement: Stable or Improving	Threshold: 3 x stable or improving Stretch: 5 out of 5	5 out of 5	100	20.0	20.0	20.0	20.0
Dow Jones Sustainability Index rating (one measure) Requirement: World Class							
Bad debt recovery	2.2%-1.8%	3.1%	0	4.0	0.0	4.0	0.0
Personal objectives				10.0	9.0	10.0	9.0
Total as % bonus maximum				100.0	77.4	100.0	77.4
Total as % base salary				130.0	100.6	130.0	100.6
Total £'000⁽⁶⁾					696		440

(1) 25 per cent for threshold performance; 50 per cent for target performance; 100 per cent for stretch performance. Straight-line vesting applies between these points.

(2) Underlying operating profit is subject to a number of adjustments, principally in regard to infrastructure renewals expenditure.

(3) 2014/15 was a pilot year for changes to the service incentive mechanism (SIM) methodology, and so performance in the final year of the 2010-15 period was assessed in line with the revised methodology. The committee set targets using an externally validated benchmark.

(4) Regulatory capital expenditure targets reflect changes in the Construction Output Price Index up to April 2014.

(5) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required standard. It is expressed as a percentage, with a higher percentage representing better performance.

(6) Under the Deferred Bonus Plan, 50 per cent of the annual bonus will be deferred in shares for three years.

Annual report on remuneration

Annual bonus in respect of financial year commencing 1 April 2015

The maximum bonus opportunity for 2015/16 will remain unchanged at 130 per cent of base salary.

As referred to in the remuneration committee chair's annual statement (see pages 84 and 85), during the year the committee reviewed the annual bonus measures to ensure that they are aligned to the delivery of the business strategy for the next regulatory period 2015–20 (Ofwat's final determination having been accepted by the company in January 2015).

The performance measures, weightings and targets for the executive directors' annual bonus for the year commencing 1 April 2015 are set out in the table below, along with a description of why the committee considers the measures to be appropriate. Please note that certain targets are considered commercially sensitive, and consequently these will only be disclosed after the end of the 2015/16 financial year in the 2015/16 annual report on remuneration.

Measure	Alignment to strategy	Targets 2015/16	Weighting (%)
Underlying operating profit⁽¹⁾	Key measure of shareholder value.	Commercially sensitive	30.0
Customer service in year⁽²⁾	Service incentive mechanism – qualitative Service incentive mechanism – quantitative	Delivering the best service to customers is a strategic objective. Ofwat can apply financial incentives or penalties depending on our customer service performance.	Commercially sensitive Commercially sensitive
Maintaining and enhancing services for customers			
Wholesale outcome delivery incentive composite ⁽³⁾	Delivering the best service to customers is a strategic objective. There is a direct financial impact on the company of Ofwat incentives and penalties for delivery/non-delivery of customer promises (see page 86).	Commercially sensitive	20.0
Time, cost and quality of capital programme (TCQi) ⁽⁴⁾	Keeping tight control of our capital programme ensures we can provide a reliable service to our customers at the lowest sustainable cost.	73%–98%	20.0
Corporate responsibility			
Dow Jones Sustainability Index rating	Ensures that we manage our business in a responsible manner.	World Class	4.0
Personal objectives			
Total as % bonus maximum			

(1) Underlying operating profit is subject to a number of adjustments, principally in regard to infrastructure renewals expenditure.

(2) This measures our customer service performance over the bonus year, as reported by Ofwat through their measure of customer service.

(3) A measure of the total net incentive or penalty to be applied by Ofwat for delivery/non-delivery of performance commitments related to our wholesale business during the year.

(4) TCQi is an internal audited calculation which measures the extent to which we deliver our capital projects on time (time), to budget (cost) and to the required standard (quality). It is expressed as a percentage, with a higher percentage representing better performance. For 2015/16 changes have been made to TCQi, including extending coverage to relevant non-regulatory commitments, measuring cost in terms of total expenditure (totex) and giving a greater weighting in the cost element to our biggest capital projects. This resulted in a recalibration of the index. The committee is satisfied that the range of TCQi targets for the 2015/16 annual bonus is appropriate and sufficiently stretching.

Long-term incentives

Summary of long-term incentives for executive directors

The Long Term Plan (LTP) was introduced in 2013 following an extensive review and shareholder consultation. The LTP replaced two long-term incentive plans – the Performance Share Plan (PSP) and the Matching Share Award Plan (MSAP).

The structure of the LTP awards to be granted in 2015 will remain the same as for the 2014 awards, with the exception of a switch to dividend cover as the differentiator of performance under the sustainable dividends performance measure.

A summary of the long-term incentives referred to in this report is set out in the table below:

Year of grant	Scheme	Level of award	Performance (and holding) period	Performance period end 31 March	Performance measures	Weighting of performance measures	TSR comparator group ⁽¹⁾	See page
Future awards								
2015 (to be granted in June 2015)	LTP	130% of base salary	3 years (plus 2 years)	2018	<ul style="list-style-type: none"> • Relative TSR • Sustainable dividends • Customer service excellence 	33.3% 33.3% 33.3%	FTSE 100 (excluding financial services, oil and gas, and mining companies)	98
Ongoing awards								
2014	LTP	As for 2015	As for 2015	2017	As for 2015	As for 2015	As for 2015	97
2013	LTP	As for 2015	As for 2015	2016	As for 2015	As for 2015	As for 2015	
Vested awards								
2012	PSP	70% of base salary	3 years	2015	<ul style="list-style-type: none"> • Relative TSR • Opex outperformance • Capex 	50% 37.5% 12.5%	Weighted index ⁽²⁾ : Severn Trent (100), Pennon Group (75), National Grid (25), Scottish and Southern Energy (25), Centrica (25)	96
2012	MSAP	54% of annual bonus (up to 1:1 match)	3 years	2015	As for 2012 PSP	As for 2012 PSP	As for 2012 PSP	96

(1) For the purposes of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period. TSR is independently calculated by New Bridge Street.

(2) Weightings in brackets.

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Performance for vested awards

2012 awards with a performance period ending 31 March 2015 (audited information)

The long-term incentive amount included in the single total figure of remuneration on page 92 is in respect of the 2012 Performance Share Plan (PSP) and Matching Share Award Plan (MSAP) awards which vested on 19 May 2015. The overall vesting outcome was 97.5 per cent of maximum which reflects strong total shareholder return (TSR) of 80 per cent over the three-year performance period and excellent operational and capital expenditure performance.

The targets and achievement against those targets are set out in the table below.

Performance measures and relative weighting	Targets and performance achieved (measured over the period 1 April 2012 to 31 March 2015, except where indicated)	Vesting	
		% maximum	% of award
Relative total shareholder return (TSR) (50%)	<p>Targets⁽¹⁾: Stretch: 100% vesting for outperforming the index⁽²⁾ by 6.3% or more on a multiplicative basis</p> <p>Threshold: 25% vesting for TSR performance equal to the index</p> <p>Achievement: Company TSR of 80.2% was significantly above the stretch target of 54.8% (index performance was 45.6%).</p>	100%	50%
Opex outperformance versus Ofwat's allowed operating costs (37.5%)	<p>Targets⁽¹⁾: Stretch: 100% vesting for outperformance of £64.9m or more</p> <p>Intermediate: 50% vesting for outperformance of £49.7m</p> <p>Threshold: 25% vesting for outperformance of £0 (i.e. in line with allowed operating costs)</p> <p>Achievement: Opex outperformance was greater than the stretch target.</p>	100%	37.5%
Capex versus Ofwat's allowed capital expenditure allowance measured over the period 2010-15 (12.5%)	<p>Targets⁽¹⁾: Stretch: 100% vesting for capex within +/-1% of Ofwat's allowed capital expenditure allowance</p> <p>Intermediate: 50% vesting for capex of +/-2% of Ofwat's allowed capital expenditure allowance</p> <p>Threshold: 25% vesting for capex of +/-3% of Ofwat's allowed capital expenditure allowance</p> <p>Achievement: Capex was 1.4% less than Ofwat's allowed capital expenditure allowance, which was between the intermediate and stretch targets.</p>	80%	10%
Total vesting			97.5%

(1) Straight line vesting applies between these points, with nil vesting below threshold performance.

(2) For details of the index companies see page 95.

2011 awards with a performance period ending 31 March 2014

In last year's report the vesting outcome was disclosed for the 2011 Performance Share Plan (PSP) and Matching Share Award Plan (MSAP) awards which vested on 20 May 2014. At that time the directors considered it commercially sensitive to disclose targets for the opex outperformance and capex outperformance conditions and committed to disclosing the targets in this year's report, after the end of the 2010-15 period.

For the opex outperformance measure (measuring opex outperformance versus Ofwat's allowed operating costs for the period 1 April 2011 to 31 March 2014), outperformance was £77.7 million which was just below the stretch target of £81.3 million (resulting in 88 per cent vesting for this element).

For the capex outperformance measure (measuring capex outperformance versus Ofwat's allowed operating costs for the period 1 April 2011 to 31 March 2014), outperformance was greater than the stretch target of £41.0 million (resulting in 100 per cent vesting for this element).

Performance targets for awards granted in the year

2014 awards with a performance period ending 31 March 2017 (audited information)

Details about the 2014 LTP performance measures and targets are shown in the following table, together with an explanation of how the measures align with the company's strategy:

Performance measures and relative weighting	Alignment to strategy	Targets ⁽¹⁾ (measured over the period 1 April 2014 to 31 March 2017)
Relative total shareholder return (TSR) (33.3%)	Direct measure of delivery of shareholder returns, rewarding management for the outperformance of a comparator group of companies	<ul style="list-style-type: none"> Stretch: 100% vesting for TSR of median⁽²⁾ x 1.15 or more Threshold: 25% vesting for median TSR
Sustainable dividends (33.3%)	Direct measure of return to shareholders through dividend payments, whilst focusing on the creation of strong earnings that ensure the sustainability of dividends	<ul style="list-style-type: none"> Comprises two elements – dividend growth and dividend cover For the 2014 LTP where the performance period straddles two regulatory periods, dividend cover will operate as an underpin, with dividend growth (over the three-year period) providing the payout range based on threshold (25% vesting), intermediate (75% vesting), and stretch (100% vesting) targets The targets are considered commercially sensitive and so are not disclosed in this report. However, actual targets, performance achieved and awards made will be published retrospectively so that shareholders can fully understand the basis for any payouts
Customer service excellence⁽³⁾ (33.3%)	It is a key strategic objective to provide the best service to customers. This is fundamental to delivering our vision of becoming a leading North West service provider and one of the UK's best water and wastewater companies. This measure has a direct financial impact on the company as our regulator can apply financial incentives or penalties depending on our customer service performance	<ul style="list-style-type: none"> Stretch vesting (100%) for upper decile position Intermediate vesting (80%) for upper quartile position Threshold vesting (25%) for median position

(1) Straight line vesting applies between these points, with nil vesting below threshold performance.

