FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2012

£m (Continuing operations)	Year ended 31 March 2012	 31 March 2011
Underlying operating profit*	594.1	596.4
Underlying profit before taxation*	327.0	329.2
Underlying profit after taxation*	240.9	239.2
Underlying earnings per share*, ** (pence)	35.3	35.1
Revenue	1,564.9	1,513.3
Operating profit	591.5	580.2
Profit before taxation	280.4	327.1
Profit after taxation	311.4	354.5
Basic earnings per share** (pence)	45.7	52.0
Total dividends per ordinary share (pence)	32.01	30.0

* 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 17
** Earnings per share and underlying earnings per share are explained in the earnings per share section

- Further customer service improvements delivered: significantly improved Ofwat SIM scores
- Met regulatory leakage target for sixth consecutive year
- On track to meet regulatory outperformance targets
- Continued progress on capex programme: invested £680m, an increase of 12% on prior year
- Underlying operating profit of £594m down £2m reflecting higher infrastructure renewals expenditure
- Robust financial position: substantially repaid all term debt due in 2010-15 period
- Final dividend of 21.34 pence per share, an increase of 6.7% in line with policy

Steve Mogford, Chief Executive Officer, said:

“Our focus on operational performance is delivering further service improvements for customers. Our revised customer handling arrangements have led to a marked improvement in customer satisfaction, resulting in significant progress on Ofwat’s service incentive mechanism. We have met our regulatory leakage target for the sixth consecutive year and our water supply and demand balance remains robust, with reservoirs in line with typical levels for this time of year.

“Our business improvement initiatives are progressing well and we remain on course to meet our regulatory outperformance targets. Alongside this, we increased capital investment in our assets to £680 million for the year, providing benefits for our customers, the regional economy and the wider environment. This investment included £154 million of infrastructure renewals expenditure, an increase of £24 million on the previous year, which helps maintain and improve the resilience of our network.

“We are pleased with the recent progress we have made and believe there is plenty of opportunity to deliver further improvements.

“We have delivered another good set of results, despite the tough economic climate. In line with our dividend policy of targeting annual growth of two per cent above RPI inflation, we have proposed a final dividend of 21.34 pence per share, an increase of 6.7 per cent. This takes the total dividend for the 2011/12 financial year to 32.01 pence per share.”

For further information on the day, please contact:

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A presentation to investors and analysts starts at 9.00 am on Thursday 24 May 2012, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025, access code

916639. A recording of the call will be available for seven days following Thursday 24 May 2012 on +44 (0) 20 7031 4064, access code 916639.

This results announcement and the associated presentation will be available on the day at: http://corporate.unitedutilities.com/investors.aspx

BUSINESS REVIEW

KEY OPERATIONAL ACHIEVEMENTS

United Utilities (UU) aims to deliver long-term shareholder value by providing:

* The best service to customers
* At the lowest sustainable cost
* In a responsible manner

Operational performance and customer service are top priorities for UU and the company aims to deliver significant improvements in these areas and outperform its regulatory contract. The business has a range of key performance indicators (KPIs) to enhance the visibility of its performance and help drive improvements.

This increasing focus on operational performance since the start of the 2010-15 regulatory period is delivering a number of improvements, as outlined below:

* **Significant improvements in customer service** – UU has broadly halved its points score on Ofwat's quantitative service incentive mechanism (SIM) assessment in each of the last two years. UU has achieved the joint best improvement on Ofwat's qualitative SIM score in 2011/12, moving up five places to 16th position out of the 21 water companies.

* **Capital delivery** – more effective and efficient delivery of capital programme, reflected in an improvement in our Time: Cost: Quality index (TCQi) score from around 50% last year to over 80% for 2011/12. Approximately £1.3 billion invested in the 2010-12 period, which is broadly in line with the regulatory allowance and UU is on track to deliver its outputs.

* **Regulatory outperformance** – clear targets set for 2010-15 period with UU on track to deliver these targets: £300 million of financing outperformance, at least £50 million of operating expenditure outperformance and expect to meet Ofwat's capital expenditure allowance. UU has now delivered cumulative operating expenditure outperformance of over £20 million in the first two years of the regulatory period and has already secured over £300 million of financing outperformance across its debt portfolio.

* **Leakage –** met or outperformed regulatory leakage target for the sixth consecutive year.

* **Corporate responsibility** – attained Dow Jones Sustainability Index 'World Class' rating and the highest platinum plus ranking in Business in the Community's (BITC) CR index. UU is one of only six FTSE 100 companies to hold both awards.

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the year ended 31 March 2012. Revenue was up by £52 million to £1,565 million, principally as a result of the impact of the regulated price increase for 2011/12 of 4.5% nominal (0.2% real price decrease plus 4.7% RPI inflation) partially offset by the ongoing impact of customers switching to meters and lower commercial volumes. Reflecting continued progress on the capital investment programme, infrastructure renewals expenditure was up £24 million. This expenditure, alongside increases in depreciation and property rates, in addition to the impact of the transfer of private sewers and the new carbon reduction commitment charge, resulted in underlying operating profit decreasing marginally by £2 million to £594 million.

Regulatory capital investment in the year, including £154 million of infrastructure renewals expenditure, was £680 million, an increase of 12% compared with last year. This represents good progress in the early part of the 2010-15 period, as management has sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

Underlying profit before taxation was down, by less than 1%, at £327 million. This reflected a lower underlying operating profit, with the underlying net finance expense broadly flat year on year.

Underlying profit after taxation was slightly higher than last year, reflecting the 2% reduction in the mainstream UK corporation taxation rate. Reported profit after taxation benefited from a £105 million deferred taxation credit, which follows the UK government's changes to reduce the mainstream corporation taxation rate. A similar credit of £99 million was recognised in the previous financial year.

UU has a robust capital structure and gearing (measured as group net debt to regulatory capital value) as at 31 March 2012 was 59%, comfortably within Ofwat's assumed range of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water PLC (UUW) has a long-term credit rating of A3 from Moody's Investors Service with a stable outlook.

The group has now raised a total of £400 million of debt finance from the European Investment Bank (EIB) thus far in the 2010-15 regulatory period. Following agreement of the latest £200 million index-linked loan facility with the EIB, the group now benefits from headroom to cover its projected financing needs into 2014. This provides good flexibility in terms of when and how further debt finance is raised to help fund the regulated capital expenditure programme. This £200 million loan facility was drawn down in a number of tranches between November 2011 and March 2012 at an average interest rate of 0.9% real, the best rate UU has secured, and the average interest rate on the group's £2.7 billion index-linked debt portfolio has now reduced to 1.7% real.

Reflecting this robust financing position, UU made an early repayment, in March 2012, of a £150 million loan from the EIB, which was due for redemption in June 2012. This transaction provided a small net interest saving and the group has now substantially repaid all of its term debt due in the current 2010-15 regulatory period. In addition, in September 2011, UU accelerated approximately £100 million of previously agreed pension deficit repair payments, providing a higher return for the group than could have been achieved through short-term deposits.

In line with its policy, the board has proposed a final dividend of 21.34 pence per ordinary share, an increase of 6.7%. This produces a total dividend of 32.01 pence per ordinary share relating to the 2011/12 financial year. The intention is to continue with this policy of targeting dividend growth of RPI+2% per annum through to at least 2015.

OUTLOOK

We are encouraged by our recent progress and will continue with our strong operational and customer focus, with the aim of delivering further service improvements for customers combined with greater efficiency. Our business improvement initiatives are progressing well and we remain on track to meet our regulatory outperformance targets, with substantial financing outperformance already secured. The group has a sustainable dividend policy, targeting 2% per annum growth above the rate of RPI inflation through to at least 2015, supported by a robust capital structure. We are actively engaged in the ongoing regulatory and political developments and will continue to work with all key parties to help achieve the optimal outcome for all our stakeholders.

OPERATIONAL PERFORMANCE

Supporting our drive to improve operational performance, a revised management structure was put in place earlier in the year with a strong focus on accountability and delivery. The company has moved, from its previous functional structure, to an organisational structure and managers are now responsible for end to end delivery of capital projects and operational performance within their respective regions, providing a more integrated approach. This revised management structure is now well embedded in the business and is helping to deliver performance improvements. A ‘whole company’ scorecard has also been introduced and short-term incentives are now more directly aligned with operational performance. Long-term incentives are aligned with shareholders’ and customers’ interests, being linked to total shareholder return and regulatory outperformance.

Best service to customers

Actions:

Customer initiatives - We established a customer experience programme last year to help understand better the needs and issues of our customers and this is already delivering improvements in the levels of customer service we are providing. We offer additional contact options for customers, such as an online account management facility, to provide more choices as to when and how they can contact us. Staff availability has been extended, coupled with an online call back facility. A priority is to improve customer data management to ensure this provides a single view of the customer to help improve the efficiency and quality of service. We have focused on root cause analysis to help us understand better the reasons for customers contacting us. Supporting this customer experience programme, we increased staff training, better aligned staff incentive mechanisms, put new service level arrangements in place and we proactively contact customers to keep them informed of progress in respect of their enquiries. We have extended our focus to identifying potential customer queries in advance, through, for example, more proactive exception billing reporting and contacting the customer before the bill is sent to discuss the matter. Operationally, we are aiming for prompt completion of jobs and, where practicable, via a single visit, to improve the customer experience and reduce the need for unnecessary calls. We are also making ongoing improvements to our processes based on customer feedback.

