

United Utilities Group PLC
28 May 2009

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2009

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

Pence	Year ended	
	31 March 2009	31 March 2008
Basic earnings per share ²	26.5	61.2
Total dividends per ordinary share ³	32.67	46.67

¹ Underlying operating profit and underlying profit before tax are defined in the underlying profit measure table on page 13.

² Basic EPS for the year ended 31 March 2009 was negatively impacted by a one-off deferred tax charge of £206.4 million (equivalent to 30.3 pence per share) and basic EPS for the comparative period (re-presented) was positively impacted by a one-off deferred tax credit of £81.7 million (equivalent to 12.0 pence per share), as explained in the earnings per share section on page 10.

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

- Strong results in a challenging environment: underlying operating profit¹ up 10% to £742 million
- Financing position remains robust: headroom through to mid-2011
- £740 million invested in regulated water and wastewater infrastructure during the year
- Regulatory leakage target achieved for third consecutive year
- Customer satisfaction continues to improve announcement
- Final business plan for 2010-15 submitted to Ofwat in April 2009
- Final dividend of 22.03 pence per share in line with policy

Commenting, Philip Green, Chief Executive, said:

“This is a robust set of results in a difficult economic climate. We have delivered strong underlying profit growth and continued to make high levels of investment in our water and wastewater infrastructure. United Utilities continues to benefit from a robust financing position and we have a healthy level of headroom to cover our projected financing needs through to mid-2011.

“We have a consistent strategy to focus on our core skills of managing utility networks, as we aim to build on the operational and customer service improvements seen over the last few years. Our non-regulated business has made further progress, leveraging our core skills to secure additional long-term revenue streams for the group.

“We submitted our final business plan for 2010-15 to Ofwat in April 2009, which we believe balances the needs of all our stakeholders and maintains the affordability of customer bills. We expect investment in our assets to continue at high levels, providing further growth as well as environmental and customer benefits.

“We expect to deliver a sound underlying financial performance in the final year of this regulatory period, although the group faces ongoing revenue and cost pressures. In line with our policy, we expect to grow dividends for 2009/10 by five per cent.”

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A presentation to investors and analysts starts at 9.00 am on Thursday 28 May 2009, 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. A recording of the call will be available for seven days following 28 May 2009 on +44 (0) 20 7031 4064, access code 834294.

This final results announcement and the associated presentation will be available on the day at: <http://www.unitedutilities.com>.

CHIEF EXECUTIVE'S REVIEW

Financial performance

United Utilities has delivered a strong set of financial results for the year ended 31 March 2009. Revenue from continuing operations rose 3% to £2,435 million. Underlying profit before tax¹ increased by 12% to £532 million and underlying operating profit¹ was up by 10% to £742 million.

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

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

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

We have delivered good underlying operating profit growth of 9% in our non-regulated business. This principally reflects the planned increase in activity on the Scottish Water contract, an increase in contribution from the group's international operations and a benefit realised from foreign exchange rate movements. Overall, we are pleased with our performance across our non-regulated contract portfolio. Our order book remains strong at over £6 billion in revenue and we continue to be the leading utility infrastructure outsourcing business in the UK.

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

Operational performance

Improving operational performance is a key area of focus for the group and we are pleased to report further progress. The business met its regulatory leakage target for the third consecutive year, despite unfavourable winter weather, and customer satisfaction continues to increase.

We also met our medium term target of a 50% reduction in the number of serious pollution incidents for the third consecutive year. Since 2005, we have closed the operational efficiency gap to the most efficient water companies and this has been reflected in Ofwat's relative efficiency assessments. We have sustained these efficiency ratings for 2007/08 (Ofwat's most recent assessment).

We continue to remove properties from our sewer flooding register. Ofwat has published a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. We are in discussions with Ofwat regarding our own methodology and processes in this area. This is expected to result in a restatement of the number of properties, increasing both the start

point in 2005/06 and the current position, but we envisage that the restated numbers will still demonstrate progress over this period. We aim to build on the achievements made over the last two years and will provide a further update when our sewer flooding registers have been reassessed.

Although we are encouraged by the tangible progress we have delivered, we do recognise that there is more to do and we remain strongly focused on delivering further improvements.

Regulatory developments

In April 2009, United Utilities Water PLC (UW) submitted its final business plan for the 2010-15 period to Ofwat, which was welcomed by the Consumer Council for Water and supported by the company's independent engineering Reporter, Halcrow. This plan forms part of the 2009 water price review process and builds on the draft plan which was submitted last August and the strategic direction statement published in December 2007. We believe our final plan balances the needs of all our stakeholders.

We have proposed a £3.7 billion capital investment programme which aims to safeguard existing standards of service, address higher quality standards and make provision for the challenge of climate change, whilst maintaining the affordability of customer bills. Of the proposed £3.7 billion capital programme, investment to meet tighter regulatory quality standards, enhance service to customers and maintain the supply/demand balance is forecast at around £1.8 billion. The remainder of the investment relates to maintenance of the company's substantial water and wastewater assets and infrastructure.