(2) For details of the comparator companies see page 95.

(3) Based on Ofwat's customer service measure (currently the service incentive mechanism). Vesting is based on ranking position in the final year compared to the other water and wastewater companies (currently 18 companies including United Utilities).

The committee will have the flexibility to make appropriate adjustments to the performance targets in exceptional circumstances, to ensure that the award achieves its original purpose.

Any vesting is also subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.

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Performance targets for future awards

2015 awards with a performance period ending 31 March 2018

The performance targets for the 2015 Long Term Plan (LTP) are expected to be as for the 2014 awards outlined above, with the exception of the sustainable dividend performance measure. Following the announcement by the board in January 2015 of our dividend policy for the regulatory period 2015-20, the measure will switch focus from dividend growth as the differentiator of performance with dividend cover as an underpin, to dividend cover being the differentiator with the delivery of our dividend policy as an underpin.

Executive directors' interests in shares

Executive directors' shareholding (audited information)

To provide further alignment with shareholder interests, in May 2015 the board agreed to increase the shareholding guidelines for executive directors from 100 per cent to 200 per cent of base salary. Executive directors are normally expected to reach this shareholding within five years of appointment. There is also an expectation that they will continue to build a shareholding throughout their period of employment with the company after the guideline is reached.

Details of beneficial interests in the company's ordinary shares as at 31 March 2015 held by each of the executive directors and their connected persons are set out in the table below along with progress against the target shareholding guideline level. The table shows that both Steve Mogford and Russ Houlden have already exceeded the target shareholding.

Director	Shares counting towards shareholding guidelines at 31 March 2015						
	Number of shares required to meet shareholding guideline ⁽¹⁾	Number of shares owned outright (including connected persons)	Unvested shares not subject to performance conditions ⁽²⁾	Total shares counting towards shareholding guidelines ⁽³⁾	Shareholding as % of base salary at 31 March 2015 ⁽¹⁾	Shareholding guideline met at 31 March 2015	Unvested shares subject to performance conditions ⁽⁴⁾
Steve Mogford ⁽⁵⁾	146,772	171,294	199,103	276,838	377%	Yes	368,108
Russ Houlden ⁽⁵⁾	92,661	72,895	104,770	128,442	277%	Yes	231,491

(1) Share price used is the average share price over the three months from 1 January 2015 to 31 March 2015 (952.5 pence per share).

(2) Unvested shares subject to no further performance conditions such as matching shares under the 'ShareBuy' scheme and the matched share investment schemes. Includes shares only subject to malus provisions such as the Deferred Bonus Plan shares in the three-year deferral period and Long Term Plan shares in the two-year holding period.

(3) Includes unvested shares not subject to performance conditions (on a net of tax and national insurance basis), plus the number of shares owned outright.

(4) Includes unvested shares under the Performance Share Plan, Matching Share Award Plan and Long Term Plan.

(5) In the period 1 April 2015 to 20 May 2015, additional shares were acquired by Steve Mogford (36 ordinary shares) and Russ Houlden (36 ordinary shares) in respect of their regular monthly contributions to the 'ShareBuy' scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest provided the employee remains employed by the company one year after grant.

Executive directors' share plan interests 1 April 2014 to 31 March 2015 (audited information)

	Award date	Awards held at 1 April 2014	Granted in year	Notional dividends accrued in year ⁽¹⁾	Exercised/ vested in year	Lapsed/ forfeited in year	Awards held at 31 March 2015	Face value of awards granted in year (£'000)	Value of shares on date vested (£'000)
Steve Mogford									
DBP	17.6.13	51,987	-	2,129	-	-	54,116	-	-
DBP ⁽²⁾	30.6.14	-	38,998	1,597	-	-	40,595	343 ⁽³⁾	-
PSP ⁽⁴⁾	8.7.11	86,698	-	-	81,062	5,636	0	-	692 ⁽⁵⁾
PSP	15.6.12	73,427	-	3,008	-	-	76,435	-	-
MSAP ⁽⁴⁾	8.7.11	18,850	-	-	17,624	1,226	0	-	151 ⁽⁵⁾
MSAP	15.6.12	52,878	-	2,166	-	-	55,044	-	-
LTP	29.7.13	126,626	-	5,187	-	-	131,813	-	-
LTP	30.6.14	-	100,692	4,124	-	-	104,816	886 ⁽⁶⁾	-
MSIS ⁽⁷⁾	27.5.11	100,244	-	4,107	-	-	104,351	-	-
ShareBuy matching shares ⁽⁸⁾	1.4.14 to 31.3.15	42	41	-	42	-	41	0	0
Russ Houlden									
DBP	17.6.13	32,801	-	1,343	-	-	34,144	-	-
DBP ⁽²⁾	30.6.14	-	24,615	1,008	-	-	25,623	217 ⁽³⁾	-
PSP ⁽⁴⁾	8.7.11	53,351	-	-	49,883	3,468	0	-	426 ⁽⁵⁾
PSP	15.6.12	46,314	-	1,897	-	-	48,211	-	-
MSAP ⁽⁴⁾	8.7.11	24,429	-	-	22,841	1,588	0	-	195 ⁽⁵⁾
MSAP	15.6.12	32,596	-	1,335	-	-	33,931	-	-
LTP	29.7.13	79,913	-	3,273	-	-	83,186	-	-
LTP	30.6.14	-	63,560	2,603	-	-	66,163	560 ⁽⁶⁾	-
MSIS ⁽⁹⁾	1.10.10	43,193	-	1,769	-	-	44,962	-	-
ShareBuy matching shares ⁽⁸⁾	1.4.14 to 31.3.15	41	41	-	41	-	41	0	0

(1) Note that these are also subject to performance conditions where applicable.

(2) Executive directors were required to defer 50 per cent of their 2013/14 bonus into shares for three years under the DBP. The deferral period will end on 30 June 2017. There were no service or performance conditions attached, however deferred bonuses are subject to malus provisions (see page 88 for further information).

(3) The face value of the DBP awards made in 2014 have been calculated using the closing share price on 27 June 2014 (the dealing day prior to date of grant) which was 880.5 pence per share.

(4) 93.5 per cent of the 2011 PSP and MSAP awards vested. See page 96 for further detail.

(5) Calculated using the closing share price on date of vesting (20 May 2014) of 854 pence per share.

(6) The face value of the LTP awards made in 2014 has been calculated using the closing share price on 27 June 2014 (the dealing day prior to date of grant) which was 880.5 pence per share. 25 per cent of the award vests for threshold performance and performance is measured over the period 1 April 2014 to 31 March 2017. Details of the performance measures and targets are given on page 97.

(7) Full details of the one-off matched share investment scheme award for Steve Mogford, introduced as a necessary part of his terms of appointment, were disclosed in the 2010/11 report. Shares under this scheme will vest on 5 January 2016, subject to him still being employed by the group at that date.

(8) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant. During the year Steve Mogford purchased 204 partnership shares and was awarded 41 matching shares (at an average share price of 870 pence per share). Russ Houlden purchased 205 partnership shares and was awarded 41 matching shares (at an average share price of 870 pence per share).

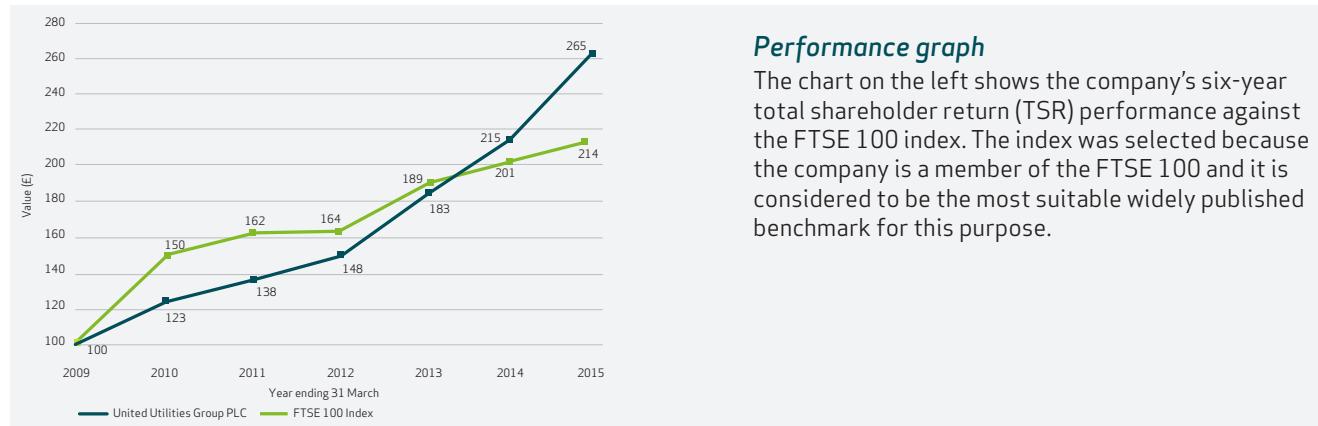
(9) Full details of the one-off matched share investment scheme award for Russ Houlden, introduced as a necessary part of his terms of appointment, were disclosed in the 2010/11 report. Shares under this scheme will vest on 1 October 2015, subject to him still being employed by the group at that date.

Dates of service contracts

Executive directors	Date of service contract
Steve Mogford	5.1.11
Russ Houlden	1.10.10

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Other information



Performance graph

The chart on the left shows the company's six-year total shareholder return (TSR) performance against the FTSE 100 index. The index was selected because the company is a member of the FTSE 100 and it is considered to be the most suitable widely published benchmark for this purpose.