We have made a significant improvement in our performance on Ofwat’s service incentive mechanism (SIM), reflecting our increased focus on dealing with customer enquiries. The number of customer complaints made to the Consumer Council for Water (CCW) has reduced by 27% in 2011/12, compared with last year, following a similar improvement in the previous year. This represents a reduction of close to a half in the number of complaints to the CCW over the last two years. We have also substantially reduced the number of escalated complaints assessed by the CCW in 2011/12, with zero assessments in several months of the year. This has helped UU improve its quantitative SIM performance by 49% in 2011/12, compared with 2010/11. This follows a similar significant improvement of more than 40% in 2010/11, versus the indicative score for 2009/10. UU has also moved up five places into the third quartile on qualitative SIM for 2011/12, representing the joint best improvement of the 21 water companies in the year. Encouragingly, we delivered continued improvement in the second half of the year on both SIM measures providing a strong platform from which to build in the forthcoming year. Improving customer service remains a significant area of continued management focus and we see plenty of opportunity to deliver further improvements.

Safe, clean drinking water – We have an action plan to maintain safe, clean drinking water through improving the robustness of our water treatment processes, refurbishing service reservoir assets, ongoing mains cleaning and optimising water treatment to reduce discoloured water events. UU continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance of 99.95%.

Water supply and demand balance – To help ensure a continuous water supply to our customers, our action plan includes innovation and investment in remote monitoring to better manage and control the company's water supply system. We also have investment projects to optimise water pressures and improve network resilience. In addition, we are improving our response to burst mains to help keep the water flowing, supported by 'wet' repairs to water mains where the supply remains on through the repair process. UU completed the West East Link in 2011/12, a significant capital project designed to improve further the water supply and demand balance in its region and enhance network resilience to climate change. In addition, our reservoir levels are robust and in line with typical levels for this time of year.

Wastewater – UU has a range of actions to help support the serviceability of its wastewater assets. To help reduce sewer flooding, these actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. The plan also includes an improved approach to risk assessment to identify and reduce the risk profile of the company's wastewater treatment works.

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). Ofwat currently assesses one asset class (wastewater non-infrastructure) as "improving" and two asset classes (water infrastructure and water non-infrastructure) continue to be rated "stable". UU is currently assessed by the regulator as "marginal" in respect of wastewater infrastructure and the company is implementing an action plan to return this asset class back to a "stable" rating. The aim is to hold at least a "stable" rating for all four asset classes, which is aligned with Ofwat's target.

* **Service incentive mechanism (SIM) –** UU improved its quantitative score for 2011/12 by 49%, compared with 2010/11, to 273 points. This follows an improvement of over 40% in the previous year. On the qualitative measure, UU has improved its 2011/12 score by 0.39 points to 4.18 points and has moved up five places into 16th position (out of 21 water companies). This represents 6th position when compared with the ten water and sewerage companies. This early progress is encouraging and the aim is to move to the first quartile in the medium-term.

Lowest sustainable cost

Actions:

Asset optimisation – Our asset optimisation programme continues to progress well, providing 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 (CHP) assets to improve energy efficiency. The implementation phase is well underway at over half of the 30 sites covered by the programme and a large number of schemes came on line in 2011, with further projects being scoped. The optimisation programme is targeting approximately £9 million of annual savings by 2013/14.

Proactive asset management – We are continuing to introduce 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 and customer service.

Power costs – UU has substantially locked in the cost of its power requirements through to 2014/15, via hedging, securing outperformance. Power unit costs for 2011/12 were similar to the prior year and approximately 20% lower compared with 2009/10. Although power unit costs beyond 2011/12 have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

Debt collection – We are adopting a more proactive approach to debt collection and have delivered another good performance in the year. We are implementing a detailed action plan, which includes enhancing systems to improve customer segmentation analysis and to obtain better data on customers who have changed address, coupled with a more proactive debt follow up strategy. To support this, a proportion of our debt collection function which was previously off-shored has been brought back in-house and this has helped improve our debt collection performance. Bad debts as a proportion of regulated revenue improved from 2.5% in 2009/10 to 2.1% in 2010/11. The North West faces a particularly tough economic environment with unemployment having increased at a faster rate than any other UK region in 2011/12, particularly in the second half of the year. Despite this, we have again delivered a good performance with bad debts standing at 2.2% of regulated revenue for 2011/12. Debt collection will remain a significant area of focus for the business.

Lean principles – Supporting the company's efficiency drive is its lean principles approach to doing business. Systems and processes continue to be streamlined and the business is rationalising its infrastructure and has in-sourced its IT provision to provide greater control of its IT assets and applications.

Pensions – The group placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further. An inflation funding mechanism has been introduced, which has facilitated a move to a lower risk investment strategy with the proportion of pension assets invested in equities or other high risk assets now reduced to around 25%. More prudent longevity assumptions have also been recently introduced. Further details on the group's pension provision are provided in the pensions section on page 15.

Capital delivery – The business is strongly focused on delivering its commitments efficiently and on time. We utilised previous experience to improve the terms and conditions of our supplier contracts and have a robust commercial capital delivery framework in place for the 2010-15 period. Contractor performance is aligned with the company's business plan through appropriate incentive arrangements. In addition, the business has introduced a more disciplined approach to spend and outputs through a Time: Cost: Quality index (TCQi). This enhances the capital investment governance process and provides a sharper focus on the delivery of commitments, with a direct link to the executive remuneration scheme. The TCQi performance score has improved from around 50% last year to over 80% for 2011/12 and the company's long-term goal is to achieve over 90%. Regulatory capital investment in 2011/12, including £154 million of infrastructure renewals expenditure, was £680 million, an increase of 12% compared with last year. UU has now delivered approximately £1.3 billion of capital investment in the first two years of the 2010-15 period. This spend is broadly in line with the regulatory allowance, after adjusting for the construction output price index (COPI) which is consistent with Ofwat's methodology. Good progress in the delivery of outputs has also been achieved in the early part of the new regulatory period, reflecting a smoother and more efficient investment profile than that experienced in the 2005-10 period. We expect regulatory capital expenditure to be around £700 million in the 2012/13 financial year, consistent with our five-year programme.

Sludge processing – A new £100 million sludge processing centre is being developed at the company's Davyhulme wastewater treatment works in Manchester. Sludge will arrive from seven feeder treatment works and will be processed using advanced thermal hydrolysis technology. The new facility will provide a range of benefits including energy self-sufficiency for the whole site, greater sludge disposal flexibility, with a wider choice of land disposal due to the advanced stage of the treated product, and improved sludge condition to enhance the efficiency of incineration. There will also be the option to pump the treated sludge to UU's Shell Green sludge processing centre in Widnes.

Private sewers – The ownership of and responsibility for private sewers was transferred to the wastewater companies in England and Wales from 1 October 2011. We have been preparing for this for some time resulting in a smooth transition. The number of customer contacts, the increase in work volumes and the level of expenditure, thus far, has been a little below initial expectations. In addition, the mix of work has been slightly different to that initially anticipated, with a greater proportion of expenditure relating to enhancement capex, as we undertake investigations and remedial work on these newly acquired assets. As we have evolved our operating model, we have seen an increasing proportion of work relating to enhancement expenditure as we have progressed through the period since 1 October. We are attaining better asset information and, in addition to jetting and cleaning activity, we are undertaking remedial work to improve and, where appropriate, enhance the quality of the infrastructure, to bring it more in line with UU's asset standards and to reduce the risk of future problems for our customers. This is all consistent with our drive to deliver good customer service, where we aim to complete the job efficiently and effectively and in a single visit where practicable. We have also experienced lower levels of operating expenditure and infrastructure renewals expenditure (IRE) than anticipated. In the second half of 2011/12, operating expenditure was £6 million and capital expenditure was £15 million, of which £9 million was IRE. This has also resulted in a positive impact on operating profit in the second half of 2011/12. In light of this, we have outlined a revision to the level and mix of our cost estimates for the period October 2011 to March 2015. This reduces our total estimate for operating expenditure by £15 million to around £40 million, with a £5 million reduction in total capital expenditure to around £120 million. Importantly, the mix is now expected to be more evenly split between IRE and enhancement capex, reflecting experience over the last few months, with a revised estimate of £60 million for each of these expenditure categories. This lower rate of spend is positive for customers as it should be beneficial to bills at the next price review and, alongside this, we are raising asset standards. It is also beneficial for our investors, as costs are lower, a greater proportion of spend should be recoverable and we have the opportunity for additional growth in the regulatory capital value. We are still early into the transfer and will continue to review these cost estimates based on the levels and type of workload and activity experienced and will provide updated forecasts as appropriate.