We estimate that an average real, fully post-tax return of 4.85% is required to finance this plan, which we believe would support an A3 credit rating. This is consistent with the findings of the updated research published by NERA Economic Consulting in January, which concludes that a required return in the range 4.6% to 5.1% (fully post-tax, real) would be appropriate for the UK water industry.

UW expects to improve its efficiency further in the next regulatory period and is aiming for a 1.5% annual improvement in its underlying operating efficiency and an average efficiency improvement of between 4% and 8% across the five-year period in respect of its capital investment programme.

UW's service currently costs households approximately £1 per day on average. With this plan, average household bills would increase by seven pence per day in real terms by 2015. We believe this represents excellent value for money, providing our customers with high quality drinking water to meet all their daily needs and for environmentally responsible wastewater collection and treatment. This equates to an average annual real price increase of 1.8% across our customer base during the 2010-15 period. We believe this plan is consistent with the aim set out in our strategic direction statement that bills, on average, should rise no faster than medium-term household income growth.

Overall, we expect significant levels of capital investment to continue beyond 2010 delivering further growth as well as customer and environmental benefits.

Outlook

We expect to deliver a sound underlying financial performance in the final year of this price review period, although the group is experiencing ongoing revenue and cost pressures. United Utilities continues to benefit from a robust financing position and has headroom to cover its projected financing needs through to mid-2011. In line with the group's policy, the board expects to grow dividends for 2009/10 by 5%. There is a strong focus on operational performance and we aim to build on the improvements already achieved. We have submitted our final business plan to Ofwat and are in active discussions with our regulators ahead of publication of the draft determination in July 2009 and the final determination in November 2009.

OPERATING PERFORMANCE

REGULATED ACTIVITIES

Financial highlights

- Regulated revenue increased by 6% to £1,500 million
- Regulated underlying operating profit increased by 11% to £679 million

Revenue from regulated activities increased by 6% to £1,500 million, principally as a result of an allowed price increase of 7.8% (including inflation), partially offset by lower water demand. As expected and indicated previously, this level of growth is consistent with the position at the half year. The regulated price increase supports significant investment in U UW's infrastructure which provides vital clean water and wastewater services to customers.

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

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

Operational performance

Operational performance is a key area of focus and U UW is targeting an upper quartile position among UK water companies on key operational measures in the medium-term. The regulated business continues to upgrade its infrastructure, replacing 227 kilometres of water mains during the year. U UW continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance for the year of 99.92%. U UW is making good progress against its key performance indicators:

- **Relative efficiency** – U UW has closed the operational efficiency gap to the most efficient water companies over the last three years. This is reflected in Ofwat's most recent (2007/08) assessment of United Utilities as band B for the water service and band C for the wastewater service and represents a one band improvement for both services over the three-year period.
- **Security of water supply** – U UW met its economic level of leakage rolling target for the third consecutive year in 2008/09, despite unfavourable winter weather conditions which made this target more challenging. This follows a period where the company had not met this target for five years. In addition, no water restrictions were required during the year.
- **Pollution** – The business has now met or outperformed its medium-term target of a 50% reduction in major pollution incidents in each of the last three years. One water and ten wastewater Category 1&2 incidents were recorded in 2008 compared with the base position of two water and 21 wastewater incidents in 2005. In addition, U UW has more than halved the number of failing wastewater treatment works, from 18 works in 2007 to seven works in 2008, and performance so far this year has been encouraging.

- **Sewer flooding** – UUW continues to remove properties from the sewer flooding register. Ofwat has published a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. UUW is currently in discussion with Ofwat regarding its methodology and processes in this area. This is expected to result in a restatement of the number of properties on UUW’s sewer flooding registers, with a resulting increase in these numbers in terms of both the start point in 2005/06 and the current position. However, it is envisaged that the restated numbers will still demonstrate progress over this period. UUW aims to build on the progress achieved over the last three years and will provide a further update when its sewer flooding registers have been reassessed. Following completion of this review, UUW expects to restate its historical overall performance assessment (OPA) scores for the three years 2004/05 through 2006/07 in relation to ‘flooding other causes’ and is in discussion with Ofwat regarding the extent of these restatements.
- **Overall customer satisfaction** – Significant improvements have been delivered. Overall customer satisfaction, in response to enquiries, has improved from less than 50% in 2005 to consistently over 70%. These satisfaction levels are based on a comprehensive independent survey conducted on behalf of UUW each month. Further progress has been achieved and customer satisfaction is now at its highest levels for many years, with a satisfaction rating of 76% for 2008/09. The rating for the final month of the year was 80%. The business remains focused on achieving further improvements.

Although UUW has delivered real progress, the business recognises that there is more to do. Sewer flooding incidents, influenced by adverse weather, together with environmental underperformance at Fleetwood wastewater treatment works are expected to continue to impact the 2008/09 OPA score. A funded capital investment programme has already been initiated at the Fleetwood works and an improvement in performance is expected in the medium term.

Efficiency initiatives

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

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

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

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

2009 water price review

UUW submitted its draft water and wastewater business plan, covering the 2010-15 period, to Ofwat in August 2008 and submitted its final plan on 7 April 2009, entitled “Planning for the future”. These submissions form part of the 2009 water price review process and build on the company’s strategic direction statement published in December 2007. The business has worked hard to strike the right balance between improvements in the network and the impact on the bills paid by its customers. The

final plan was welcomed by the Consumer Council for Water and supported by UUW's independent engineering Reporter, Halcrow, which described the capital investment assessment as well considered, comprehensive and robust.