Six-year history of CEO's pay

The table below shows the CEO's pay over the same six-year period as the TSR chart above.

Year ended 31 March	CEO	CEO single figure of total remuneration (£'000)	Annual bonus as % of maximum	Long-term incentive vesting as % of maximum ⁽¹⁾
2015	Steve Mogford	2,884	77.4	97.5
2014	Steve Mogford	2,378	78.2	93.5
2013	Steve Mogford	1,549	84.4	n/a ⁽²⁾
2012	Steve Mogford	1,421	72.0	n/a ⁽²⁾
2011	Steve Mogford	377	90.6	n/a ⁽²⁾
2011	Philip Green	3,073	90.8	28.1 ⁽³⁾
2010	Philip Green	1,992	89.2	100.0 ⁽⁴⁾
				0 ⁽⁵⁾
				12.5 ⁽⁶⁾

⁽¹⁾ For performance periods ending 31 March, unless otherwise stated.

⁽²⁾ Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2011 to 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.

⁽³⁾ 2008 PSP and MSAP.

⁽⁴⁾ The retention period applicable to Philip Green's matched share investment scheme ended on 12 February 2011.

⁽⁵⁾ 2007 Performance Share Plan (PSP).

⁽⁶⁾ 2007 Matching Share Award Plan (MSAP).

Percentage change in CEO's remuneration versus the wider workforce

The table below shows how the percentage change in the CEO's salary, benefits and bonus earned in 2013/14 and 2014/15 compares with the percentage change in the average of each of those components for a group of employees.

Item	Year-on-year change CEO (%) ⁽¹⁾	Year-on-year change employees (%) ⁽²⁾
Base salary ⁽³⁾⁽⁴⁾	2.5	3.0
Taxable benefits	8.3	5.2
Bonus	0.1	-2.9

⁽¹⁾ See single total figure of remuneration table on page 92 for more information.

⁽²⁾ To aid comparison, the group of employees selected by the committee are those who were employed over the complete two-year period.

⁽³⁾ On 1 September 2014 Steve Mogford received a base salary increase of 2.5 per cent.

⁽⁴⁾ Includes promotional increases.

Relative importance of spend on pay

The table below shows the relative importance of spend on pay compared to distributions to shareholders.

	2014/2015	2013/2014	% change
Employee costs £m ⁽¹⁾	260	252	3.0%
Dividends paid to shareholders £m	249	238	4.8%

⁽¹⁾ Employee costs includes wages and salaries, social security costs, and post-employment benefits. The 2013/14 figures have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

Non-executive directors

Single total figure of remuneration for non-executive directors (audited information)

Year ended 31 March	Fees £'000			Benefits £'000		Total £'000
		2015	2014	2015	2014	
Dr John McAdam	281	274	1	1	282	275
Dr Catherine Bell	69	66	1	1	70	67
Stephen Carter ⁽¹⁾	36	n/a	1	n/a	37	n/a
Mark Clare ⁽²⁾	69	25	1	1	70	26
Paul Heiden ⁽³⁾	n/a	24	n/a	1	n/a	25
Brian May	76	69	1	1	77	70
Nick Salmon ⁽⁴⁾	22	69	2	0	24	69
Sara Weller	72	69	0	0	72	69

(1) Stephen Carter joined the board on 1 September 2014.

(2) Mark Clare joined the board on 1 November 2013.

(3) Paul Heiden retired from the board on 26 July 2013.

(4) Nick Salmon retired from the board on 25 July 2014.

Fees

Non-executive director annual fee rates were reviewed and increased with effect from 1 September 2014 as shown below:

Role	Fees £'000	
	1 Sept 2014	1 Sept 2013
Base fees: Chairman ⁽¹⁾	284.0	277.0
Base fees: other non-executive directors ⁽²⁾	61.35	59.85
Senior independent non-executive director ⁽²⁾	12.5	10.0
Chair of audit committee ⁽²⁾	15.0	15.0
Chair of remuneration committee ⁽²⁾	12.5	10.0
Chair of corporate responsibility committee ⁽²⁾	8.0	8.0

(1) Approved by the remuneration committee.

(2) Approved by a separate committee of the board.

Any fee increases in the year commencing 1 April 2015 will be in line with policy (see page 89 in the policy report).

Non-executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2015 held by each of the non-executive directors and their connected persons are set out in the table below.

	Number of shares owned outright (including connected persons) at 31 March 2015
Dr John McAdam	1,837
Dr Catherine Bell	7,000
Stephen Carter	3,000
Mark Clare	7,628
Brian May	3,000
Sara Weller	10,531

Dates first appointed to the board

Non-executive directors	Date first appointed to the board
Dr John McAdam	4.2.08
Dr Catherine Bell	19.3.07
Stephen Carter	1.9.14
Mark Clare	1.11.13
Brian May	1.9.12
Sara Weller	1.3.12

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The remuneration committee

Summary terms of reference

The committee's terms of reference were last updated in April 2015 and are available on our website:
corporate.unitedutilities.com/corporate-governance

The committee's main responsibilities include:

- making recommendations to the board on the company's framework of executive remuneration and its cost;
- approving the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets;
- approving the general employment and remuneration terms for selected senior employees;
- approving the remuneration of the Chairman;
- proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional investors on aspects of executive remuneration.

Composition of the remuneration committee

Member	Member since	Member to
Sara Weller (chair since 27.7.12)	1.3.12	To date
Dr Catherine Bell	1.3.11	To date
Mark Clare	1.9.14	To date
Nick Salmon ⁽¹⁾	4.4.05	25.7.14

(1) Nick Salmon retired from the board on 25 July 2014.

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Advisors to the remuneration committee

By invitation of the committee, meetings are also attended by the Chairman of the company (John McAdam), the CEO (Steve Mogford), the company secretary (Simon Gardiner, who acts as secretary to the committee), the business services director (Sally Cabrini) and the head of reward (Ruth Henshaw), who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the committee feels that such additional contributions will assist the decision-making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisors.

During the year, the committee was assisted in its work by the following external advisor:

Advisor	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2015	Fees paid by company for these services in respect of year and basis of charge
New Bridge Street	Committee	Reappointed following committee review in 2013	General advice on remuneration matters	£81,000 Time/cost basis

Other services provided to the company

- Benchmarking of roles not under the committee's remit

The independent consultants New Bridge Street (a trading name of Aon Hewitt Limited, an Aon PLC company) are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The committee is satisfied that the advice they received from external advisors is objective and independent.

In addition, during the year the law firms Eversheds and Addleshaw Goddard provided advice on the company's share schemes to the company.

Key activities of the remuneration committee over the past year

The committee met five times in the year ended 31 March 2015.

Regular activities

- Approved the 2013/14 directors' remuneration report
- Reviewed the base salaries of executive directors and other members of the executive team
- Reviewed the base fee for the Chairman
- Assessed the achievement of targets for the 2013/14 annual bonus scheme, reviewed progress against the targets for the 2014/15 annual bonus scheme, and set the targets for the 2015/16 annual bonus scheme
- Assessed the measurement of performance conditions for the long-term incentive awards vesting in 2014, including both Performance Share Plan (PSP) awards and matching shares vesting under the Matching Share Award Plan (MSAP), and set the targets for Long Term Plan (LTP) awards made in 2014

- Reviewed and approved awards made under the annual bonus scheme, Deferred Bonus Plan (DBP) and LTP
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team
- Reviewed the committee's performance during the period
- Reviewed the committee's terms of reference
- Considered market trends in executive remuneration, including in the wider utilities sector

Other activities

- Completed a review of the annual bonus structure and measures for the 2015-20 period
- Engaged with shareholders regarding the review of the annual bonus scheme

2014 AGM: Statement of voting

At the last Annual General Meeting on 25 July 2014, votes on the directors' remuneration report were cast as follows:

Resolution	For		Against		Abstain
	%	Number	%	Number	Number
Approval of the 2013/14 directors' remuneration report (other than the part containing the directors' remuneration policy)	99.39	397,476,289	0.61	2,421,968	2,701,560
Approval of the directors' remuneration policy effective 25 July 2014	98.48	394,128,786	1.52	6,065,537	2,404,464

The directors' remuneration report was approved by the board of directors on 20 May 2015 and signed on its behalf by:

Sara Weller

Chair of the remuneration committee

Directors' report: other statutory information

Carbon emissions for
2014/15

473,708

tonnes CO₂ equivalent

19 per cent below our 2005/06
baseline

Renewable energy

144GWh

of renewable generation

Our highest ever renewable energy
generation, equivalent to 19 per
cent of our electricity consumption

Our directors present their management report and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2015.

Business model

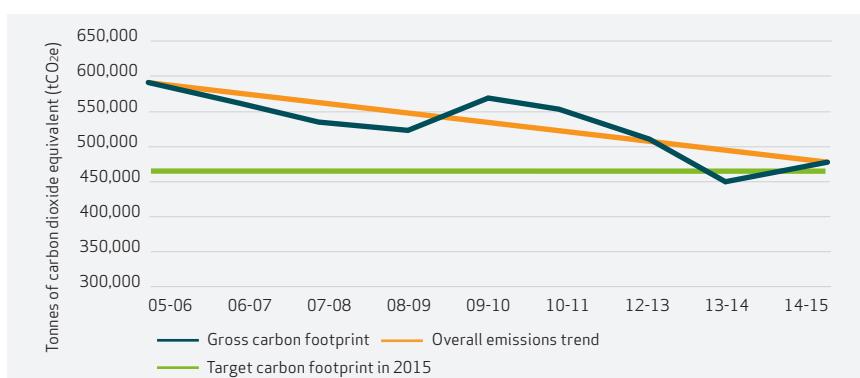
A description of the company's business model can be found within the strategic report on pages 14 to 18.

Greenhouse gas emissions

We measure our emissions over the financial reporting year against a footprint covering the operational activities of the water and property services businesses in the UK. All figures stated are in line with the latest UK Government carbon reporting guidance. Our reporting is compliant with the international carbon reporting standard ISO 14064, Part 1 and assured to a reasonable standard by the Certified Emissions Measurement and Reduction Scheme certification.