Key performance indicators:

* **Financing outperformance –** UU has secured over £300 million of financing outperformance across the 2010-15 period, when compared with Ofwat's allowed cost of debt of 3.6% real, based on an average RPI inflation rate of 2.5% per annum. Should average RPI inflation outturn at 3.5% per annum across the five-year period, this would increase financing outperformance to around £400 million, net of the impact of the pensions inflation funding mechanism. UU agreed a £200 million index-linked loan with the European Investment Bank (EIB), drawn down between March and May 2011, at an average real interest rate of 1.2%, which secures financing outperformance of around £20 million through to 2015. Subsequently, a further £200 million index-linked loan facility was agreed with the EIB and was drawn down in a number of tranches between November 2011 and March 2012 at an average interest rate of 0.9% real. This is the best rate UU has secured and generates further outperformance of over £15 million through to 2015.

* **Operating expenditure outperformance –** The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. UU is on track to meet its five year target and has now delivered cumulative operating expenditure outperformance of over £20 million in the first two years of the regulatory period.

* **Capital expenditure outperformance –** UU is delivering significant efficiencies in the area of capital expenditure and expects to meet Ofwat's allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices. Capital expenditure and the delivery of outputs remain on track.

<u>Responsible manner</u>

Actions:

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. This has contributed to UU retaining the highest platinum plus ranking in Business in the Community's (BITC) CR index, as well as again being rated 'World Class' in the Dow Jones Sustainability Index. UU is one of only six FTSE 100 companies to hold both awards. UU's Business Principles set out its commitment to environmental, social and economic improvements and this is communicated in a way that enables all employees to recognise how their roles and responsibilities contribute to maintaining and improving sustainability performance.

Environment

Leakage management – The performance of the business in meeting its regulatory leakage target for 2010/11 was excellent, given the extreme winter weather, and UU was one of only four water and sewerage companies to meet its regulatory leakage target in that year. This reflected strong year round operational focus on leakage, an approach which we continued through 2011/12 and UU has now met its leakage target for the sixth consecutive year. To help customers protect their homes in winter and prevent leakage from their own pipes, we undertook a customer awareness campaign and distributed over 100,000 advice packs.

Environmental performance – This is a high priority for the company and UU has more than halved the number of major pollution incidents over the last few years. Wastewater treatment works compliance remains high at over 98%, a slight improvement compared with the previous year. UU is working more closely with the Environment Agency (EA), through its agreed protocol, to help minimise the occurrence and environmental impact of pollution incidents. This includes the sharing of resources, knowledge and expertise. The company is also enhancing its telemetry and flow monitoring equipment to provide early identification of incidents to enable prompt action to be taken to minimise the potential impact. Recognising that environmental performance is wide-ranging, the company is measuring itself against an EA composite measure as detailed in the key performance indicators below.

Sustainable catchment management programme – UU owns over 56,000 hectares of land in the North West which it holds to protect the quality of water entering its reservoirs. The company has developed a sustainable catchment management programme which will help to protect and improve water quality and enhance biodiversity.

Renewable energy – UU has a detailed carbon and renewable energy plan, which both contributes to sustainability and reduces costs. We are on track to meet our target of a 21% reduction in carbon emissions by 2015 (measured from a 2005/06 baseline). Emissions in 2011/12 were 522,003 tonnes of carbon dioxide equivalent, a reduction of 9% on last year. We are now 13% below our baseline position. UU has consistently generated over 100 GWh of renewable electricity annually for the past three years, principally from sludge processing, with renewable energy equating to approximately 14% of the group's total electricity consumption. UU also reduced its energy purchases by over 20 GWh in 2011/12. The group has plans in place to increase renewable energy generation to 125 GWh per annum by 2015.

Liverpool wastewater treatment works enhancement – UU has received planning permission for a £200 million plant expansion to its existing wastewater treatment works in Liverpool, which serves over half a million customers. This will enhance the capacity of the treatment works to handle up to 11,000 litres of wastewater per second and the treated water leaving the plant will be of a higher standard. The project will create up to 350 jobs during the construction period. The project will deliver both environmental benefits and growth in the company's regulatory capital value.

Employees

We continue to be successful in attracting and retaining people and in achieving UK high performing levels of employee engagement. We have, over a period of 12 months, delivered much more training of a higher standard and at the same time reduced the associated cost. This year we delivered 24,000 days of training to employees, of which more than 6,700 days were health and safety related. In addition, over 300 employees have been supported through a wide range of further education courses. We currently have 80 apprentices and plan to recruit up to a further 40 apprentices each year through to 2015. We have also re-energised our graduate recruitment programme and in 2012 expect to recruit up to 20 graduates. The past year has seen us strengthen our focus on improving health and safety, with a programme led by UU's executive team. This has helped reduce our accident frequency rate for employees from 0.386 accidents per 100,000 hours worked in 2010/11, to 0.215 accidents per 100,000 hours worked in 2011/12. More detail is provided in our annual CR report. Health and safety performance will continue to be a significant area of focus for the company, as we strive to improve our performance further.

Communities

We actively support our local communities and we have a number of community partnerships to help us engage with the people in our region. This year we have increased the number of partnerships that address social issues in our region, such as education, water efficiency and employability skills. We understand the impact we can have on the communities where we operate and undertake capital projects so we seek to work with those communities to leave a positive legacy after our projects have been delivered. We have continued our award winning 'United Futures' programme with our partner, Groundwork, to help regenerate neighbourhoods after we have finished our work there. In addition, we have expanded our innovative 'Community Fund' where local community groups are invited to apply for small scale grants to support their work. During the year, we have contributed approximately £2 million supporting our local communities, providing debt advisory services and over 19,000 hours volunteered by our employees.

Key performance indicators:

* **Leakage –** UU met its economic level of leakage rolling target for the sixth consecutive year in 2011/12, with a performance of 453 megalitres per day versus the regulatory target of 464 megalitres per day. The aim is to meet our regulatory leakage target each year.

* **Environmental performance –** The EA computes a composite measure which incorporates a broad range of areas including pollution. UU improved to a mid-ranking position for 2009/10 improving from its position in 2008/09, when it was ranked tenth out of ten water and sewerage companies. The company has reduced further the number of major pollution incidents and this has contributed to an improved performance score for 2010/11 (the latest assessment available) and UU retains a mid-ranking position. UU aims to move from this average relative position to the first quartile in the medium-term.

* **Corporate responsibility –** UU has a strong focus on corporate responsibility and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group aims to retain this 'World Class' rating each year.

POLITICAL AND REGULATORY DEVELOPMENTS

UU is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to regularly engage with the key parties. The UK Government published a Water White Paper 'Water for Life' in December 2011, which reaffirmed the success of the privatisation of the water industry, with companies having invested over £90 billion to maintain and improve assets, customer service and the environment. The paper highlights that the water industry needs to evolve in order to meet the challenges arising from factors such as climate change and a growing population to help ensure that high quality water is supplied reliably while remaining affordable. In line with expectations, a draft Water Bill was announced in the Queen's Speech on 9 May 2012 and is due to be published before

Parliament Summer Recess which commences on 18 July 2012. In addition, Ofwat published its statement of principles for the 2014 price review on 15 May 2012.

We are pleased that the government recognised the need for evolutionary, rather than revolutionary, changes to the successful existing water model. We are in agreement with many of the aims set out in this paper, such as tackling water pollution, over abstraction, affordability and water efficiency, as well as protecting water and the natural environment. Indeed, much of what we already do supports many of the Government's aspirations.

Our sustainable catchment management programme (SCAMP) is perhaps the most high profile example of how we address sustainable abstraction. This model has been adopted as best practice in the sector. We do benefit from having robust water resources in our region and continue to enhance our regional network to provide resilience to local water stress.

We have been undertaking water trading for many years, albeit on a fairly small scale, but certainly have the potential to do more within the right industry framework. In addition to our existing water trading arrangements, we are looking at further options to help other parts of the country deal with drought conditions and we have a number of connections which can be used for short periods when required. Looking ahead, there is potential to develop more cross-border export options and we are in a strong position to contribute in such a future market scenario, although we envisage the financial quantum of this to be fairly small relative to the size of the industry. However, water trading is not the sole answer to addressing drought conditions. The longer-term answer must be comprehensive and include more large capacity pipelines, enhanced storage capacity, flexible abstraction and water efficiency measures.

UU believes that water companies are in a unique position to help facilitate the use of scarce water resources by customers. In the area of water efficiency, this is something we continue to focus on and UU has one of the lowest per capita consumption levels in the industry. Recent measures adopted by the company include distributing shower regulators and devices to reduce flush volumes in toilets and rolling out education programmes. UU believes that more can be done to promote water efficiency and the company supports the refinement of the regulatory framework to provide companies with incentives to encourage the wise use of water.

Underpinning all of this, and the plans to increase competition for non-domestic customers, is the need to retain investor confidence in the sector. This is of paramount importance and we are pleased that the strengths of the current industry structure will be retained and that the historical regulatory capital value will be protected. Key issues that are currently undergoing industry consultation include possible modifications to water companies' licences and the replacement of the 'costs principle', which governs access pricing, along with Ofwat's proposed average cost to serve methodology for the retail price control. On the matter of licence modifications, we are supportive of the simple changes necessary to implement the government's decision for expanded non-domestic competition and those necessary to facilitate the 2014 price review. With regard to the 'costs principle', it is important that, in order to ensure fair network access, that any parliamentary bill or act encourages only efficient entry and protects customers not eligible for competition from cross-subsidy. In respect of retail price controls, we believe it is essential that the regulator continues to take account of regional socio-economic conditions, addresses reporting inconsistencies between companies, retains the RPI inflation link and makes adjustments to reflect the number of customers that receive only water or wastewater service. We will continue with our active involvement on these issues.