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

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

UUW expects to improve its efficiency further across the 2010-15 period. The business is aiming for a 1.5% annual improvement in its underlying operating efficiency, although operating expenditure is likely to increase overall due to cost pressures in areas such as property rates and pensions. UUW is also targeting an average improvement in efficiency of between 4% and 8% across the five-year period in respect of its capital investment programme.

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

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

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

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

NON-REGULATED ACTIVITIES

Financial highlights

- Non-regulated revenue 3% lower at £919 million
- Non-regulated underlying operating profit increased by 9% to £68 million

Non-regulated revenue was marginally lower at £919 million, reflecting the impact of the slowdown in the UK property market on the group's utility connections business. However, underlying operating profit increased by 9% compared with the prior year. This principally reflects the planned increase in activity on the Scottish Water contract and an increase in contribution from the company's international operations, including the benefit of foreign exchange rate movements which amounted to £2.9 million.

Business update

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

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

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

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

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

OTHER ACTIVITIES

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

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

FINANCIAL PERFORMANCE

Investment income and finance expense

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

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

Profit before taxation

Profit before taxation increased by 11% to £530 million. Underlying profit before taxation¹ was £532 million, 12% ahead of the results for the year ended 31 March 2008. This underlying measure adjusts for the impact of one-off items, fair value movements in respect of debt and derivative instruments, interest on swaps and debt under fair value option and the short-term interest benefit associated with the cash proceeds from the sale of United Utilities Electricity (UUE) prior to the £1.5 billion return to shareholders.

Taxation

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

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

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

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

Earnings per share

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

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

Dividends per share

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

The group's revised dividend policy is intended to target a sustainable and growing level of dividends. The new target real growth rate of RPI+2% will be applied from 2009/10 to the 2008/09 dividend per share. In line with this policy, the board expects to grow dividends for 2009/10 by 5.0%. This incorporates an inflationary increase of 3.0%, which is based on the RPI element included within the allowed regulated price increase for UUE for the 2009/10 financial year (i.e. the movement in RPI between November 2007 and November 2008).

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

Cashflow

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

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

Debt financing and interest rate management

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

During the year, United Utilities repaid a \$500 million 6.45% bond and a €600 million 4.875% bond from existing cash resources. Cash and short-term deposits on the balance sheet at 31 March 2009 amounted to £299 million. United Utilities has a long-standing relationship with the European Investment Bank and during the year enhanced its liquidity further via a new £400 million term loan facility for U UW to support the remainder of the company's current capital investment programme. In addition, U UW issued a £375 million 6.125%, seven-year bond, a £275 million 5.75%, 13-year bond and £35 million of floating rate Japanese Yen notes, maturing in 2017. In total, the group raised over £1 billion of term funding during the financial year.

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

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to earnings and assets. At the year-end, approximately 40% of the group's net debt was in index-linked form, representing around 27% of U UW's regulatory capital value, with an average real interest rate of 1.8%. The long-term nature of this funding also provides a good match to the group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is in excess of 25 years.

Where debt is raised in a currency other than sterling and/or with a fixed interest rate, it is generally swapped to create a floating rate sterling liability for the term of the liability. The group's policy is to seek to match the debt service costs to regulatory cashflow which is impacted by the general interest rate environment at the time of each price control determination and is then fixed for the five-year period of that price control. To hedge the exposure to each price control determination, the group enters into interest rate swaps, around the time of each price control determination, to fix interest costs for a substantial proportion of the group's debt for the duration of that price control period. The group does not undertake any speculative trading activity.

The group enters into joint ventures with consortium partners. The financial and legal structure of joint ventures is designed to limit the group's exposure to the extent of the equity investment and loans provided by the group, with no further recourse should the joint venture default. All joint venture arrangements have been incorporated into the group's results on a proportionate consolidation basis.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cashflow and its short-term bank deposits. Further liquidity is provided by committed but undrawn credit facilities. This liquidity supports the group's €2 billion euro-commercial paper programme.

In line with the board's treasury policy, United Utilities aims to maintain a healthy headroom position. Available headroom at 31 March 2009 was £935 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs through to mid-2011.

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

United Utilities operates a bilateral, rather than 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.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based, amongst other matters, upon a review of the group's budget for 2009/10, on a review of the group's proposed five-year business plan and investment programme (in line with the plans submitted for the 2009 water price review – see above), together with a review of the cash and committed borrowing facilities available to the group (see above).

Underlying profit

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

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

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

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

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

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

⁵ The interest associated with the cash proceeds from the sale of UUE has been deducted to provide a more representative view of underlying performance. As the cash proceeds from the sale of UUE were held by the group until the £1.5 billion return to shareholders in August 2008, this resulted in a short-term net debt and interest reduction.