In 2010 we stated our short-term target to reduce our emissions by 21 per cent by 2015, against a 2005/06 baseline. As stated in the performance report, last year our emissions were 473,708 tonnes of carbon dioxide equivalent (tCO₂e), 19 per cent below our 2005/06 baseline, so narrowly missing our short-term target. Missing this target is extremely disappointing as we purchased less electricity than in any of the last 10 years and generated our highest ever amount of renewable energy. However, we could not counteract the impact of the 11 per cent increase in the carbon content of the UK's electricity supply.

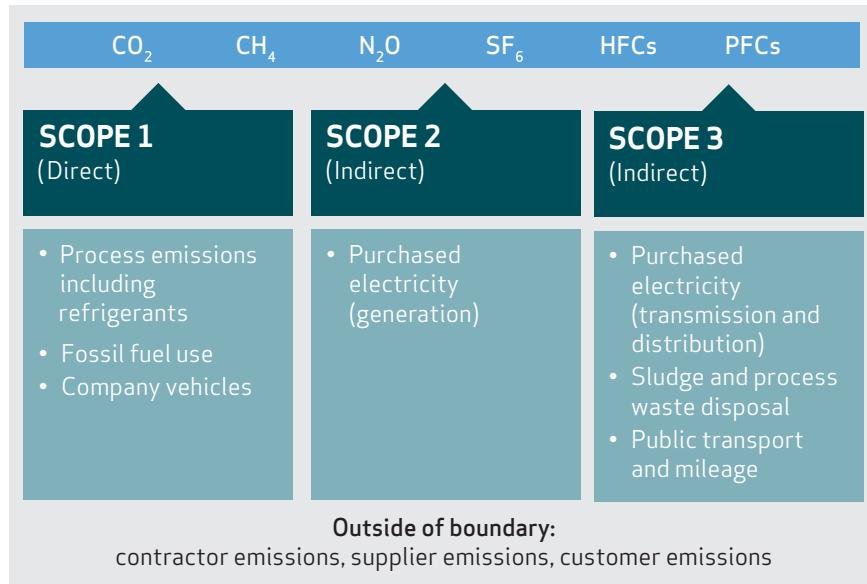
Our carbon footprint over the last 10 years



The trend in our overall emissions continues to be downwards even though they have fluctuated over the past few years – as they can be affected by weather, operational conditions and the carbon content of the UK's electricity supply. We are currently assessing what our next carbon targets should be, covering our emissions up to 2020 and beyond, taking both our plans and the impact of UK energy and carbon policy into account.

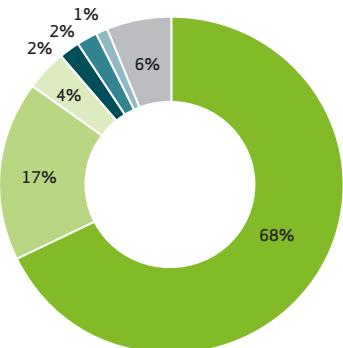
We expect the trend in our emissions to remain downwards reflecting our efforts to use less energy and increase renewable energy generation, alongside projected decreases in the carbon content of the UK's energy supply. It is likely there will be some fluctuation as a result of operational responses to weather conditions and wider trends in the energy market affecting the carbon content of UK electricity.

Boundary of our carbon footprint



Emissions

- Total grid electricity used by company: generation**
- Process and emissions from our treatment plants - including refrigerants**
- Emissions from sludge/process waste disposal**
- Direct emissions from burning of fossil fuels**
- Transport: Company owned or leased vehicles**
- Business travel on public transport and private vehicles used for company business**
- Total grid electricity used by company: transmission and distribution**



Our carbon footprint

The boundary of our carbon footprint includes both direct and indirect emissions as a result of our operations. Direct emissions include those from our treatment processes, company vehicles and burning of fossil fuels for heating or incineration of sewage sludge. Indirect emissions include those from the electricity we use to power our treatment plants, emissions from travel on company business and sludge and treatment waste disposal emissions. Our emissions account for all of the Kyoto Protocol gases – converted to carbon dioxide equivalents. There are no material omissions.

The following table gives a breakdown of our carbon emissions by scope and source

CHG Scope	Source	2012 - 2013 (tCO ₂ e)		2013 - 2014 (tCO ₂ e)		2014 - 2015 (tCO ₂ e)	
		2012 - 2013 (tCO ₂ e)	2013 - 2014 (tCO ₂ e)	2013 - 2014 (tCO ₂ e)	2014 - 2015 (tCO ₂ e)	2014 - 2015 (tCO ₂ e)	2014 - 2015 (tCO ₂ e)
Scope 1 emissions	Direct emissions from burning of fossil fuels	14,435		9,525		9,575	
	Process emissions from our treatment plants - including refrigerants	90,509	115,250	82,421	101,992	83,762	104,041
	Transport: company owned or leased vehicles	10,306		10,046		10,704	
Scope 2 emissions	Total grid electricity purchased by the company: generation	333,774	333,774	298,768	298,768	321,185	321,185
Scope 3 emissions	Total grid electricity purchased by the company: transmission and distribution	26,367		25,546		28,086	
	Business travel on public transport and private vehicles used for company business	2,613	54,203	2,860	48,281	2,971	48,482
	Emissions from sludge and process waste disposal	25,223		19,875		17,425	
	Gross carbon footprint total	503,226		449,042		473,708	
	Emissions per £million turnover	307.60		263.44		275.44	
	Emission reductions from exported renewable electricity	(3,993)		(6,676)		(6,155)	
	Net carbon footprint total	499,233		442,366		467,553	

Directors' report: other statutory information

Dividends	Our directors are recommending a final dividend of 25.14 pence per ordinary share for the year ended 31 March 2015, which, together with the interim dividend of 12.56 pence, gives a total dividend for the year of 37.70 pence per ordinary share (the interim and final dividends we paid in respect of the 2013/14 financial year were 12.01 pence and 24.03 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, our final dividend will be paid on 3 August 2015 to shareholders on the register at the close of business on 26 June 2015.
Directors	The biographical details, together with the skills and experience of our directors who served during the financial year ended 31 March 2015, can be found on pages 58 and 59. During the year, Nick Salmon retired from the board at our AGM on 25 July 2014 and we appointed Stephen Carter to the board on 1 September 2014.
Reappointment	Our articles of association provide that our directors must retire at the third annual general meeting following their last election or reappointment by our shareholders. However, our board, being mindful of the recommendation contained within the UK Corporate Governance Code published in 2012 ('the 2012 Code') that all directors should be subject to annual election by shareholders, has decided that all of our directors will retire at the 2015 AGM and offer themselves for election/reappointment, as happened at the AGMs in 2011, 2012, 2013 and 2014. Information regarding the appointment of our directors is included in our corporate governance report on pages 68 to 72.
Interests	Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 84 to 103 which is hereby incorporated by reference into this directors' report.
Corporate governance statement	<p>The corporate governance report on pages 57 to 103 is hereby incorporated by reference into this directors' report. Further details of our compliance with the 2012 Code is given on pages 57 to 103. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2012 Code, as applicable to the company for the year ended 31 March 2015, can be found at the Financial Reporting Council's website frc.org.uk. Copies of the matters reserved to the board and the terms of reference for each of the main board committees can be found on our website: corporate.unitedutilities.com</p> <p>Our corporate governance statement also includes the consideration given by our directors to the factors relevant to the adoption of the going concern basis of accounting and a long term viability statement. We can confirm that during the financial year 2014/2015 there have been no breaches of our anti-bribery and competition policies and no investigations or enforcement activity against us in respect of these matters.</p>

Share capital	<p>At 31 March 2015, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of five pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 22 to the financial statements on page 142. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2015.</p> <p>All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets which are distributed in the event of a winding-up.</p> <p>Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2015 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company on 25 July 2014, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non pre-emptive basis to an aggregate nominal amount of £1,704,721.</p>						
Voting	Electronic and paper proxy appointment and voting instructions must be received by our registrars (Equiniti) not less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.						
Transfers	<p>There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.</p> <p>There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.</p>						
Major shareholdings	<p>At 20 May 2015, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:</p> <table border="1"> <thead> <tr> <th></th> <th>Per cent of issued share capital</th> <th>Direct or indirect nature of holding</th> </tr> </thead> <tbody> <tr> <td>BlackRock Inc</td> <td>5.13</td> <td>indirect</td> </tr> </tbody> </table>		Per cent of issued share capital	Direct or indirect nature of holding	BlackRock Inc	5.13	indirect
	Per cent of issued share capital	Direct or indirect nature of holding					
BlackRock Inc	5.13	indirect					

Directors' report: other statutory information

Purchase of own shares	<p>At our last AGM held on 25 July 2014, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of five pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2015 AGM, we will seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of five pence each with such authority expiring at the end of our AGM held in 2016.</p>
Change of control	<p>As at 31 March 2015, Equiniti Trust (Jersey) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust.</p> <p>In the event of a change of control, the participants in our share incentive plan (ShareBuy) would be able to direct the trustee of the share incentive plan, Equiniti Share Plan Trustees Limited, how to act on their behalf.</p>
Information required by UK listing rule 9.8.4	<p>Details of the amount of interest capitalised by the group during the financial year can be found in note 5 to the financial statements on page 130. In line with current UK tax legislation, the amount is fully deductible against the group's corporation tax liability resulting in tax relief of £4.4 million.</p> <p>There are no other disclosures to be made under listing rule 9.8.4.</p>
Directors' indemnities and insurance	<p>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 and have been in force throughout the financial year. 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.</p>
Political donations	<p>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.</p> <p>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: £12,235) 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.</p>

Employees	<p>Our policies on employee consultation and on equal opportunities for our disabled employees can be found in the 'Our responsible approach to doing business' section on page 20. 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.</p> <p>Importance is placed on strengthening employees' engagement, measuring their views annually, then taking action to improve how they feel about the company and understand its direction. Employees are provided with regular information to enable them to understand the financial and economic factors affecting the company's performance. The board encourages employees to own shares in the company through the all employee share incentive plan (ShareBuy). For further information on our average number of employees during the year, go to page 128.</p>
Environmental, social and community matters	Details of our approach to corporate responsibility, relating to the environment and social and community issues, can be found in the 'Our responsible approach to doing business' section on page 20.
Essential contractual relationships	Certain suppliers we use contribute key goods or services, the loss of which could cause disruption to our services. However, none are so vital that their loss would affect our viability as a group as a whole nor are we overly dependent on any one individual customer.
Approach to technology development	We are committed to using innovative, cost-effective and practical solutions for providing high quality services and we recognise the importance of ensuring that we focus our investment on the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and also that we continue to be alert to emerging technological opportunities.
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.
Events occurring after the reporting period	Details of events after the reporting period are included in note 25 to the consolidated financial statements on page 143.