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the year ended 31 March 2012. Revenue increased by £52 million to £1,565 million, principally reflecting a 4.5% nominal (0.2% real price decrease plus 4.7% RPI inflation) regulated price increase, partially offset by the ongoing impact of customers switching to meters and lower commercial volumes. The impact of meter switching was in line with our expectations, although commercial volumes were lower than expected, particularly in the second half of the year when the North West experienced an increase in unemployment. We would expect to recover the majority of this revenue shortfall through the regulatory methodology at the next price review.

Operating profit

Underlying operating profit decreased slightly by £2 million to £594 million, primarily as a result of increases in infrastructure renewals expenditure, depreciation and property rates, the impact of the transfer of private sewers and the new carbon reduction commitment charge, largely offset by the increase in revenue. Reported operating profit rose by 2% to £592 million, as last year was impacted by one-off restructuring costs of £16 million which reduced operating profit in the prior period.

Investment income and finance expense

Investment income and finance expense of £311 million was £58 million higher than last year, principally reflecting £43 million of net fair value losses on debt and derivative instruments, compared with £19 million of net fair value gains in 2010/11. The £43 million net fair value loss in the period is largely due to losses on the regulatory swap portfolio resulting from a significant decrease in sterling interest rates during the period. The group uses these swaps to effectively 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 has continued to benefit from fixing the majority of its remaining debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%. Partially offsetting these losses, there has been a net fair value gain during the period due to widening credit spreads in the market, affecting the fair value of our fair value option debt.

The indexation of the principal on index-linked debt amounted to a net charge in the income statement of £100 million, compared with a net charge of £103 million last year. This reflected lower RPI inflation in respect of the group's index-linked debt with a three month lag. This reduction was primarily offset by additional finance expense relating to the £400 million index-linked loan facilities provided by the European Investment Bank (EIB), which were drawn down in various tranches between March 2011 and March 2012. The first £200 million of facilities were drawn down at an average real interest rate of 1.2%, with the second £200 million at 0.9%, the lowest rate the company has achieved to date. The indexation charge does not represent a cash flow and is more than matched by an inflationary uplift to the regulatory capital value. The group had approximately £2.7 billion of index-linked debt as at 31 March 2012.

These offsetting factors resulted in the underlying net finance expense of £267 million being flat compared with the prior year, despite a slightly higher level of average net debt. The lower RPI indexation charge contributed to the group's average underlying interest rate of 5.5% for 2011/12 being a little lower than the rate in 2010/11 of 5.7%.

Profit before taxation

Underlying profit before taxation was £327 million, £2 million lower than last year in line with the reduction in underlying operating profit. This underlying measure adjusts for the impact of one-off items, principally from restructuring and reorganisation within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation decreased by 14% to £280 million, primarily as a result of net fair value losses on debt and derivative instruments.

Taxation

The current taxation charge was £46 million in the year and the current taxation effective rate was 16%, compared with 11% in the previous year. The current year charge includes a £16 million credit following agreement with the UK tax authorities of prior years' taxation matters, without which the effective rate would have been 22%.

The group has recognised a net deferred taxation credit of £77 million for the year. This includes a £105 million credit, of which £50 million had already been recognised in first half of 2011/12, relating to the changes substantively enacted by the UK government to reduce the mainstream rate of corporation taxation from 26% to 24% from 1 April 2012. A net deferred taxation credit of £99 million was also recognised in 2010/11, to reflect a similar 2% staged reduction in the rate of corporation taxation.

An overall taxation credit of £31 million has been recognised for the year ended 31 March 2012. Excluding the impact of the reduction in the corporation taxation rate and the impact of the prior year taxation adjustments, the total taxation charge would have been £74 million or 26% compared with an £89 million charge or 27% last year.

The taxation benefit of £33 million relating to pension contributions for deficit funding has been recorded in the statement of comprehensive income, rather than the income statement, as the actuarial movements giving rise to the deficit were previously recorded there. Associated deferred taxation movements of £29 million are also included in the statement of comprehensive income.

The group made a net cash taxation payment during the year of £5 million, primarily reflecting the £35 million cash taxation inflow relating to prior years' taxation matters, which largely offset the cash taxation paid in the year. In the previous year, the group's net taxation payment was £47 million.

Profit after taxation

Underlying profit after taxation was £241 million. This is based on the underlying profit before taxation figure less an underlying taxation charge of £86 million, which includes an adjustment for the deferred taxation credit in relation to the change in the mainstream rate of corporation taxation and the credit relating to prior years' taxation matters. Reported profit after taxation was £311 million compared with £355 million last year.

Earnings per share

Underlying earnings per share increased slightly from 35.1 pence to 35.3 pence. This underlying measure is derived from underlying profit before taxation less underlying taxation. This includes the adjustments for the deferred taxation credits in 2011/12 and 2010/11, associated with the reductions in the corporation taxation rate, and the taxation credits in both years relating to prior years' taxation matters. Basic earnings per share decreased from 52.0 pence to 45.7 pence, principally reflecting net fair value losses on debt and derivative instruments.

Dividend per share

The board has proposed a final dividend of 21.34 pence per ordinary share in respect of the year ended 31 March 2012. Taken together with the interim dividend of 10.67 pence per ordinary share paid in February, this produces a total dividend per ordinary share for 2011/12 of 32.01 pence. This is an increase of 6.7%, compared with the dividend relating to the previous year, in line with group's dividend policy of targeting a real growth rate of RPI+2% per annum through to at least 2015. The inflationary increase of 4.7% is based on the RPI element included within the allowed regulated price increase for the 2011/12 financial year (i.e. the movement in RPI between November 2009 and November 2010).

The final dividend is expected to be paid on 3 August 2012 to shareholders on the register at the close of business on 22 June 2012. The ex-dividend date is 20 June 2012.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2012 was £560 million, compared with £563 million last year. This small reduction reflected the accelerated pension deficit repair payment and an increase in operating costs, partly offset by a rise in revenue and the minimal amount of cash taxation paid in 2011/12 as the group benefited from a taxation rebate relating to prior years. The group's net capital expenditure was £502 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives at 31 March 2012 was £5,076 million, compared with £4,778 million at 31 March 2011. This expected increase reflects expenditure on the regulatory capital investment programmes and payments of dividends and interest, alongside the accelerated pension deficit repair payment, partly offset by operating cash flows.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value adjusted for actual capital expenditure) remained flat at 59% at 31 March 2012, compared with the position at 31 March 2011, and remains comfortably within Ofwat's 55% to 65% assumed gearing range. This is the net effect of three main factors: indexation of the principal of the group's index-linked debt, the accelerated pension deficit repair payment and growth in the regulatory capital value. The group's pensions deficit has reduced to £92 million, on an accounting basis, compared with a deficit of £195 million at 31 March 2011. Taking account of this small deficit, and treating it as debt, gearing increases slightly to 60%.

At the year end, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies.

Cash and short-term deposits at 31 March 2012 amounted to £321 million. Between March and May 2011 UUW drew down a £200 million index-linked loan facility with the EIB. The group also renewed £150 million of bank facilities during 2011/12. In addition, in November 2011, UUW agreed a further £200 million index-linked loan facility with the EIB which was drawn down between then and March 2012. UU has headroom to cover its projected financing needs into 2014.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are issued. The programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities.

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings. At 31 March 2012, approximately 53% of the group's net debt was in index-linked form, representing around 31% of UUW's regulatory capital value, with an average real interest rate of 1.7%. 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 approximately 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the 2010-15 regulatory period at around the time of the price review.

Following the 2009 price review, the group re-assessed its interest rate hedging policy with a view to further reducing regulatory risk. To help address the uncertainty as to how Ofwat may approach the setting of the cost of debt allowance at the next price review in 2014, UU has revised its interest rate management strategy to extend its fixed interest rate hedge out to a ten year maturity on a reducing balance basis. The intention is to extend the interest rate hedge each year to eventually achieve a ten year rolling average interest rate on the group's nominal debt. UU believes that this revised interest rate hedging policy, which provides for a longer fixing of interest rates, will put the company in a more flexible position to respond to whatever approach Ofwat adopts to the industry cost of debt in future.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits. The group has a €2 billion euro-commercial paper programme and further liquidity is provided by committed but undrawn credit facilities.

In line with the board's treasury policy, UU aims to maintain a robust headroom position. Available headroom at 31 March 2012 was £614 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2014.

UU 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. UU's cash is held in the form of short-term (generally no longer than three months) money market deposits with prime commercial banks.

UU 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 2012, the group had a net retirement benefit, or pension, deficit of £92 million, compared with a net pension deficit of £195 million at 31 March 2011. This £103 million positive movement principally reflects payment of the £100 million accelerated deficit repair contribution.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and in advance of the start of the 2010-15 regulatory period amended the terms of its defined benefit pension schemes, the details of which were included in the 2010 annual report and financial statements. UU also reduced its future pension obligations as a result of the sale of non-regulated activities.