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

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

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

The scheme of arrangement has now taken place and involved the new parent company, United Utilities Group PLC, acquiring all of the shares in United Utilities PLC and issuing new shares. This comprised the issue of new shares, including ordinary shares and redeemable B shares, to facilitate the £1.5 billion return. The number of new ordinary shares issued was reduced on the basis of 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC ordinary shares in issue prior to the capital reorganisation. This reduction in shares was commensurate with the £1.5 billion return to shareholders. The last day of trading for United Utilities PLC shares was 25 July 2008 and United Utilities Group PLC shares commenced trading on 28 July 2008.

PRINCIPAL RISKS AND UNCERTAINTIES

The group faces a variety of risks and uncertainties, both foreseeable and unforeseeable which, if they materialise, could adversely affect its reputation, profitability or financial position, its share price or the pricing and liquidity of its debt securities. The principal ones are summarised below.

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

Unfavourable price determination

The regulated business operates in an industry which is substantially influenced by the service levels, regulatory targets and price determinations set by its primary regulator, Ofwat, as well as Ofwat's assessment of its delivery against these. An adverse outcome to the price determination process (which limits the income the regulated business can receive from its customers) could occur for a number of reasons. These include an inadequate allowed cost of capital, turnover forecasts proving not to be sufficiently accurate, or unforeseen or unforeseeable costs which arise after the determination that cannot be recovered from customers. After a price determination, there is a right of appeal to the Competition Commission, but otherwise the scope to review the outcome within the relevant five year period is limited. Review mechanisms can also be invoked by Ofwat to reduce the prices for customers. Furthermore, implicit within the price determination are assumptions by Ofwat concerning the group's future operating expenditure and the achievement of operating cost savings. If these efficiencies are not achieved this may be reflected in less favourable outcomes in Ofwat's future price determinations.

In April this year, the group submitted its final business plan to Ofwat for the 2009 price review for the regulated business, which will set prices for the five year period from April 2010. This plan endeavours to ensure that the assumptions and projections underlying Ofwat's price determination are accurate and achievable. The group has committed substantive and qualified resource to ensuring the quality of its submissions throughout the price determination process to give it the best prospect of receiving a satisfactory determination. The submission process includes an assessment of the risks associated with each component of the business to assist Ofwat's understanding of these. Ofwat's draft determination will be published in July 2009 and its final determination of allowable prices is expected to be published in November 2009.

Capital investment programmes

The regulated business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities. Historically, the group has financed this capital expenditure from operating cashflow and from external debt and equity financing. There can be no assurance that operating cashflows will not decline or that external debt financing and other sources of capital will be available, at similar cost to that assumed by Ofwat, in order to meet these capital expenditure requirements. Delivery of capital investment programmes could also be affected by a number of factors including adverse legacy effects of earlier capital investments or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the group's ability to meet regulatory and other environmental performance standards, which may result in fines imposed by Ofwat of an amount of up to 10 per cent of regulated business turnover or other sanctions.

In order to minimise the likelihood of funding shortfalls, capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for out-performance. Development of the programme for 2010-15 is progressing in line with expectations, as is delivery of the current capital investment programme.

Current capital market conditions

The global banking crisis continues to impact the debt and equity capital markets. It has resulted in the cost of capital increasing significantly and has made the issuance of new equity and debt capital more expensive and more difficult to secure. A compounding challenge arises from the relationship between the Regulatory Capital Value (RCV) of the regulated business and the Retail Price Index (RPI). The RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this. This may lead to pressure on the gearing ratios and credit ratings of the regulated business and the group as a whole and increase the cost or limit the availability of credit in an already difficult market. In the extreme, the group may be required to increase its equity base by either reducing its dividend payments or raising new equity capital. The global economic crisis has also created difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to the group.

The group closely monitors its liquidity headroom within the parameters approved by the Board, the impact of trends in inflation or deflation on its capital position as well as the potential impact of wider changes in the credit markets. Where possible, the group has sought to issue debt linked to RPI to minimise the extent of its exposure to deflationary (or low inflationary) conditions. The group also monitors the financial position of its key contractors and suppliers and seeks to use its procurement processes to ensure that alternative suppliers can be sourced quickly and, where possible, on similar terms.

Pension scheme obligations

The group participates in a number of pension arrangements, predominately in the UK. The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006. The assets of these schemes are held in trust funds independent of group finances, with the funds being well diversified and professionally managed. Reflecting the global economic environment, the group's current schemes had a combined IAS19 deficit of £213 million as at 31 March 2009, compared with a deficit of £101 million as at 31 March 2008 and a deficit of £253 million as at 30 September 2008.

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

Failure to comply with applicable law or regulations

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

The group endeavours to comply with all legal requirements in accordance with its business principles and robust processes are in place to seek to mitigate against non-compliance. The regulated business is

certified to both ISO 9001 and 14001 standards and the group continually monitors legislative and regulatory developments and, where appropriate, participates in consultations to seek to influence their outcome, either directly or through industry trade associations for wider issues. The group seeks appropriate funding for any additional compliance costs in the regulated business as part of the price determination process.