Directors' report: other statutory information

Total dividend per share

37.70p

for 2014/15

(2013/14: 36.04p per share)

Annual general meeting

Our 2015 annual general meeting (AGM) will be held on 24 July 2015

Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website corporate.unitedutilities.com/annual-general-meeting-2015

At our 2015 AGM, resolutions will be proposed, amongst other matters:

- to receive the annual report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint KPMG LLP as auditor.
- In addition, resolutions will be proposed: to approve our directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to

authorise the making of limited political donations by the company and its subsidiaries; and to enable the company to continue to hold general meetings on not less than 14 working days' notice

Information given to the auditor

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

- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- 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 is proposing that our shareholders reappoint KPMG LLP as our auditor at the forthcoming AGM and authorises the audit committee of the board to set the auditor's remuneration.

Approved by the board on 20 May 2015 and signed on its behalf by:

Simon Gardiner
Company Secretary

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

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;

- the strategic report (contained on pages 4 to 55) includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the directors consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy.

Approved by the board on 20 May 2015 and signed on its behalf by:

Dr John McAdam
Chairman

Russ Houlden
Chief Financial Officer



Outstanding

We live and work in a beautiful part of the world.
And we're proud to have the responsibility to
help keep it that way



FINANCIAL STATEMENTS

The full audited financial results for the year are presented here.

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Independent auditor's report to the members of United Utilities Group PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of United Utilities Group PLC for the year ended 31 March 2015 set out on pages 118 to 162. 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 International Financial Reporting Standards as adopted by the European Union (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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Capitalisation of costs relating to the capital programme (£728.5 million)

Refer to page 79 audit committee report, page 125 accounting policies and note 10 financial disclosures.

The risk

The group has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. Within the costs of the capital programme is an allocation of overhead relating to the proportion of time that the group's support functions spend which relates directly to the capital programme. This allocation is also inherently judgemental. For these reasons there remains a risk that capital and operating expenditure may be significantly misstated and so the group's capital programme is an area of focus for our work.

Our response

In this area our principal audit procedures included the following:

- we assessed the group's capitalisation policy for compliance with relevant accounting standards;
- we tested controls over the application of the policy to spend incurred on projects within the capital programme in the period including attending capital approval meetings to observe the judgements made; for a sample of capital projects we assessed the appropriate application of the capitalisation policy to actual spend incurred;
- we assessed, also for a sample of projects, variances in actual expenditure to budgeted capital and operating expenditure and where significant variances were identified we tested the proportionate allocation of costs between capital and operating expenditure;
- we agreed overhead costs incurred to supporting documentation on a sample basis and performed comparative analysis of overheads absorbed into capital projects by category to assess consistency with the policy and with prior years; and
- we tested a sample of capital accruals to assess the existence and accuracy of the costs being capitalised.

We also assessed the adequacy of the group's disclosures of its capitalisation policy and other related disclosures.

Revenue recognition (£1,720.2 million) and provision for customer debts (£100.5 million)

Refer to page 79 audit committee report, page 125 accounting policies, and note 15 financial disclosures.

The risk

Revenue recognition remains one of the key judgemental areas for the audit, particularly in relation to:

- the estimate of the revenue value of water supplied to metered customers between the last meter reading and the period end; and
- supplies to properties where there is little prospect of revenue being realised through the occupier not being able to be identified or due to a past history of non-payment of bills relating to that property.

A proportion of the group's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Due to the level of judgement and the complexity of the calculation which could lead to revenue and provision for customer debt being misstated, this is considered a key audit risk.

Our response

In this area our principal audit procedures included the following:

- we assessed whether appropriate revenue recognition policies are applied through comparison with relevant accounting standards and industry practice, including the policy of not recognising revenue where there is little prospect of revenue being realised;
- we tested the group's controls over revenue recognition, including reconciliations between sales and cash receipts systems and the general ledger;
- we recalculated the metered accrued income calculation with the support of our own modelling specialists;
- we assessed the appropriateness of the customer debt provisioning policy based on historical cash collections, credits, re-bills and write off information which we assessed through testing the data in the billing system and analysed by comparing the data to that which we collect independently across the industry;
- we assessed the extent to which historical trends are taken into account and applied in the customer debt provision calculation; and
- we remodelled the customer debt provision calculation to assess the mathematical accuracy with the support of our own modelling specialists.

We also assessed the adequacy of the group's disclosures of its revenue recognition, customer debt provisioning policy, disclosures in relation to the estimation uncertainty involved in calculating the provision and other related disclosures.

Retirement benefit surplus (£79.2 million)

Refer to page 80 audit committee report, page 126 accounting policies and notes 18 and A4 financial disclosures.

The risk

Significant estimates are made in valuing the group's retirement benefit surplus. Small changes in assumptions and estimates used to value the group's net pension surplus (2014: deficit) would have a significant effect on the group's financial position.

Our response

Our principal audit procedures included the following: we tested the controls over the maintenance of the schemes' membership data and we challenged the key assumptions supporting the group's retirement benefit surplus valuation with input from our own actuarial specialists, comparing the discount rate, inflation rate, salary, pension increase rates and life expectancy assumptions used against externally derived data. We also assessed the group's disclosure in respect of the sensitivity of the surplus to changes in the key assumptions.

Independent auditor's report to the members of United Utilities Group PLC only

Derivative financial instrument valuations (£477.4 million)

Refer to page 80 audit committee report, page 126 accounting policies, and note A3 financial disclosures.

The risk

The group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of financial instruments and the related estimation uncertainty, this is considered a key audit risk.

Our response

Our audit procedures included the following:

- we assessed controls over the identification, measurement and management of derivative financial instruments and assessed the methodologies, inputs and assumptions used by the group in determining fair values;
- we compared observable inputs into valuation models such as quoted prices to externally available market data; and
- we recalculated valuations utilising our own valuation specialists.

Additionally, we assessed whether the financial statement disclosures of fair value risks and sensitivities appropriately reflect the group's exposure to valuation risk.

3. Our application of materiality and an overview of the scope of our audit

In establishing the overall audit strategy and performing the audit, materiality for the group financial statements as a whole was set at £25.0 million, determined with reference to a benchmark of group profit before taxation, normalised to exclude net fair value losses on debt and derivative instruments, of £104.7 million, of which it represents 5.6 per cent.

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £0.5 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The group consists of five reporting components, of which the most significant is United Utilities Water Limited which makes up the vast majority of the assets, liabilities, income and expense of the group. Audits for group reporting purposes were performed by the group audit team of four of the five components, using component materialities which ranged from £1.8 million for the smallest component to £24.0 million for United Utilities Water Limited, determined having regard to the mix of size and risk profile of the group across the components. These audits covered 99 per cent of group revenue, 100 per cent of group profit before taxation and 99 per cent of group total assets.

4. Our opinion on the other matter prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- information given in the corporate governance statement set out on pages 58 to 103 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards on Auditing (UK and Ireland) (ISAs) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the audit committee section of the corporate governance report does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 75, in relation to going concern; and
- the part of the corporate governance statement on pages 58 to 103 relating to the company's compliance with the 10 provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of responsibilities

As explained more fully in the directors' responsibilities statement set out on page 111, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Luke (Senior Statutory Auditor)

for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE
20 May 2015

Consolidated income statement

for the year ended 31 March

	Note	2015 £m	Restated* 2014 £m
<i>Continuing operations</i>			
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	1.0	6.8
Finance expense	5	(317.8)	(98.7)
Investment income and finance expense		(316.8)	(91.9)
Share of profits of joint ventures		5.1	5.0
Profit before taxation		341.6	543.3
Current taxation (charge)/credit	6	(47.1)	65.7
Deferred taxation charge	6	(23.3)	(27.2)
Deferred taxation credit - change in taxation rate	6	-	156.8
Taxation	6	(70.4)	195.3
Profit after taxation from continuing operations		271.2	738.6
<i>Discontinued operations</i>			
Profit after taxation from discontinued operations	7	-	0.8
Profit after taxation		271.2	739.4
Earnings per share			
from continuing and discontinued operations			
Basic	8	39.8p	108.4p
Diluted	8	39.7p	108.2p
Earnings per share			
from continuing operations			
Basic	8	39.8p	108.3p
Diluted	8	39.7p	108.1p
Dividend per ordinary share	9	37.70p	36.04p

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

Consolidated statement of comprehensive income

for the year ended 31 March

	Note	2015 £m	2014 £m
Profit after taxation		271.2	739.4
Other comprehensive income			
Remeasurement gains/(losses) on defined benefit pension schemes	18	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		468.5	578.3