The group stated previously that it would continue to evaluate its pensions investment strategy to de-risk further its pension provision and introduced an inflation funding mechanism (the details of which were included in the 2011 annual report and financial statements), which facilitates a move to a lower risk investment strategy. This has allowed UU to reduce the allocation of its pension assets to 25% in equities and other high risk assets, from 34% at 31 March 2011. In addition, UU has adopted the use of more prudent longevity assumptions. The group has also increased its interest rate hedge to around 65% of pension scheme liabilities. Although any additional payments under this mechanism would reduce financing outperformance, there would be a positive benefit to the pensions surplus or deficit position.

From an accounting perspective, IAS 19 treats the inflation funding mechanism as a schedule of contributions rather than a pension scheme asset. This means that the liabilities position can change to reflect a change in market expectations of long-term inflation, without a commensurate movement in assets. The change in inflation has decreased the present value of the liabilities during the year to 31 March 2012. This accounting treatment means that there is likely to be a degree of volatility in future IAS 19 pension valuations.

Further detail is provided in note 9 ("Retirement benefit obligations") of these condensed consolidated financial statements.

Underlying profit

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

Continuing operations

Operating profit	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**
Operating profit per published results	**591.5**	**580.2**
One-off items*	2.6	16.2
Underlying operating profit	**594.1**	**596.4**

Net finance expense	**£m**	**£m**
Finance expense	(315.5)	(255.9)
Investment income	4.4	2.8
Net finance expense per published results	**(311.1)**	**(253.1)**
Net fair value losses/(gains) on debt and derivative instruments	43.2	(19.2)
Adjustment for interest on swaps and debt under fair value option	7.2	5.7
Adjustment for net pension interest expense	3.3	3.8
Adjustment for capitalised borrowing costs	(9.7)	(4.4)
Underlying net finance expense	**(267.1)**	**(267.2)**

Profit before taxation	**£m**	**£m**
Profit before taxation per published results	**280.4**	**327.1**
One-off items*	2.6	16.2
Net fair value losses/(gains) on debt and derivative instruments	43.2	(19.2)
Adjustment for interest on swaps and debt under fair value option	7.2	5.7
Adjustment for net pension interest expense	3.3	3.8
Adjustment for capitalised borrowing costs	(9.7)	(4.4)
Underlying profit before taxation	**327.0**	**329.2**

Profit after taxation	**£m**	**£m**
Underlying profit before taxation	**327.0**	**329.2**
Reported taxation	31.0	27.4
Deferred taxation credit – change in taxation rate	(104.6)	(99.0)
Agreement of prior years' UK taxation matters	(0.4)	(17.8)
Taxation relating to underlying profit before taxation adjustments	(12.1)	(0.6)
Underlying profit after taxation	**240.9**	**239.2**

* Principally relates to restructuring and other reorganisation costs within the business

Underlying operating profit reconciliation

2011/12 is the first year in which the group has presented the consolidated financial statements as a single segment and therefore the table below provides a reconciliation between group underlying operating profit and United Utilities Water PLC historical cost regulatory underlying operating profit (non-GAAP measures) as follows:

Continuing operations **Underlying operating profit**	**Year ended 31 March 2012 £m**
Group underlying operating profit	**594.1**
Underlying operating profit not relating to United Utilities Water	(10.9)
Infrastructure renewals accounting	40.2
Other differences	(3.9)

United Utilities Water statutory underlying operating profit	**619.5**
Revenue recognition	2.6
Infrastructure renewals accounting	(2.5)
Non-appointed business	(7.0)

United Utilities Water regulatory underlying operating profit	**612.6**

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk through our corporate risk management framework. As part of this we maintain a process that regularly assesses the nature and magnitude of internal and external risks. Mitigation measures are used in a prioritised manner to reduce exposure and ensure resilience. The executive reviews significant risks so that the board can determine the nature and extent of those risks it is willing to take in achieving our strategic objectives. The audit and risk committee regularly reviews the framework's effectiveness and the group's compliance with it.

Key developments during the year

The risk profile of our group is now largely confined to the regulated water and wastewater business in the North West of England following the sale of the vast majority of our non-regulated businesses in 2010.

The legislative reform proposed by the government's recently published Water White Paper (Water for Life) is now one stage nearer. More information is set out in the 'Government Market Reform Agenda' section below but the likely impact on the industry, positive or negative, will not be fully understood until the draft Water Bill is published and ultimately becomes legislation.

Ofwat has also started the process of preparing the ground for the 2014 price review process. This includes a consultation with stakeholders about 'Future Price Limits' which asks for consideration of a number of proposals for change that may be required to facilitate the aims of the Water White Paper.

Government market reform agenda

The government's White Paper (Water for Life) highlights a number of areas which government will focus on to reform the water industry. These include:

* protecting water and the natural environment;
* tackling water pollution;
* tackling over abstraction;
* water and the green economy;
* reforming and extending competition;
* supporting growth and innovation;
* affordability and bad debt; and
* changing the way we use and value water.

A draft Water Bill is expected to be published before Parliament Summer Recess, which commences on 18 July 2012, and should deliver many of the aspects set out in the White Paper. Changes to the industry are expected to include extending competition to all non-household customers for both water and wastewater, the removal of barriers to the trading of abstraction licences and facilitating bulk supplies of water, reform of the special merger regime to allow more mergers of water companies and reform of the inset appointment regime. There is also a proposal (in the government's White Paper) to replace the 'costs principle' which underpins network access.

Ofwat plans to consult on the methodology for the 2014 price review in the autumn of 2012.

The group has been fully engaged in all government and Ofwat consultations in relation to competition, industry reform and the price setting process.

In respect of competition, a relatively small proportion of the group's profits derive from the retailing of water and wastewater services to non-household customers. If competition is expanded, there would be opportunities for the group to participate in a wider market in England and potentially Scotland. However, we recognise that reforms to the pricing rules that govern access to the group's water network and greater upstream competition could put at risk a greater proportion of the group's profits.

We have raised our concerns with Ofwat and will be proposing an alternative to the 'costs principle', seeking to ensure that key underlying principles (on both cost of entry and efficiency of provision) are reflected in any replacement.

Future price limits – average cost to serve

It is expected that market reform will result in two price limits, one for retail and one for wholesale. Ofwat proposes to set an average cost to serve for non-contestable customers in the retail price limit. This proposal could result in us having a significant cost recovery shortfall over the next five-year price control period. We have raised and explained our concerns with Ofwat and made alternative proposals as part of the consultation process and continue to make strong representation to Ofwat on this issue, citing the market evidence from investors and analysts to support our case.

Future price limits – licence modifications

Ofwat has made proposals to modify the licences of the water and wastewater industry to:

* allow it to remove reference to the use of the retail price index (RPI) in price setting; and
* allow flexibility in the number of price limits set and the duration of price controls.

All 21 water companies have rejected Ofwat's proposals and the regulator is now consulting with the wider water sector before making its decision on this later in 2012.

Capital investment programmes

The core business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities.

Delivery of capital investment programmes could be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance, repair, reinstatement or renewal costs) or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the group's ability to meet regulatory and other environmental performance standards.

Capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for outperformance and any necessary corrective actions.

Executive directors are incentivised, as part of their bonusable measures, on time, cost and quality of delivery of our capital investment programme.

Service incentive mechanism
For the 2010–15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the Overall Performance Assessment (OPA). The Service Incentive Mechanism (SIM) compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well they deal with those contacts. Depending on UUW's relative performance under SIM it could receive a revenue penalty (up to one per cent of turnover) or reward (up to 0.5 per cent of turnover) when price limits are next reset in 2014.

The group has been monitoring and measuring customer satisfaction for a number of years and results have been improving consistently. We have already improved our SIM score, as detailed in our KPIs. To build on this success we have a dedicated project team to ensure our processes, behaviours and systems provide consistent and excellent service to our customers. The company's focus is on ensuring right first time service delivery to its customers, thus avoiding the need for 'unwanted' contacts and reducing associated operating costs. Where 'unwanted' contacts do arise, then there is a clear focus on identifying the root causes to improve the overall customer experience and the SIM score. Capital costs of enhanced systems to improve performance are dealt with through the Capital Incentive Scheme. These actions are intended to ensure that the company's performance under SIM is optimised thereby mitigating the risk of a penalty at the next price setting.

Serviceability assessment
The group is required to maintain the serviceability of its water and wastewater assets, ensuring they continue to deliver a level of service and performance that is at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat deploys a staged approach to regulatory action to secure corrective actions and could make financial adjustments at the next price setting if these actions did not restore service performance. If performance was to continue to decline, the group may incur additional operating or capital expenditure to restore performance.

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

Pension scheme obligations
The group participates in a number of pension arrangements. The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006. The assets of these schemes are held in trust funds independent of group finances, with the funds being well diversified and professionally managed.

The group's current schemes had a combined IAS 19 deficit of £92 million as at 31 March 2012, compared with a deficit of £195 million as at 31 March 2011.

Increases to pension fund deficits may result in an increased liability for the group, the size of the liability depending on a number of factors, including levels of contributions and actuarial assumptions. In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in UUW's final business plan over a ten-year period (subject to reaffirmation at the next price review) for the regulated business and allowed for half of this deficit when setting its overall price controls for the 2010–15 period. In response to the size of its ongoing pension risks and pension costs the group introduced a series of changes for employees in its defined benefit (DB) schemes. These changes, which came into force on 31 March 2010, should result in reduced costs and risks, including deficit, associated with DB liabilities in future. In conjunction with the trustees, the group continues to monitor and to look to reduce the investment strategy risks for the pension schemes, including the group's exposure to investment risks.