Increased competition in the water and wastewater industry

The Cave review of competition and innovation in water markets was published in April 2009. If its recommendations are implemented, this would eventually expand the competitive market allowing retail competition to all non-household customers. Ofwat has also taken steps to introduce competition into the water supply market through inset appointments and the water licensing supply regime. Prior to 2007 (with one exception), inset appointees had all been granted to existing regulated companies. Since 2007, Ofwat has granted more inset appointments, two of which are within U UW's region. Further inset appointments may be made in the future, resulting in increased competition.

The group has been fully engaged in the Ofwat consultations on the Cave review, although a relatively small proportion of the group's profits derives directly from non-household retail activities. If competition is expanded, there would be opportunities for the group to participate in a wider market in England and Wales. As far as inset appointments are concerned, these generally relate to new developments or large industrial customers. Furthermore, the regulated business has not received any applications from holders of water supply licences to supply any premises within its region.

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

The group controls and operates utility networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, electricity, gas or water shortages or the failure of an asset, an element of a network or supporting plant and equipment could result in the interruption of service provision or catastrophic damage resulting in significant loss of life and/or environmental damage and/or economic and social disruption. The group could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. The group is also dependent on the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under its control.

The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures. The processes continue to be refined, together with risk management and business continuity procedures, recognising that possible events have varying impacts and likelihoods. While the group seeks to ensure that it has appropriate processes in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of customers, regulators, government and the wider stakeholder community. The group also maintains insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance cover that can be obtained cost effectively. The regulated business's licence also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat in the event of a major incident.

Risks in the group's non-regulated business

Outside the regulated business, the group provides services relating to the operation and management of assets for other utility clients in the UK and overseas. These services include the maintenance and operation of electricity, gas and water networks, the design and construction of new assets, the design and construction of new connections to the relevant network and the provision of ancillary services. The delivery of contracts, both existing and future, will be achieved by exploiting the group's core infrastructure management skills and may also require capital expenditure. The overstretching of such

skills could lead to a loss of customers or the inability to meet contractual commitments, or to the incurrence of penalties.

The costs and risks associated with these new projects are subject to internal reviews before approval is given to commit to them. The group aims to comply with its contractual commitments or operating performance targets and any requirements to maintain service continuity or achieve specified operating efficiencies in relation to those clients. Within the non-regulated business, the focus is on deploying the group's core skills on an asset-light basis, whilst continually monitoring contract performance and programme and project management.

Material litigation

NOSS Consortium (NOSS), of which North West Water International Limited, a wholly owned subsidiary of United Utilities Group PLC, is a member and the sole remaining active participant, is party to arbitration proceedings in Thailand in relation to a design and construction contract dated 1 November 1993 between NOSS and the Bangkok Metropolitan Administration (BMA) to build a wastewater treatment plant and network in central Bangkok. Following disagreements with the engineer (Dorsch Consult) and disputes with the BMA, NOSS terminated the contract with the BMA and served a notice of arbitration. NOSS has total claims against the BMA of approximately six billion baht. The BMA has counter claimed for approximately three billion baht, however, based upon the facts and matters currently known, the counter claim appears to lack substance. Although there have been some delays in the arbitral process, the arbitration now appears set to proceed.

In February 2009 the group was served with notice of a multi-party "class action" in Argentina into which United Utilities International Limited ("UUIL") was enjoined in 2007. The class action is related to the issuance and payment default of a US\$230 million bond by Inversora Eléctrica de Buenos Aires S.A. ("IEBA"), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997. UUIL had a 45% shareholding in IEBA which it sold in 2005. The class action is being pursued against various parties, including the original direct and indirect shareholders of IEBA, the banks which advised IEBA and the rating agencies of the bonds. The bonds, which were issued in 1997, were defaulted in March 2002 and IEBA entered an insolvency process in 2003. The claim is for a non quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA who allegedly lost money. UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This final results announcement 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 final results announcement and the company undertakes no obligation to update these forward-looking statements. Nothing in this final results announcement should be construed as a profit forecast.

Certain regulatory performance data contained in this final results announcement is subject to regulatory audit.

Consolidated income statement

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Continuing operations		
Revenue	2,434.7	2,362.9
Other income	18.5	21.3
Employee benefits expense	(347.2)	(317.5)
Depreciation and amortisation expense	(263.5)	(248.2)
Infrastructure renewals expenditure	(117.8)	(120.1)
Other operating costs	(989.5)	(1,035.2)
Total operating expenses	(1,699.5)	(1,699.7)
Operating profit	735.2	663.2
Investment income (note 3)	65.5	146.7
Finance expense (note 4)	(270.9)	(331.6)
Investment income and finance expense	(205.4)	(184.9)
Profit before taxation	529.8	478.3
Current taxation charge	(139.1)	(88.6)
Deferred taxation charge	(3.7)	(55.1)
Deferred taxation charge – abolition of industrial buildings allowances	(206.4)	-
Deferred taxation credit – change in taxation rate	-	81.7
Taxation (note 5)	(349.2)	(62.0)
Profit for the year from continuing operations	180.6	416.3
Discontinued operations		
(Loss)/profit for the year/period from discontinued operations (note 6)	(1.2)	492.9
Profit for the year	179.4	909.2
Earnings per share		
from continuing and discontinued operations (note 7)*		
Basic	26.3p	133.6p
Diluted	26.3p	133.6p
Earnings per share		
from continuing operations (note 7)*		
Basic	26.5p	61.2p
Diluted	26.5p	61.2p
Dividend per ordinary share (note 8)	32.67p	46.67p

* The weighted average number of shares for the current and prior year have been based on the 681,381,233 new ordinary shares issued in United Utilities Group PLC on 28 July 2008 and the earnings per share figures for the comparative year have been re-presented accordingly (see note 7).