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	2014 £m	Restated* Group	Company
		2015 £m	2014 £m	2015 £m	2014 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	9,716.3	9,318.5	-	-
Intangible assets	11	144.9	110.2	-	-
Interests in joint ventures	12	31.7	35.6	-	-
Investments	13	8.6	6.9	6,326.8	5,600.0
Trade and other receivables	15	2.5	2.4	-	-
Retirement benefit surplus	18	79.2	-	-	-
Derivative financial instruments	A3	681.6	456.0	-	-
		10,664.8	9,929.6	6,326.8	5,600.0
Current assets					
Inventories	14	40.5	39.8	-	-
Trade and other receivables	15	353.3	330.4	61.2	56.3
Cash and short-term deposits	16	244.0	115.8	-	-
Derivative financial instruments	A3	1.0	56.9	-	-
		638.8	542.9	61.2	56.3
Total assets		11,303.6	10,472.5	6,388.0	5,656.3
LIABILITIES					
Non-current liabilities					
Trade and other payables	21	(480.0)	(451.0)	-	-
Borrowings	17	(6,067.3)	(5,929.2)	(1,609.4)	-
Retirement benefit obligations	18	-	(177.4)	-	-
Deferred tax liabilities	19	(1,123.8)	(1,050.4)	-	-
Derivative financial instruments	A3	(196.6)	(52.3)	-	-
		(7,867.7)	(7,660.3)	(1,609.4)	-
Current liabilities					
Trade and other payables	21	(381.2)	(382.1)	(10.8)	(10.1)
Borrowings	17	(578.1)	(112.3)	(0.4)	(1,584.3)
Current tax liabilities		(21.1)	(34.8)	-	-
Provisions	20	(12.5)	(16.3)	-	-
Derivative financial instruments	A3	(8.6)	(50.8)	-	-
		(1,001.5)	(596.3)	(11.2)	(1,594.4)
Total liabilities		(8,869.2)	(8,256.6)	(1,620.6)	(1,594.4)
Total net assets		2,434.4	2,215.9	4,767.4	4,061.9
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	22	499.8	499.8	499.8	499.8
Share premium account		2.9	2.9	2.9	2.9
Other reserve		-	158.8	-	-
Cumulative exchange reserve		(8.7)	(5.6)	-	-
Capital redemption reserve		-	-	1,033.3	1,033.3
Merger reserve		329.7	329.7	-	-
Retained earnings		1,610.7	1,230.3	3,231.4	2,525.9
Shareholders' equity		2,434.4	2,215.9	4,767.4	4,061.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 20 May 2015 and signed on its behalf by:

Steve Mogford
Chief Executive Officer

Russ 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	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2014	499.8	2.9	158.8	(5.6)	329.7	1,230.3	2,215.9
Profit after taxation	-	-	-	-	-	271.2	271.2
Other comprehensive (expense)/income							
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	-	-	-	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)	-	471.6	468.5
Dividends (see note 9)	-	-	-	-	-	(249.4)	(249.4)
Transfer of other reserve	-	-	(158.8)	-	-	158.8	-
Equity-settled share-based payments (see note 2)	-	-	-	-	-	2.9	2.9
Exercise of share options – purchase of shares	-	-	-	-	-	(3.5)	(3.5)
At 31 March 2015	499.8	2.9	-	(8.7)	329.7	1,610.7	2,434.4

	Share capital £m	Share premium account £m	Other reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	-	-	-	-	-	739.4	739.4
Other comprehensive (expense)/income							
Remeasurement losses on defined benefit pension schemes (see note 18)	-	-	-	-	-	(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)	-	579.5	578.3
Dividends (see note 9)	-	-	-	-	-	(237.9)	(237.9)
Equity-settled share-based payments (see note 2)	-	-	-	-	-	4.4	4.4
Exercise of share options – purchase of shares	-	-	-	-	-	(0.8)	(0.8)
At 31 March 2014	499.8	2.9	158.8	(5.6)	329.7	1,230.3	2,215.9

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.

The merger reserve arose in the year ended 31 March 2009 on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition of United Utilities PLC by United Utilities Group PLC.

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2014	499.8	2.9	1,033.3	2,525.9	4,061.9
Profit after taxation	-	-	-	955.5	955.5
Total comprehensive income	-	-	-	955.5	955.5
Dividends (see note 9)	-	-	-	(249.4)	(249.4)
Equity-settled share-based payments (see note 2)	-	-	-	2.9	2.9
Exercise of share options – purchase of shares	-	-	-	(3.5)	(3.5)
At 31 March 2015	499.8	2.9	1,033.3	3,231.4	4,767.4

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	1,033.3	2,536.9	4,072.9
Profit after taxation	-	-	-	223.3	223.3
Total comprehensive income	-	-	-	223.3	223.3
Dividends (see note 9)	-	-	-	(237.9)	(237.9)
Equity-settled share-based payments (see note 2)	-	-	-	4.4	4.4
Exercise of share options – purchase of shares	-	-	-	(0.8)	(0.8)
At 31 March 2014	499.8	2.9	1,033.3	2,525.9	4,061.9

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 £955.5 million (2014: £223.3 million) after accounting for a £726.8 million (2014: £nil) reversal of the impairment in the company's investment in United Utilities PLC and dividends received from subsidiary undertakings of £249.4 million (2014: £237.9 million).

Consolidated and company statements of cash flows

for the year ended 31 March

		Restated* Group		Company	
	Note	2015 £m	2014 £m	2015 £m	2014 £m
Operating activities					
Cash generated from continuing operations	A2	941.7	931.9	256.1	237.7
Interest paid		(175.6)	(168.7)	(25.7)	(25.6)
Interest received and similar income		1.0	2.7	-	-
Tax paid		(61.9)	(64.2)	-	-
Tax received		1.3	95.5	7.1	11.8
Net cash generated from operating activities (continuing operations)		706.5	797.2	237.5	223.9
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	21	18.1	16.4	-	-
Purchase of investments	13	(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		411.2	372.0	15.6	13.6
Repayment of borrowings		(19.1)	(344.8)	-	-
Dividends paid to equity holders of the company	9	(249.4)	(237.9)	(249.4)	(237.9)
Exercise of share options – purchase of shares		(3.5)	(0.8)	(3.5)	(0.8)
Net cash generated from/(used in) financing activities (continuing operations)		139.2	(211.5)	(237.3)	(225.1)
Net increase/(decrease) in cash and cash equivalents (continuing operations)		140.8	(92.9)	0.2	(1.2)
Net decrease in cash and cash equivalents (discontinued operations)		-	(0.8)	-	-
Cash and cash equivalents at beginning of the year		78.9	172.6	(0.6)	0.6
Cash and cash equivalents at end of the year	16	219.7	78.9	(0.4)	(0.6)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 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 75.

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. Had the standards not been applied in the current year, basic earnings per share from continuing and discontinued operations would have remained unchanged.

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.

Impact on the consolidated income statement	Year ended 31 March 2014 £m
Decrease in revenue	(15.7)
Decrease in total operating expenses	9.0
Decrease in 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	-

Impact on the consolidated statement of financial position	31 March 2014 £m
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.

Impact on the consolidated statement of cash flows	Year ended 31 March 2014 £m
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.

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 24, unless the possibility of transferring economic benefits is remote.

Accounting policies

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.

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 the 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 of directors of United Utilities Group PLC (the board) is provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit (see page 44), operating profit, assets and liabilities, regulatory capital expenditure and regulatory capital value (RCV) gearing at a consolidated level. In light of this, 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
Fees to non-executive directors	0.6	0.6
Salaries	1.1	1.1
Benefits	0.3	0.3
Bonus	0.6	0.6
Share-based payment charge	1.3	1.4
	3.9	4.0

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the directors' remuneration report on pages 84 to 103.

Remuneration of key management personnel

	2015 £m	2014 £m
Salaries and short-term employee benefits	5.9	5.6
Post-employment benefits	0.2	0.3
Share-based payment charge	2.4	2.5
	8.5	8.4

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

Employee benefits expense (including directors)

Group		Restated*	2014 £m
Group		2015 £m	2014 £m
<i>Continuing operations</i>			
Wages and salaries		206.5	204.1
Social security		18.1	18.6
Severance		6.6	4.4
Post-employment benefits:			
Defined benefit pension expense (see note 18)		26.2	21.1
Defined contribution pension costs (see note 18)		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

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

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

The total expense included within employee benefits expense from continuing operations in respect of equity-settled share-based payments was £2.9 million (2014: £4.4 million). The company operates several share option schemes, details of which are given on pages 84 to 103 in the directors' remuneration report. Further disclosures have not been included as they are considered immaterial to the assessment of the share-based payments charge.

Notes to the financial statements

2 DIRECTORS AND EMPLOYEES continued

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

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

Company

The company has no employees.

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 15)	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 20)	(3.4)	10.9
Amortisation of deferred grants and contributions (see note 21)	(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 10)	323.6	312.9
Amortisation of intangible assets (see note 11)	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 124 for details.

3 OPERATING PROFIT continued

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

	2015 £'000	2014 £'000
Audit services		
Statutory audit - group and company	43	39
Statutory audit - subsidiaries	291	216
Regulatory reporting	30	30
	364	285
Audit related services		
	30	45
Other non-audit services		
	250	203
	644	533

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 18)	-	1.3
	1.0	6.8

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

Notes to the financial statements

5 FINANCE EXPENSE

	2015 £m	Restated* 2014 £m
<i>Continuing operations</i>		
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
2010-15 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 18)	7.0	-
	317.8	98.7

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 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.

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
<u>Continuing operations</u>		
Current taxation		
UK corporation tax	56.8	75.3
Adjustments in respect of prior years	(9.7)	(141.0)
Total current taxation charge/(credit) for the year	47.1	(65.7)
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	70.4	(195.3)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

The current taxation credit for the year ended 31 March 2014 includes a credit of £141.0 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 table below reconciles 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	341.6		543.3	
Taxation at the UK corporation tax rate	71.7	21.0	125.0	23.0
Adjustments in respect of prior years	(0.7)	(0.2)	(154.3)	(28.4)
Change in taxation rate	-	-	(156.8)	(28.9)
Net income not taxable/other	(0.6)	(0.2)	(9.2)	(1.7)
Total taxation charge/(credit) and effective tax rate for the year	70.4	20.6	(195.3)	(35.9)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

Taxation on items taken directly to equity

	2015 £m	2014 £m
<u>Continuing operations</u>		
Current taxation		
Relating to other pension movements	-	(1.9)
Deferred taxation (see note 19)		
On remeasurement gains/(losses) 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 charge/(credit) on items taken directly to equity	50.1	(40.9)

Notes to the financial statements

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 EARNINGS PER SHARE

	2015 £m	2014 £m
	2015 pence	2014 pence
Profit after taxation attributable to equity holders of the company – continuing and discontinued operations	271.2	739.4
Adjustment for profit after taxation from discontinued operations (see note 7)	-	(0.8)
Profit after taxation attributable to equity holders of the company – continuing operations	271.2	738.6
Earnings per share from continuing and discontinued operations		
Basic	39.8	108.4
Diluted	39.7	108.2
Earnings per share from continuing operations		
Basic	39.8	108.3
Diluted	39.7	108.1
Earnings per share from discontinued operations		
Basic	-	0.1
Diluted	-	0.1

Basic earnings per share is calculated by dividing profit after taxation for the financial year attributable to equity holders of the company by 681.9 million, being the weighted average number of shares in issue during the year (2014: 681.9 million). Diluted earnings per share is calculated by dividing profit after taxation for the financial year attributable to equity holders of the company by 683.3 million, being the weighted average number of shares in issue during the year including dilutive shares (2014: 683.2 million).