Failure to comply with applicable law or regulations

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

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

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

The group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. The group is also dependent on the ability to access, utilise and communicate remotely via electronic software applications mounted on corporate information technology hardware and communicating through internal and external networks which are not wholly under its control.

In exceptional circumstances, such as prolonged drought, system failure or catastrophic damage, a significant interruption of service provision could occur.

Such consequences may arise due to a number of circumstances either within or outside the company's control. For example from water shortages, the failure of an asset or an element of a network or supporting plant and equipment, human error, an individual's malicious intervention or unavoidable resource shortfalls.

Such instances have a low probability, but if materialised could result in significant loss of life, environmental damage and/or economic and social disruption.

The group could be fined for breaches of statutory obligations or be held liable to third parties or be required to provide an alternative water supply of equivalent quality, which could increase costs.

The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures. The processes continue to be refined, alongside related risk management and business continuity procedures which complement the governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. Disaster Recovery processes also exist for the recovery of applications, all recognising that possible events can have varying causes, impacts and likelihoods.

Sustainability of our water supply is also managed through regional aqueduct networks which will be enhanced by the West East Link pipeline. While the group seeks to ensure that it has appropriate processes and preventative controls in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of customers, regulators, government and the wider stakeholder community. The group also maintains insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance cover that can be obtained cost-effectively. The licence of the regulated business also contains a ‘shipwreck’ clause that, if applicable, may offer a degree of recourse to Ofwat/customers (by way of interim determination) in the event of a catastrophic incident.

Material litigation
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 PLC (UUW) in respect of UUW’s discharges of water and treated effluent into the canal. UUW filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC’s response. Although UUW won a ‘summary judgment’ application against MSCC in January on a significant element of the claim, MSCC have served notice that they intend to appeal this decision.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Consolidated income statement

	Year ended 31 March 2012 £m	Re-presented* Year ended 31 March 2011 £m

Continuing operations		
Revenue	**1,564.9**	1,513.3
Employee benefits expense:		
- excluding restructuring costs	**(135.4)**	(142.8)
- restructuring costs	**(2.6)**	(3.1)
Total employee benefits expense	**(138.0)**	(145.9)
Other reorganisation costs	**-**	(13.1)
Other operating costs	**(388.0)**	(358.1)
Other income	**4.8**	4.9
Depreciation and amortisation expense	**(297.8)**	(290.5)
Infrastructure renewals expenditure	**(154.4)**	(130.4)
Total operating expenses	**(973.4)**	(933.1)
Operating profit	**591.5**	580.2
Investment income (note 3)	**4.4**	2.8
Finance expense (note 4)	**(315.5)**	(255.9)
Investment income and finance expense	**(311.1)**	(253.1)
Profit before taxation	**280.4**	327.1
Current taxation charge	**(45.5)**	(34.6)
Deferred taxation charge	**(28.1)**	(37.0)
Deferred taxation credit – change in taxation rate	**104.6**	99.0
Taxation (note 5)	**31.0**	27.4
Profit after taxation from continuing operations	**311.4**	354.5
Discontinued operations		
Profit after taxation from discontinued operations (note 6)	**5.1**	103.7
Profit after taxation	**316.5**	458.2
Earnings per share		
from continuing and discontinued operations (note 7)		
Basic	**46.4p**	67.2p
Diluted	**46.4p**	67.2p
Earnings per share		
from continuing operations (note 7)		
Basic	**45.7p**	52.0p
Diluted	**45.6p**	52.0p
Dividend per ordinary share (note 8)	**32.01p**	30.00p

* The comparatives have been re-presented to include loss on disposal of property, plant and equipment of £2.7 million within other operating costs rather than other income, as previously presented, as this better reflects the nature of the expenditure.

Consolidated statement of comprehensive income

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Profit after taxation	**316.5**	458.2
Other comprehensive income		
Actuarial losses on defined benefit pension schemes (note 9)	**(24.3)**	(44.7)
Net fair value losses on cash flow hedges	**-**	(0.2)
Revaluation of investments	**-**	1.1
Reclassification from other reserves arising on disposal of financial asset investment (note 6)	**-**	(6.6)
Reclassification from other reserves arising on disposal of subsidiaries (note 6)	**-**	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 6)	**-**	(26.1)
Taxation on items taken directly to equity (note 5)	**4.4**	11.7
Foreign exchange adjustments	**(1.9)**	0.7
	------	------
Total comprehensive income	**294.7**	395.9
	------	------

Consolidated statement of financial position

	31 March 2012 £m	31 March 2011 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**8,644.5**	8,274.9
Goodwill	**5.0**	5.0
Other intangible assets	**89.5**	93.9
Investments	**3.3**	2.3
Trade and other receivables	**1.1**	-
Derivative financial instruments	**567.5**	363.3
	------	------
	9,310.9	8,739.4
	------	------
Current assets		
Inventories	**47.4**	47.6
Trade and other receivables	**301.4**	296.8
Cash and short-term deposits	**321.2**	255.2
Derivative financial instruments	**49.9**	2.0
	------	------
	719.9	601.6
	------	------
	------	------
Total assets	**10,030.8**	9,341.0
	------	------
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(378.0)**	(249.8)
Borrowings	**(5,728.1)**	(5,203.6)

Retirement benefit obligations (note 9)	**(92.0)**	(195.0)
Deferred taxation liabilities	**(1,245.2)**	(1,293.1)
Provisions	**(4.0)**	(9.3)
Derivative financial instruments	**(159.7)**	(84.6)
	------	------
	(7,607.0)	(7,035.4)
	------	------
Current liabilities		
Trade and other payables	**(447.6)**	(433.0)
Borrowings	**(127.1)**	(109.7)
Current income taxation liabilities	**(78.1)**	(70.5)
Provisions	**(6.3)**	(14.5)
Derivative financial instruments	**(0.1)**	(0.4)
	------	------
	(659.2)	(628.1)
	------	------
Total liabilities	**(8,266.2)**	(7,663.5)
	------	------
Total net assets	**1,764.6**	1,677.5
	------	------
EQUITY		
Share capital	**499.8**	499.8
Share premium account	**2.4**	1.3
Revaluation reserve	**158.8**	158.8
Cumulative exchange reserve	**(5.0)**	(3.1)
Merger reserve	**329.7**	329.7
Retained earnings	**778.9**	691.0
	------	------
Shareholders' equity	**1,764.6**	1,677.5
	------	------

Consolidated statement of changes in equity

Year ended 31 March 2012

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2011	499.8	1.3	158.8	(3.1)	329.7	691.0	1,677.5
Profit after taxation	-	-	-	-	-	316.5	316.5
Other comprehensive income							
Actuarial losses on defined benefit pension schemes (note 9)	-	-	-	-	-	(24.3)	(24.3)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	4.4	4.4
Foreign exchange adjustments	-	-	-	(1.9)	-	-	(1.9)
	------	------	------	------	------	------	------
Total comprehensive (expense)/income	-	-	-	(1.9)	-	296.6	294.7
	------	------	------	------	------	------	------
Transactions with owners							
Dividends (note 8)	-	-	-	-	-	(209.0)	(209.0)
New share capital issued	-	1.1	-	-	-	-	1.1
Equity-settled share-based payments	-	-	-	-	-	1.2	1.2
Exercise of share options – purchase of shares	-	-	-	-	-	(0.9)	(0.9)
	------	------	------	------	------	------	------
At 31 March 2012	**499.8**	**2.4**	**158.8**	**(5.0)**	**329.7**	**778.9**	**1,764.6**
	------	------	------	------	------	------	------

Year ended 31 March 2011

	Share capital	Share premium account	Revaluation reserve	Treasury shares	Cumulative exchange reserve	Merger reserve	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	499.8	0.9	158.8	(0.1)	22.3	329.7	3.8	492.7	1,507.9
Profit after taxation	-	-	-	-	-	-	-	458.2	458.2
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 9)	-	-	-	-	-	-	-	(44.7)	(44.7)
Net fair value losses on cash flow hedges	-	-	-	-	-	-	(0.2)	-	(0.2)
Revaluation of investments	-	-	-	-	-	-	1.1	-	1.1
Reclassification from other reserves arising on disposal of financial asset investment (note 6)	-	-	-	-	-	-	(6.6)	-	(6.6)
Reclassification from other reserves arising on disposal of subsidiaries (note 6)	-	-	-	-	-	-	1.8	-	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 6)	-	-	-	-	(26.1)	-	-	-	(26.1)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	-	0.1	11.6	11.7
Foreign exchange adjustments	-	-	-	-	0.7	-	-	-	0.7
	------	------	------	------	------	------	------	------	------
Total comprehensive (expense)/income	-	-	-	-	(25.4)	-	(3.8)	425.1	395.9
	------	------	------	------	------	------	------	------	------
Transactions with owners									
Dividends (note 8)	-	-	-	-	-	-	-	(225.8)	(225.8)
New share capital issued	-	0.4	-	-	-	-	-	-	0.4
Shares disposed of from employee share trust	-	-	-	0.1	-	-	-	(0.1)	-
Equity-settled share-based payments	-	-	-	-	-	-	-	(0.1)	(0.1)
Exercise of share options	-	-	-	-	-	-	-	(0.8)	(0.8)
	------	------	------	------	------	------	------	------	------
At 31 March 2011	499.8	1.3	158.8	-	(3.1)	329.7	-	691.0	1,677.5
	------	------	------	------	------	------	------	------	------