Consolidated balance sheet

	31 March 2009 £m	31 March 2008 £m
ASSETS		
Non-current assets		
Property, plant and equipment	7,977.2	7,591.8
Goodwill	2.6	2.3
Other intangible assets	106.1	85.3
Investments	136.8	155.5
Trade and other receivables	21.5	28.2
Derivative financial instruments	412.6	44.3
	<hr/> 8,656.8	<hr/> 7,907.4
Current assets		
Inventories	73.0	63.3
Trade and other receivables	491.6	456.2
Cash and short-term deposits	298.6	1,810.5
Derivative financial instruments	226.4	99.0
	<hr/> 1,089.6	<hr/> 2,429.0
Total assets	<hr/> 9,746.4	<hr/> 10,336.4
LIABILITIES		
Non-current liabilities		
Trade and other payables	(139.8)	(125.5)
Borrowings	(5,200.1)	(3,788.9)
Retirement benefit obligations	(213.1)	(101.2)
Deferred tax liabilities	(1,338.9)	(1,164.0)
Provisions	(17.2)	(18.7)
Derivative financial instruments	(4.5)	(53.2)
	<hr/> (6,913.6)	<hr/> (5,251.5)
Current liabilities		
Trade and other payables	(672.4)	(771.9)
Borrowings	(479.6)	(878.4)
Current income tax liabilities	(67.6)	(66.9)
Provisions	(22.6)	(21.0)
Derivative financial instruments	(148.6)	(136.7)
	<hr/> (1,390.8)	<hr/> (1,874.9)
Total liabilities	<hr/> (8,304.4)	<hr/> (7,126.4)
Total net assets	<hr/> 1,442.0	<hr/> 3,210.0
EQUITY		
Capital and reserves attributable to equity holders of the company		
Share capital	499.8	881.6
Share premium account	0.7	1,429.3
Revaluation reserve	158.8	158.8
Treasury shares	(0.3)	(0.3)
Cumulative exchange reserve	16.1	7.6
Merger reserve	313.0	-
Other reserves	36.6	58.1
Retained earnings	417.3	674.9
	<hr/> 1,442.0	<hr/> 3,210.0
Shareholders' equity (note 10)	<hr/> 1,442.0	<hr/> 3,210.0

Consolidated cashflow statement

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating activities		
Cash generated from operations	911.4	876.9
Interest paid	(232.3)	(299.9)
Interest received and similar income	90.4	119.1
Tax paid	(32.8)	(98.6)
Net cash generated from operating activities (continuing operations)	736.7	597.5
Net cash generated from operating activities (discontinued operations)	-	99.5
	736.7	697.0
Investing activities		
Disposal of investments	-	0.6
Disposal of associated company	-	75.8
Disposal of subsidiaries	-	1,152.7
Net cash outflow from group reorganisation	-	(15.0)
Purchase of property, plant and equipment	(675.2)	(644.5)
Purchase of other intangible assets	(38.9)	(25.3)
Proceeds from sale of property, plant and equipment	3.8	15.0
Net cash (used in)/generated from investing activities (continuing operations)	(710.3)	559.3
Net cash used in investing activities (discontinued operations)	-	(161.0)
	(710.3)	398.3
Financing activities		
Proceeds from issue of ordinary shares	1.6	9.2
Cash used in structured financing	(163.9)	(170.1)
Proceeds from borrowings	3,784.7	1,068.9
Repayment of borrowings	(3,310.9)	(2,297.2)
Dividends paid to equity holders of the company (note 8)	(349.9)	(400.4)
Return to shareholders on capital reorganisation	(1,482.3)	-
Dividends received from discontinued operations	-	100.0
Net cash used in financing activities (continuing operations)	(1,520.7)	(1,689.6)
Net cash used in financing activities (discontinued operations)	-	(190.1)
	(1,520.7)	(1,879.7)
Effects of exchange rate changes (continuing operations)	(1.8)	148.9
Net decrease in cash and cash equivalents (continuing operations)	(1,496.1)	(383.9)
Net decrease in cash and cash equivalents (discontinued operations)	-	(251.6)
	(1,496.1)	(635.5)
Cash and cash equivalents at beginning of the year	1,705.2	2,340.7
Cash and cash equivalents at end of the year	209.1	1,705.2

Consolidated statement of recognised income and expense

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Actuarial losses on defined benefit pension schemes	(124.3)	(126.4)
Revaluation of investments	(20.3)	34.9
Fair value losses on cashflow hedges	(1.6)	(1.5)
Foreign exchange adjustments	8.5	11.8
Tax on items taken directly to equity	35.2	35.8
Net expense recognised directly in equity	(102.5)	(45.4)
Profit for the year	179.4	909.2
Total recognised income and expense for the year	76.9	863.8

Reconciliation of movements in consolidated equity

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Total net income recognised for the year	76.9	863.8
Dividends (note 8)	(349.9)	(400.4)
New share capital issued (note 10)	500.5	9.2
Capital reorganisation (note 10)*	(1,997.9)	-
Other movements	2.4	2.6
Net (decrease)/increase in equity for the year	(1,768.0)	475.2
Opening equity attributable to equity shareholders	3,210.0	2,734.8
Closing equity attributable to equity shareholders	1,442.0	3,210.0

* March 2009 includes £1,499.0 million return of capital to shareholders (note 10).