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

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

	2015 million	2014 million
Average number of ordinary shares – basic	681.9	681.9
Effect of potential dilutive ordinary shares – share options	1.4	1.3
Average number of ordinary shares – diluted	683.3	683.2

9 DIVIDENDS

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2014 at 24.03 pence per share (2013: 22.88 pence)	163.8	156.0
Interim dividend for the year ended 31 March 2015 at 12.56 pence per share (2014: 12.01 pence)	85.6	81.9
	249.4	237.9
Proposed final dividend for the year ended 31 March 2015 at 25.14 pence per share (2014: 24.03 pence)	171.4	163.9

The proposed final dividends for the years ended 31 March 2015 and 31 March 2014 were subject to approval by equity holders of United Utilities Group PLC and hence have not been included as liabilities in the consolidated financial statements at 31 March 2015 and 31 March 2014 respectively.

10 PROPERTY, PLANT AND EQUIPMENT

Group	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
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 124 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 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 31 March 2014.

Notes to the financial statements

11 INTANGIBLE ASSETS

	Total £m
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
Accumulated 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 124 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.

12 JOINT VENTURES

At 31 March 2015, the group's interests in joint ventures mainly comprised 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 24.

13 INVESTMENTS

Group	£m
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.

Company	Shares in subsidiary undertakings £m
Cost	
At 31 March 2013, 31 March 2014 and 31 March 2015	6,326.8
Impairment	
At 31 March 2013 and 31 March 2014	(726.8)
Reversal	726.8
At 31 March 2015	-
Net book value at 31 March 2014	5,600.0
Net book value at 31 March 2015	6,326.8

During the year ended 31 March 2015, a review has been performed of the carrying value of the company's investment in United Utilities PLC 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 £726.8 million impairment increases the company's investment in United Utilities PLC to £6,326.8 million at 31 March 2015 (2014: £5,600.0 million).

14 INVENTORIES

	2015 £m	Restated* 2014 £m
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 124 for details.

Company

The company had no inventories at 31 March 2015 or 31 March 2014.

Notes to the financial statements

15 TRADE AND OTHER RECEIVABLES

	Restated*		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade receivables	176.6	188.5	-	-
Amounts owed by subsidiary undertakings	-	-	61.2	56.3
Amounts owed by related parties (see note A5)	2.8	2.7	-	-
Other debtors	22.6	18.1	-	-
Prepayments and accrued income	153.8	123.5	-	-
	355.8	332.8	61.2	56.3

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 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.

The carrying amounts of trade and other receivables approximate their fair value.

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

Group	2015 £m	2014 £m
At the start of the year	97.9	87.5
Amounts charged to operating expenses (see note 3)	52.9	37.1
Trade receivables written off	(50.3)	(26.7)
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.

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

Trade receivables	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
At 31 March 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 124 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.

16 CASH AND CASH EQUIVALENTS

	Restated*		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash at bank and in hand	4.5	5.6	-	-
Short-term bank deposits	239.5	110.2	-	-
Cash and short-term deposits	244.0	115.8	-	-
Bank overdrafts (included in borrowings, see note 17)	(24.3)	(36.9)	(0.4)	(0.6)
Cash and cash equivalents in the statement of cash flows	219.7	78.9	(0.4)	(0.6)

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 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.

17 BORROWINGS

Group

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

	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 16)	24.3	36.9
	578.1	112.3
	6,645.4	6,041.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

Notes to the financial statements

17 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	Carrying value	Fair value	Carrying value
			2015 £m	2015 £m	Restated* 2014 £m	Restated* 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% 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			4,798.5	4,059.6	3,939.5	3,635.2
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

17 BORROWINGS continued

	Currency	Year of final repayment	Fair value	Carrying value	Fair value	Carrying value
			2015 £m	2015 £m	Restated* 2014 £m	Restated* 2014 £m
Borrowings measured at amortised cost continued						
1.5802%+RPI 100m IL bond	GBP	2042	171.7	133.2	137.0	129.9
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
Bank overdrafts	GBP	2015	24.3	24.3	36.9	36.9
			7,350.2	6,645.4	6,308.6	6,041.5

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

IL Index-linked debt – this debt is adjusted for movements in the Retail Prices 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.

Company

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

	2015 £m	2014 £m
Non-current liabilities		
Amounts owed to subsidiary undertakings	1,609.4	-
	1,609.4	-
Current liabilities		
Bank overdrafts (see note 16)	0.4	0.6
Amounts owed to subsidiary undertakings	-	1,583.7
	0.4	1,584.3
	1,609.8	1,584.3

Borrowings are unsecured and are measured at amortised cost. The carrying amounts of borrowings approximate their fair value.

Notes to the financial statements

18 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:

	2015 £m	2014 £m
<i>Continuing operations</i>		
Current service cost	(18.1)	(17.2)
Curtailments/settlements	(5.5)	(1.7)
Administrative expenses	(2.6)	(2.2)
Pension expense charged to operating profit	(26.2)	(21.1)
Net pension interest (expense)/income (charged)/credited to finance expense/investment income (see notes 4 and 5)	(7.0)	1.3
Net pension expense charged before taxation	(33.2)	(19.8)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £20.7 million (2014: £19.4 million) 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) comprise the defined benefit costs described above of £20.7 million (2014: £19.4 million) and defined contribution pension costs of £8.8 million (2014: £8.1 million) (see note 2).

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

Group	2015 £m	2014 £m
At the start of the year	(177.4)	15.1
Expense recognised in the income statement	(33.2)	(19.8)
Contributions paid	39.3	28.1
Remeasurement gains/(losses) gross of taxation	250.5	(200.8)
At the end of the year	79.2	(177.4)

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

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

	2015 £m	2014 £m
The return/(loss) on plan assets, excluding amounts included in interest	705.2	(125.1)
Actuarial losses arising from changes in financial assumptions	(500.8)	(108.3)
Actuarial gains arising from changes in demographic assumptions ⁽¹⁾	10.2	34.4
Actuarial gains/(losses) arising from experience	35.9	(1.8)
Remeasurement gains/(losses) on defined benefit pension schemes	250.5	(200.8)

Note:

(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 schemes

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

Company

The company did not participate in any of the group's pension schemes during the years ended 31 March 2015 and 31 March 2014.

19 DEFERRED TAX LIABILITIES

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

Group	Accelerated taxation depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
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)
Credited to equity (see note 6)	-	(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 (see note 6)	-	50.1	-	50.1
At 31 March 2015	1,125.0	16.6	(17.8)	1,123.8

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

Company

The company had no deferred tax assets or liabilities at 31 March 2015 or 31 March 2014.

20 PROVISIONS

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

The group had no provisions classed as non-current at 31 March 2015 or 31 March 2014.

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.

Company

The company had no provisions at 31 March 2015 or 31 March 2014.

Notes to the financial statements

21 TRADE AND OTHER PAYABLES

	Restated* Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Non-current				
Deferred grants and contributions	476.7	441.8	-	-
Other creditors	3.3	9.2	-	-
	480.0	451.0	-	-
Current				
Trade payables	40.1	41.1	-	-
Amounts owed to subsidiary undertakings	-	-	9.2	8.6
Other taxation and social security	4.7	4.9	-	-
Deferred grants and contributions	9.1	8.9	-	-
Other creditors	3.7	3.8	1.6	1.5
Accruals and deferred income	323.6	323.4	-	-
	381.2	382.1	10.8	10.1

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

The average credit period taken for trade purchases is 28 days (2014 restated: 27 days).

The carrying amounts of trade and other payables approximate their fair value.

Deferred grants and contributions

Group	2015 £m	2014 £m
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 the 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

22 SHARE CAPITAL

Group and company	2015 million	2015 £m	2014 million	2014 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	681.9	34.1	681.9	34.1
Deferred shares of 170.0 pence each	274.0	465.7	274.0	465.7
	955.9	499.8	955.9	499.8

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

23 OPERATING LEASE COMMITMENTS

Group	Property 2015 £m	Plant and equipment 2015 £m	Property 2014 £m	Plant and equipment 2014 £m
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.

The company had no operating lease commitments at 31 March 2015 or 31 March 2014.

24 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 has not entered into performance guarantees as at 31 March 2015 or 31 March 2014.

25 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.

Notes to the financial statements – 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.

Subsidiary undertaking	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
<i>Great Britain</i>			
United Utilities Water Limited (formerly United Utilities Water PLC)			
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
<i>Joint ventures</i>			
<i>Estonia</i>			
AS Tallinna Vesi	Ordinary	35.3	Contract operations and maintenance services

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

A2 CASH GENERATED FROM OPERATIONS

	Restated* Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<i>Continuing operations</i>				
Profit before taxation	341.6	543.3	950.0	212.6
Adjustment for investment income (see note 4) and finance expense (see note 5)	316.8	91.9	26.3	25.3
Adjustment for share of profits of joint ventures	(5.1)	(5.0)	-	-
Operating profit	653.3	630.2	976.3	237.9
Adjustments for:				
Depreciation of property, plant and equipment (see note 10)	323.6	312.9	-	-
Amortisation of intangible assets (see note 11)	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 21)	(7.7)	(7.4)	-	-
Equity-settled share-based payments charge (see note 2)	2.9	4.4	-	-
Other non-cash movements**	(1.2)	(2.0)	(726.8)	-
Changes in working capital:				
Increase in inventories	(0.7)	(2.1)	-	-
(Increase)/decrease in trade and other receivables	(23.0)	(7.4)	6.5	0.4
(Decrease)/increase in trade and other payables	(23.2)	(24.2)	0.1	(0.6)
(Decrease)/increase in provisions (see note 20)	(3.8)	4.1	-	-
Pension contributions paid less pension expense charged to operating profit	(13.1)	(7.0)	-	-
Cash generated from continuing operations	941.7	931.9	256.1	237.7

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

** Material non-cash transactions during the year include, for the company, the reversal of a past impairment made against the company's investment in its subsidiary, United Utilities PLC (see note 13).