Consolidated statement of cash flows

	Year ended 31 March 2012 £m	Re-presented* Year ended 31 March 2011 £m
Operating activities		
Cash generated from continuing operations	**727.4**	771.9
Interest paid	**(167.2)**	(165.8)
Interest received and similar income	**4.4**	3.1
Tax paid	**(39.8)**	(46.5)
Tax received	**35.0**	-
Net cash generated from operating activities (continuing operations)	**559.8**	562.7
Net cash generated from operating activities (discontinued operations)	**-**	13.7
Investing activities		
Proceeds from disposal of discontinued operations	**3.5**	268.4
Transaction costs, deferred consideration and cash disposed	**2.0**	(97.9)
Proceeds from disposal of discontinued operations net of transaction costs, deferred consideration and cash disposed	**5.5**	170.5
Purchase of property, plant and equipment	**(502.2)**	(475.4)
Purchase of increased shareholding in joint venture	**-**	(5.0)
Purchase of other intangible assets	**(17.3)**	(20.2)
Proceeds from sale of property, plant and equipment	**4.8**	9.8
Grants and contributions received	**13.0**	12.7
Purchase of investments	**(2.2)**	-
Net cash used in investing activities (continuing operations)	**(498.4)**	(307.6)
Net cash used in investing activities (discontinued operations)	**-**	(52.7)
Financing activities		
Proceeds from issue of ordinary shares	**1.1**	0.4
Proceeds from borrowings	**446.3**	94.1
Repayment of borrowings	**(231.7)**	(88.0)
Exercise of share options - purchase of shares	**(0.9)**	-
Dividends paid to equity holders of the company	**(209.0)**	(225.8)
Net cash generated from/(used in) financing activities (continuing operations)	**5.8**	(219.3)
Net cash used in financing activities (discontinued operations)	**-**	(4.8)
Effects of exchange rate changes (continuing operations)	**0.5**	-
Effects of exchange rate changes (discontinued operations)	**-**	(1.3)
Net increase in cash and cash equivalents (continuing operations)	**67.7**	35.8
Net decrease in cash and cash equivalents (discontinued operations)	**-**	(45.1)
Cash and cash equivalents at beginning of the year	**244.4**	253.7
Cash and cash equivalents at end of the year	**312.1**	244.4

* The comparatives have been re-presented to show grants and contributions received of £12.7 million separately within investing activities (2011: previously included within decrease in provisions and payables as part of cash generated from continuing operations).

Cash generated from continuing operations

	Year ended 31 March 2012 £m	Re-presented* Year ended 31 March 2011 £m
Operating profit	**591.5**	580.2
Adjustments for:		
Depreciation of property, plant and equipment	**278.0**	258.3
Amortisation of other intangible assets	**19.8**	32.2
Loss on disposal of property, plant and equipment	**5.5**	2.7
Loss on disposal of other intangible assets	**2.6**	2.8
Amortisation of deferred grants and contributions	**(6.9)**	(6.9)
Equity-settled share-based payments charge/(credit)	**1.2**	(0.1)
Other non-cash movements	**(0.1)**	-
Changes in working capital:		
(Increase)/decrease in inventories	**(0.1)**	2.1
Increase in trade and other receivables	**(8.2)**	(20.1)
Decrease in provisions and payables	**(155.9)**	(79.3)
	------	------
Cash generated from continuing operations	**727.4**	771.9
	------	------

* The comparatives have been re-presented to show amortisation of deferred grants and contributions separately (2011: previously included within decrease in provisions and payables) along with the reclassification of grants and contributions received which were previously included in decrease in provisions and payables, now shown separately on the consolidated statement of cashflows, within investing activities.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2012 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority.

The accounting policies, presentation and methods of computation have been prepared on a basis consistent with the United Utilities Group PLC full financial statements which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) that are effective for the year ended 31 March 2012.

The adoption of the following standards and interpretations, at 1 April 2011, had no material impact on the group's financial statements:

'Improvements to IFRSs (2010)' – This is a collection of amendments to seven standards as part of the International Accounting Standards Board's (IASB) programme of annual improvements. The improvements were issued in May 2010, are effective for periods commencing on or after 1 January 2011 and were endorsed by the EU on 18 February 2011.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
The interpretation addresses the interaction between a minimum funding requirement and the limit placed by IAS 19 on the measurement of the defined benefit asset or liability. The interpretation was issued in July 2007 and

amended in November 2009. It is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 19 July 2010.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2012.

The comparative figures for the year ended 31 March 2011 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's previous auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern
The directors have a reasonable expectation that the group has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the financial statements. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

2. Segmental reporting

As previously reported, United Utilities has reshaped its portfolio over the last few years, from a group with a wide-ranging set of activities and interests, such as telecommunications, business process outsourcing, gas and electricity distribution and metering and international utility operations, into a focused regulated UK water and wastewater business. The group completed its non-regulated disposal programme in November 2010 and the residual non-regulated activities now represent less than two per cent of operating profit.

The board of directors of United Utilities Group PLC (the board) are provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit, operating profit, assets and liabilities at a consolidated level.

In light of this, the group has a single segment for financial reporting purposes and the segmental information presented in previous years is no longer required to be disclosed separately within this note.

Statutory operating profit is reconciled to underlying operating profit as follows:

Continuing operations	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**
Operating profit	**591.5**	580.2
Restructuring and other reorganisation costs	**2.6**	16.2
	------	------
Underlying operating profit	**594.1**	596.4
	------	------

3. Investment income

Continuing operations	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**
Interest receivable	**4.4**	2.8
	------	------

4. Finance expense

Continuing operations	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**

Interest payable	**(269.0)**	(271.3)
Net fair value (losses)/gains on debt and derivative instruments	**(43.2)**	19.2
	------	------
	(312.2)	(252.1)
Expected return on pension schemes' assets	**100.5**	102.2
Interest cost on pension schemes' obligations	**(103.8)**	(106.0)
	------	------
Net pension interest expense (note 9)	**(3.3)**	(3.8)
	------	------
	(315.5)	(255.9)
	------	------

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period and following the revision to its interest rate management strategy, has extended its hedge out to a 10-year maturity on a reducing balance basis. In addition, the group has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable.

The economic underlying net finance expense for the continuing group of £267.1 million (2011: £267.2 million) is derived as shown in the table below.

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Finance expense	**(315.5)**	(255.9)
Investment income (note 3)	**4.4**	2.8
Net fair value losses/(gains) on debt and derivative instruments	**43.2**	(19.2)
Interest on swaps and debt under fair value option	**7.2**	5.7
Adjustment for net pension interest expense (note 9)	**3.3**	3.8
Adjustment for capitalised borrowing costs	**(9.7)**	(4.4)
	------	------
Underlying net finance expense	**(267.1)**	(267.2)
	------	------

5. Taxation

Continuing operations	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**
Current taxation		
UK corporation tax	**60.1**	61.8
Foreign tax	**1.3**	1.9
Adjustments in respect of prior years	**(15.9)**	(29.1)
	------	------
	45.5	34.6
	------	------
Deferred taxation		
Current year	**12.6**	25.7
Adjustments in respect of prior years	**15.5**	11.3
	------	------
	28.1	37.0
Change in taxation rate	**(104.6)**	(99.0)
	------	------
Total deferred taxation credit for the year	**(76.5)**	(62.0)
	------	------
	------	------
Total taxation credit for the year	**(31.0)**	(27.4)
	------	------

The deferred taxation credit for the year ended 31 March 2012 includes a credit of £104.6 million to reflect the change enacted on 5 July 2011 to reduce the mainstream rate of corporation tax from 26 per cent to 25 per cent and the subsequent change enacted on 26 March 2012 to reduce the mainstream rate of corporation tax further to 24 per cent effective from 1 April 2012. A related deferred taxation charge of £3.9 million is included within items taken directly to equity.

The deferred taxation credit for the year ended 31 March 2011 includes £99.0 million which reflects both the change enacted on 27 July 2010 to reduce the mainstream rate of corporation tax from 28 per cent to 27 per cent and the subsequent change enacted on 29 March 2011 to reduce the mainstream rate of corporation tax from 27 per cent to 26 per cent effective from 1 April 2011.

There will be a further phased reduction in the mainstream rate of corporation tax to 22 per cent by 1 April 2014. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £100.0 million.

The adjustments in respect of prior years of £0.4 million credit (2011: £17.8 million) relate to agreement of prior years' UK taxation matters.