Cash generated from continuing operations

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Profit before taxation	529.8	478.3
Adjustment for investment income and finance expense	205.4	184.9
Operating profit	<hr/> 735.2	<hr/> 663.2
Adjustments for:		
Depreciation of property, plant and equipment	244.3	226.0
Amortisation of other intangible assets	19.2	22.2
Loss/(profit) on disposal of property, plant and equipment	0.8	(5.7)
Equity-settled share-based payments charge	1.9	2.6
Other non-cash movements	-	3.9
Changes in working capital:		
Increase in inventories	(9.7)	(4.1)
Increase in trade and other receivables	(30.2)	(81.3)
(Decrease)/increase in provisions and payables	(50.1)	50.1
Cash generated from continuing operations	<hr/> 911.4	<hr/> 876.9

Segmental analysis by class of business

<i>Continuing operations</i>	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Revenue		
Regulated activities	1,499.5	1,416.3
Non-regulated activities	919.3	949.2
Other activities	22.4	41.3
	<hr/>	<hr/>
	2,441.2	2,406.8
Inter-segment revenue	(6.5)	(43.9)
	<hr/>	<hr/>
	2,434.7	2,362.9

<i>Continuing operations</i>	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating profit/(loss)		
Regulated activities	678.4	611.6
Non-regulated activities	69.1	50.6
Other activities	(12.3)	1.0
	<hr/>	<hr/>
	735.2	663.2

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

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

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

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

NOTES

1. New statutory holding company

On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC (the previous holding company) and United Utilities Group PLC (the new holding company) and the group became United Utilities Group PLC.

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

As a consequence of applying reverse acquisition accounting, the results of United Utilities Group PLC (the “group”) for the year ended 31 March 2009 comprise the results of United Utilities PLC for the year ended 31 March 2009 consolidated with those of United Utilities Group PLC from 28 July 2008. The comparative figures for the group are those of the group headed by United Utilities PLC for the year ended 31 March 2008. All of the financial information has been presented in accordance with the accounting policies referred to below.

2. Basis of preparation

The results for the year ended 31 March 2009 have been prepared on the basis of accounting policies consistent with those set out in the annual report to shareholders of United Utilities PLC for the year ended 31 March 2008.

During the year, the group has adopted IFRIC 14 ‘IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’. The adoption of this interpretation has no material impact on the financial statements for the year ended 31 March 2009.

The condensed consolidated financial statements of the group 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 that are effective for the year ended 31 March 2009.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements and do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006. United Utilities Group PLC prepared unconsolidated initial accounts of the company for the period from 8 April 2008 to 31 July 2008.

The comparative figures for the year ended 31 March 2008 do not comprise the group’s statutory accounts for that financial year. Those accounts have been reported upon by the group’s auditors and delivered to the registrar of companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Statutory accounts for United Utilities Group PLC for 2009 will be delivered to the Registrar of Companies following the company’s annual general meeting. The auditors have reported on these accounts; their report is unqualified and does not contain a statement under either section 498(2) or (3) of the Companies Act 2006.

3. Investment income

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest receivable on short-term bank deposits held at amortised cost	22.6	67.8
Foreign exchange gains on forward contracts	36.1	55.4
	<u>58.7</u>	<u>123.2</u>
Expected return on pension schemes' assets	124.3	128.6
Interest cost on pension schemes' obligations	(117.5)	(105.1)
Net pension interest income	6.8	23.5
	<u>65.5</u>	<u>146.7</u>

4. Finance expense

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Interest payable	(246.6)	(288.9)
Fair value losses on debt and derivative instruments	(24.3)	(42.7)
	<u>(270.9)</u>	<u>(331.6)</u>

The group follows a policy of economic hedging its interest rate and currency exposures, with particular regard to the five-year regulatory period. Including the interest element of swaps and interest on debt under the fair value option within interest payable, as opposed to within the fair value gains/(losses) and adjusting for the reclassification of interest income and expenditure associated with the group's defined benefit pension schemes, would give an economic underlying cost of net borrowings of £196.2 million (2008: £207.4 million).