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 21 and A6).

A3 FINANCIAL RISK MANAGEMENT

Risk management

The 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 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 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 had available committed borrowing facilities as follows:

Group	2015 £m	2014 £m
Expiring within one year	50.0	50.0
Expiring after one year but in less than two years	150.0	50.0
Expiring after more than two years	400.0	400.0
Undrawn borrowing facilities	600.0	500.0

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.

Company

The company did not have any committed facilities available at 31 March 2015 or 31 March 2014.

Notes to the financial statements – appendices

A3 FINANCIAL RISK MANAGEMENT continued

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 the group'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.

Group At 31 March 2015	Total ⁽¹⁾ £m	Adjust- ment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	10,067.1		593.3	143.4	173.3	691.1	502.8	7,963.2
Bank and other term borrowings	2,536.9		184.5	348.9	84.2	85.8	86.9	1,746.6
Adjustment to carrying value ⁽²⁾	(5,958.6)	(5,958.6)						
Borrowings	6,645.4	(5,958.6)	777.8	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* At 31 March 2014	Total ⁽¹⁾ £m	Adjust- ment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	10,314.6		165.9	592.1	142.3	174.7	652.5	8,587.1
Bank and other term borrowings	2,136.1		139.6	38.8	343.1	65.1	66.3	1,483.2
Adjustment to carrying value ⁽²⁾	(6,409.2)	(6,409.2)						
Borrowings	6,041.5	(6,409.2)	305.5	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 124 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.

Company

The company has total borrowings of £0.4 million (2014: £1,584.3 million), which are payable within one year, and £1,609.4 million (2014: £nil), which are payable within one to two years.

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 does not believe it is 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 15).

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 2015 and 31 March 2014, 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*		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and short-term deposits (see note 16)	244.0	115.8	-	-
Trade and other receivables (see note 15)	355.8	332.8	61.2	56.3
Investments (see note 13)	8.6	6.9	-	-
Derivative financial instruments	682.6	512.9	-	-
	1,291.0	968.4	61.2	56.3

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

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) as collateral in relation to derivative financial instruments (included within borrowings in note 17).

Market risk

The group's exposure to market risk primarily results 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 statements – 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: Disclosure', 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:

Increase/(decrease) in profit before taxation and equity	2015 £m	2014 £m
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 calculated on either 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.

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 10 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 has assessed one per cent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

	Restated*		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Increase/(decrease) in profit before taxation and equity				
1 per cent increase in interest rate	174.2	101.2	(16.1)	(15.8)
1 per cent decrease in interest rate	(190.9)	(111.4)	16.1	15.8

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See accounting policies page 124 for details.

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

Notes to the financial statements – appendices

A3 FINANCIAL RISK MANAGEMENT continued

Repricing analysis

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

Group At 31 March 2015	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Borrowings in 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	403.1	403.1	-	-	-	-	-
Index-linked instruments	3,083.8	3,083.8	-	-	-	-	-
	4,059.6	4,030.7	0.4	0.5	0.5	0.6	26.9
Effect of a fixed hedge for the term of the regulatory period	-	(2,656.3)	(250.0)	(125.0)	(50.0)	1,127.1	1,954.2
Total borrowings	6,645.4	3,960.2	(249.6)	(124.5)	(49.5)	1,127.7	1,981.1
Cash and short-term deposits	(244.0)	(244.0)	-	-	-	-	-
Net borrowings	6,401.4	3,716.2	(249.6)	(124.5)	(49.5)	1,127.7	1,981.1

Restated* At 31 March 2014	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Borrowings in 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	166.6	166.6	-	-	-	-	-
Index-linked instruments	2,936.8	2,936.8	-	-	-	-	-
	3,635.2	3,178.7	427.7	0.4	0.5	0.5	27.4
Effect of a fixed hedge for the term of the regulatory period	-	(2,031.3)	-	325.0	252.1	250.0	1,204.2
Total borrowings	6,041.5	3,553.7	427.7	325.4	252.6	250.5	1,231.6
Cash and short-term deposits	(115.8)	(115.8)	-	-	-	-	-
Net borrowings	5,925.7	3,437.9	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 124 for details.

A3 FINANCIAL RISK MANAGEMENT continued

Company	Total £m	2015		2014	
		1 year or less £m	Total £m	1 year or less £m	Total £m
Borrowings measured at amortised cost					
Floating rate instruments	1,609.8	1,609.8	1,584.3	1,584.3	1,584.3
Total borrowings	1,609.8	1,609.8	1,584.3	1,584.3	1,584.3

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 the group's 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.

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

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 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 that 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 Service (Moody's) and BBB+ with Standard & 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 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 statements – 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 2015		Level 1 £m	Level 2 £m	Level 3 £m	Total £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)	(2,268.2)	-	(4,798.5)
		(4,672.9)	(2,191.3)	-	(6,864.2)
 Restated* 2014		Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets					
Investments		-	6.9	-	6.9
Financial assets at fair value through profit or loss					
Derivative financial assets – 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)	(2,792.8)	-	(3,939.5)
		(3,179.0)	(2,712.9)	-	(5,891.9)

* The comparatives have been restated to reflect the requirements of IFRS 11 ‘Joint Arrangements’. See accounting policies page 124 for details.

Note:

(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).

- 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 has calculated fair values using quoted prices where an active market exists, which has resulted in £4,672.9 million (2014: £3,179.0 million) of ‘level 1’ fair value measurements. In the absence of an appropriate quoted price, the group has 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.

A3 FINANCIAL RISK MANAGEMENT continued

Company

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value or where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

A4 RETIREMENT BENEFITS

Defined benefit schemes

The group participates 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 costs 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 the directors' remuneration report.

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 from 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.

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.

Notes to the financial statements – appendices

A4 RETIREMENT BENEFITS continued

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 prudent, 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 significant change in the deficits on a scheme specific funding basis that impacts the level of deficit repair contributions.

Sensitivity of the key scheme assumptions

The measurement of the group'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 inter-relationship 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 at 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.

- **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 at 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 at 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.

A4 RETIREMENT BENEFITS continued

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:

Group	2015 % pa	2014 % pa
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
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

Further reporting analysis

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

	Schemes' assets %	2015 £m	Schemes' assets %	2014 £m
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)

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.

Notes to the financial statements – appendices

A4 RETIREMENT BENEFITS continued

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.

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

	2015 £m	2014 £m
At the start of the year	2,377.0	2,442.0
Interest income on schemes' assets	101.0	111.3
The return/(loss) on plan assets, excluding amounts included in interest	705.2	(125.1)
Member contributions	6.3	6.6
Benefits paid	(92.5)	(83.7)
Administrative expenses	(2.6)	(2.2)
Company contributions	39.3	28.1
At the end of the year	3,133.7	2,377.0

The group's actual return on the schemes' assets was a gain of £806.2 million (2014: £13.8 million loss), 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:

	2015 £m	2014 £m
At the start of the year	(2,554.4)	(2,426.9)
Interest cost on schemes' obligations	(108.0)	(110.0)
Actuarial losses arising from changes in financial assumptions	(500.8)	(108.3)
Actuarial gains arising from changes in demographic assumptions	10.2	34.4
Actuarial gains/(losses) arising from experience	35.9	(1.8)
Curtailments/settlements	(5.5)	(1.7)
Member contributions	(6.3)	(6.6)
Benefits paid	92.5	83.7
Current service cost	(18.1)	(17.2)
At the end of the year	(3,054.5)	(2,554.4)

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 £m	2014 £m	2015 £m	2014 £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.

The following amounts were owed by/to the group's joint ventures and other investments at the reporting date (see note 15).

	Amounts owed by related parties		Amounts owed to related parties	
	Restated*	2015 £m	2014 £m	2015 £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 124 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 12).

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.

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £249.5 million (2014: £237.9 million) and total net interest payable during the year was £26.3 million (2014: £25.3 million). Amounts outstanding at 31 March 2015 and 31 March 2014 between the parent company and subsidiary undertakings are provided in notes 15, 17 and 21.

At 31 March 2015 and 31 March 2014, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2015 and 31 March 2014.

Notes to the financial statements – appendices

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.

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.

A6 ACCOUNTING POLICIES continued

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.

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 comprise 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 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.

Notes to the financial statements – appendices

A6 ACCOUNTING POLICIES continued

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.

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.

A6 ACCOUNTING POLICIES continued

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.

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' surplus/obligation 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.

Notes to the financial statements – appendices

A6 ACCOUNTING POLICIES continued

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 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 equity-settled 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.

Shareholder information

Key dates

3 August 2015

Pay the 2014/15 final dividend

25 November 2015

Announce the half-year results
for the 2015/16 financial year

1 February 2016

Pay the 2015/16 interim
dividend

May 2016

Announce the final results for
the 2015/16 financial year

June 2016

Publish the Annual Report and
Financial Statements for the
2015/16 financial year

Dividends paid direct to your bank

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If you choose to have your dividend paid directly into your bank account you'll receive one tax voucher each year. This will be issued with the interim dividend normally paid in February and will contain details of all the dividends paid in that tax year. If you'd like to receive a tax voucher with each dividend payment, please contact Equiniti.

Online annual report



Our annual report is available online. View or download the full Annual Report and Financial Statements from:

corporate.unitedutilities.com

Electronic communications

We're encouraging our shareholders to receive their shareholder information by email and via our website. Not only is this a quicker way for you to receive information, it helps us to be more sustainable by reducing paper and printing materials and lowering postage costs.

Registering for electronic shareholder communications is very straightforward, and is done online via shareview.co.uk which is a website provided by our registrar, Equiniti.

Log on to shareview.co.uk and you can:

- set up electronic shareholder communication;
- view your shareholdings;
- update your address details if you change your address; and
- get your dividends paid directly into your bank account.

Please do not use any electronic address provided in this notice or in any related document to communicate with the company for any purposes other than those expressly stated.



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Pictured: Haweswater reservoir in Cumbria, which supplies around a quarter of the North West's daily water needs.