Taxation on items taken directly to equity

The taxation credit relating to items taken directly to equity is as follows:

Continuing operations	**Year ended 31 March 2012 £m**	**Year ended 31 March 2011 £m**
Current taxation		
Relating to other pension movements	**(33.1)**	-
	------	------
Deferred taxation		
On actuarial losses on defined benefit pension schemes	**(5.8)**	(11.6)
Relating to other pension movements	**30.6**	-
Change in taxation rate	**3.9**	-
On net fair value losses on cash flow hedges	**-**	(0.1)
	------	------
	28.7	(11.7)
	------	------
	------	------
Total taxation credit on items taken directly to equity	**(4.4)**	(11.7)
	------	------

6. Discontinued operations

During the prior year, the group completed its non-regulated disposal programme, which, including 2009/10 investment disposals, achieved a total enterprise value of £579.2 million. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the relevant disposal groups were therefore classified as discontinued operations in the consolidated income statement and consolidated statement of cash flows.

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Revenue	**-**	353.4
Total operating expenses	**-**	(317.6)
	------	------
Operating profit	**-**	35.8
Investment income and finance expense	**-**	(7.0)

Evaluation and disposal costs relating to discontinued operations	-	(5.0)
Profit before taxation	**-**	23.8
Taxation	-	(9.2)
Profit after taxation	**-**	14.6
Profit on disposal of discontinued operations after taxation	**5.1**	89.1
Total profit after taxation from discontinued operations	**5.1**	103.7

The profit on disposal of discontinued operations after taxation is analysed as follows:

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Total proceeds	**3.5**	268.4*
Net assets disposed of	**(0.4)**	(164.3)
Transaction and other costs of disposal	**2.0**	(45.9)
Reclassification from other reserves arising on disposal of financial asset investment	**-**	6.6
Reclassification from other reserves arising on disposal of subsidiaries	**-**	(1.8)
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	**-**	26.1
Profit on disposal of discontinued operations after taxation	**5.1**	89.1

* Total fair value of the 2010/11 proceeds comprised cash of £268.4 million. The enterprise value of £447.1 million incorporates cash consideration received added to the market value of the net debt disposed of which, at the date of disposal, totalled £178.7 million. Combined with the cash consideration received from the disposal of investments in 2009/10 of £132.1 million, the non-regulated disposal programme achieved a total enterprise value of £579.2 million.

The profit on disposal of discontinued operations after taxation for the year ended 31 March 2012 relates primarily to the receipt of contingent consideration and the release of accrued costs of disposal in respect of certain elements of the group's prior year non-regulated disposal programme.

7. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after taxation by the following weighted average number of shares in issue:

	Basic million	**Diluted million**
Year ended 31 March 2012	**681.8**	**682.2**
Year ended 31 March 2011	681.6	681.9

The difference between the weighted average number of shares used in the basic and diluted earnings per share calculations arises due to the group's operation of share-based payment compensation arrangements. The difference 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 basic and diluted earnings per share for the current and prior years are as follows:

	Year ended 31 March 2012	**Year ended 31 March 2011**
From continuing and discontinued operations		
Basic	**46.4p**	67.2p
Diluted	**46.4p**	67.2p

From continuing operations		
Basic	**45.7p**	52.0p
Diluted	**45.6p**	52.0p

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Profit after taxation – continuing and discontinued operations	**316.5**	458.2
Adjustment for profit after taxation from discontinued operations	**(5.1)**	(103.7)
Profit after taxation – continuing operations	**311.4**	354.5

8. Dividends

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Dividends relating to the year comprise:		
Interim dividend	**72.7**	68.2
Final dividend	**145.5**	136.3
	218.2	204.5

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**72.7**	68.2
Final dividend	**136.3**	157.6
	209.0	225.8

The proposed final dividends for the years ended 31 March 2012 and 31 March 2011 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 2012 and 31 March 2011 respectively.

The final dividend of 21.34 pence per ordinary share (2011: final dividend of 20.00 pence per ordinary share) is expected to be paid on 3 August 2012 to shareholders on the register at the close of business on 22 June 2012. The ex-dividend date for the final dividend is 20 June 2012.

The interim dividend of 10.67 pence per ordinary share (2011: interim dividend of 10.00 pence per ordinary share) was paid on 1 February 2012 to shareholders on the register at the close of business on 16 December 2011.

9. Retirement benefit obligations

The main financial assumptions used by the group's actuary to calculate the defined benefit obligations of the United Utilities Pension Scheme (UUPS) and the United Utilities Group PLC section of the Electricity Supply Pension Scheme (ESPS) were as follows:

	Year ended 31 March 2012 %pa	**Year ended 31 March 2011 %pa**

Discount rate	**5.00**	5.50
Expected return on assets – UUPS	**4.45**	5.65
Expected return on assets – ESPS	**5.00**	6.10
Pensionable salary growth and pension increases	**3.25**	3.35
Price inflation	**3.25**	3.35

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

	Year ended 31 March 2012 years	**Year ended 31 March 2011 years**
Retired member – male	**26.5**	25.1
Non-retired member – male	**28.3**	26.6
Retired member – female	**29.8**	28.9
Non-retired member – female	**31.7**	30.4

Current studies continue to show faster rates of life expectancy improvement than had previously been forecast. Studies have also illustrated that mortality rates vary significantly according to the demographics of the schemes' members. These factors have been considered in order to update the life expectancies disclosed above and the resulting calculation of the defined benefit pension obligations of the group during the year.

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

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Current service cost	**(13.3)**	(11.9)
Curtailments/settlements arising on reorganisation	**(5.4)**	(3.4)
	------	------
Pension expense charged to operating profit	**(18.7)**	(15.3)
	------	------
Expected return on pension schemes' assets	**100.5**	102.2
Interest cost on pension schemes' obligations	**(103.8)**	(106.0)
	------	------
Net pension interest expense charged to finance expense (note 4)	**(3.3)**	(3.8)
	------	------
Net pension expense charged before taxation	**(22.0)**	(19.1)
	------	------

The net pension (expense)/income (charged)/credited before taxation for discontinued operations in the income statement in respect of defined benefit pension schemes is summarised as follows:

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Current service cost	-	(3.5)
Curtailments/settlements arising on reorganisation	-	3.0
	------	------
Pension expense charged to operating profit	-	(0.5)
	------	------
Expected return on pension schemes' assets	-	6.9
Interest cost on pension schemes' obligations	-	(6.6)
	------	------
Net pension interest income credited to investment income and finance expense	-	0.3

Curtailment/settlement arising on disposal and (charged)/credited to profit on disposal of discontinued operations	**(0.4)**	7.3
	------	------
Net pension (expense)/income (charged)/credited before taxation	**(0.4)**	7.1
	------	------

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

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
At the start of the year	**(195.0)**	(271.3)
Expense recognised in the income statement - continuing operations	**(22.0)**	(19.1)
(Expense)/income recognised in the income statement - discontinued operations	**(0.4)**	7.1
Contributions paid	**149.7**	133.0
Actuarial losses gross of taxation	**(24.3)**	(44.7)
	------	------
At the end of the year	**(92.0)**	(195.0)
	------	------

The closing obligations at each reporting date are analysed as follows:

	31 March 2012 £m	**31 March 2011 £m**
Present value of defined benefit obligations	**(2,205.0)**	(1,912.9)
Fair value of schemes' assets	**2,113.0**	1,717.9
	------	------
Net retirement benefit obligations	**(92.0)**	(195.0)
	------	------

10. Related party transactions

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

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

	Year ended 31 March 2012 £m	**Year ended 31 March 2011 £m**
Sales of services	**1.1**	44.2
Purchases of goods and services	**0.3**	9.5
	------	------

Included within the comparatives in the table above are amounts relating to entities disposed of during the year ended 31 March 2011.

Amounts owed by the group's joint ventures are as follows:

	31 March 2012 £m	**31 March 2011 £m**
Amounts owed by related parties	**1.0**	2.7
	------	------

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.4 million (2011: £5.9 million) to its joint ventures.

No allowance has been made for doubtful receivables in respect of the amounts owed by related parties (2011: £0.3 million). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2011: £nil).

11. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2012 where a financial limit has been specified of £85.2 million (2011: £104.5 million).

12. Changes in circumstances significantly affecting the fair value of financial assets and financial liabilities

From 1 April 2011 to 31 March 2012 market interest rates have fallen significantly, which has been partially offset by an increase in credit spread in relation to the group’s borrowings.

The group’s borrowings have a carrying amount of £5,855.2 million (2011: £5,313.3 million). The fair value of these borrowings is £5,830.3 million (2011: £5,065.0 million). There has been a net increase in funds from new borrowings during the year of £214.6 million (2011: £6.1 million). The group’s derivatives measured at fair value are a net asset of £457.6 million (2011: £280.3 million).

13. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the financial statements for the year ended 31 March 2012.

STATEMENT OF DIRECTORS’ RESPONSIBILITIES

The responsibility statement below has been prepared in connection with the company’s full annual report for the year ended 31 March 2012. Certain parts thereof are not included within this announcement.

Responsibility statement

We confirm that to the best of our knowledge:

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

The directors of United Utilities Group PLC at the date of this announcement are listed below:
Dr John McAdam
Steve Mogford
Russ Houlden
Dr Catherine Bell CB
Paul Heiden
David Jones CBE
Nick Salmon
Sara Weller (appointed 1 March 2012)

This responsibility statement was approved by the board and signed on its behalf by:

………………………..	……………………….
Steve Mogford	Russ Houlden
23 May 2012	23 May 2012
Chief executive officer	Chief financial officer