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Finance expense	(270.9)	(331.6)
Fair value losses on debt and derivative instruments	24.3	42.7
Add back interest on swaps and debt under fair value option	(8.3)	(41.7)
Underlying interest payable	(254.9)	(330.6)
Investment income	65.5	146.7
Adjustment for net pension interest income	(6.8)	(23.5)
Underlying cost of net borrowings	<u>(196.2)</u>	<u>(207.4)</u>

5. Taxation

Continuing operations

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Current taxation:		
UK corporation tax	(147.0)	(108.9)
Foreign tax	(2.1)	(2.7)
Prior year adjustments	10.0	23.0
	<u>(139.1)</u>	<u>(88.6)</u>
Deferred taxation:		
Current year	0.5	(37.5)
Prior year adjustments	(4.2)	(17.6)
	<u>(3.7)</u>	<u>(55.1)</u>
Abolition of industrial buildings allowances	(206.4)	-
Change in taxation rate	-	81.7
	<u>(210.1)</u>	<u>26.6</u>
Total tax charge for the year	<u>(349.2)</u>	<u>(62.0)</u>

Following Royal Assent of the 2008 Finance Act on 21 July 2008, the abolition of industrial buildings allowances was formally enacted. The financial impact as a consequence of this legislation is a one-off deferred tax charge of £206.4 million, which is included in the current year deferred tax charge; however the cash impact will be spread over a period of approximately 20 years.

6. Discontinued operations

During the prior year, in line with its declared strategy of concentrating on its core skills of managing water, wastewater, electricity and gas networks the group completed the disposals of United Utilities Electricity (UUE), its industrial liquid waste and facilities management operations and its exit from the telecoms sector.

The results of UUE, the group's industrial liquid waste and facilities management operations and its share of results from its associate (THUS Group plc) have been disclosed, along with the profit/(loss) on disposal, as discontinued operations in the group's results in 2008. A summary of the retained (loss)/profit for the current and prior year is shown below:

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
United Utilities Electricity	(1.2)	493.0
Industrial liquid waste	-	(5.0)
Facilities management	-	10.4
Telecoms (including loss on disposal of THUS Group plc shares of £10.0 million)	-	(5.5)
(Loss)/profit for the year/period from discontinued operations	<u>(1.2)</u>	<u>492.9</u>

7. Earnings per share

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

	Basic million	Diluted million
Year ended 31 March 2009	681.4	682.3
Year ended 31 March 2008 (re-presented)	680.4	680.7

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

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

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

The basic and diluted earnings per share for the current and prior year are as follows:

	Year ended 31 March 2009	Re-presented Year ended 31 March 2008
From continuing and discontinued operations		
Basic	26.3p	133.6p
Diluted	26.3p	133.6p
From continuing operations		
Basic	26.5p	61.2p
Diluted	26.5p	61.2p

8. Dividends

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Dividends relating to the year comprise:		
Interim dividend	72.5	133.8
Final dividend	150.1	277.4
	<hr/> 222.6	<hr/> 411.2
	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Dividends deducted from shareholders' equity comprise:		
Interim dividend	72.5	133.8
Final dividend	277.4	266.6
	<hr/> 349.9	<hr/> 400.4

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

The final dividend of 22.03 pence per ordinary share (2008: final dividend of 31.47 pence per ordinary share) will be paid on 3 August 2009 to shareholders on the register at the close of business on 19 June 2009. The ex-dividend date for the final dividend is 17 June 2009.

The interim dividend of 10.64 pence per ordinary share (2008: interim dividend of 15.20 pence per ordinary share) was paid on 4 February 2009 to shareholders on the register at the close of business on 19 December 2008.

9. Additional disclosures

The following items are considered material in size or nature and are therefore disclosed separately in accordance with IAS 1 'Presentation of Financial Statements':

	Year ended 31 March 2009 £m	Year ended 31 March 2008 £m
Operating profit items:		
Restructuring costs	6.6	14.0
Finance expense items:		
Fair value losses on debt and derivative instruments	24.3	42.7
Interest on swaps and debt under fair value option	(8.3)	(41.7)
Interest associated with cash proceeds from UUE sale	(20.6)	(17.7)

10. Shareholders' equity – capital reorganisation

The movements on the accounts within shareholders' equity of the group which are affected by the capital reorganisation during the year are shown below:

	Share capital £m	Share premium account £m	Merger reserve £m	Total £m
At 1 April 2008	881.6	1,429.3	-	2,310.9
New share capital issued	499.8	0.7	-	500.5
Capital reorganisation (note 1)	(881.6)	(1,429.3)	313.0	(1,997.9)
At 31 March 2009	499.8	0.7	313.0	813.5

On 24 July 2008, the High Court (the "Court") approved the scheme of arrangement (the "Scheme") of United Utilities PLC under section 425 of the Companies Act 1985 to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. The Scheme became effective on 28 July 2008. Under the terms of the Scheme, holders of shares in United Utilities PLC received 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC shares, together with one United Utilities Group PLC B share of 170 pence for each United Utilities PLC share.

On 30 July 2008, the Court approved the reduction of the capital of United Utilities Group PLC, whereby the nominal value of each ordinary share was reduced from 500 pence to five pence.

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

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

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

11. 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 transactions were carried out with the group's joint ventures:

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

	Amounts owed by related parties		Amounts owed to related parties	
	2009	2008	2009	2008
	£m	£m	£m	£m
Joint ventures	12.8	15.0	1.9	0.1

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. No guarantees have been given or received. A £0.1 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2008: £nil).

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

.....
Philip Green
Chief Executive Officer
27 May 2009

.....
Tim Weller
Chief Financial Officer
27 May 2009