

United Utilities Group PLC
21 May 2010

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010

£m (continuing operations)	Year ended	
	31 March 2010	31 March 2009 (restated) ¹
Operating profit	817.9	729.5
Underlying operating profit ²	756.3	736.1
Profit before tax	474.2	529.3
Underlying profit before tax ²	500.4	531.3
Basic earnings per share ³ (pence)	59.2	26.5
Total dividends per ordinary share (pence)	34.30	32.67

¹ In accordance with International Financial Reporting Standards, IFRIC 12 'Service Concession Arrangements' is applied retrospectively hence the prior year has been restated

² Underlying operating profit and underlying profit before tax are defined in the underlying profit measure tables on page 14

³ One-off factors affecting earnings per share are explained in the earnings per share section on page 11

- Sound results in a challenging economic environment: underlying operating profit of £756 million
- Final dividend increased by 5.0% to 23.13 pence per share, in line with policy
- Customer satisfaction at highest recorded levels; leakage target met despite extreme winter weather
- Programme of actions to deliver outperformance over 2010-15 period
- Significant reduction in pensions deficit since Sept 2009: more sustainable and lower risk approach
- As outlined previously 2010/11 dividend of 30 pence per share and 2% p.a. real growth target to 2015
- Total value of agreed non-regulated disposals approximately £267 million
- Continuing to assess expressions of interest for remaining non-regulated businesses

Philip Green, Chief Executive, said:

“We are well positioned for the 2010-15 regulatory period. With the detailed efficiency plans we are implementing and the low cost of the group’s debt portfolio, we believe we can deliver outperformance over the five years.

“This is a sound set of results in a tough economic climate, reflecting our strong focus on cost management and efficiency improvement. In line with our policy the board has proposed a final dividend for 2009/10 of 23.13 pence per share, an increase of five per cent.

“Improving operational performance is an important part of our strategy and we are pleased to have met our regulatory leakage target for the fourth consecutive year, despite the exceptional winter weather conditions. Customer satisfaction has continued to increase and is now at its highest recorded levels.

“In light of the recent water price review, we have had to balance the need to retain a robust and sustainable financial profile for the group with the importance of income to our shareholders. As outlined in January, the board intends to pay a dividend of 30 pence per share for the 2010/11 financial year and thereafter continue with our policy of targeting real dividend growth of 2% per annum through to 2015.

“We recently agreed the sale of our Australian business, increasing the total value from non-regulated disposals from £132 million to approximately £267 million. We will continue to review the expressions of interest we have received for our remaining non-regulated businesses.”

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A presentation to investors and analysts starts at 9.00 am on Friday 21 May 2010, 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 21 May 2010 on +44 (0) 20 7031 4064, access code 864850.

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 sound set of financial results for the year ended 31 March 2010. Revenue from continuing operations rose by £12 million to £2,439 million. Underlying operating profit increased by 3% to £756 million. Underlying profit before tax decreased by 6% to £500 million, principally due to an increase in the underlying cost of net borrowings.

The regulated business has delivered a modest increase in underlying operating profit, which is up 3% at £701 million. This result primarily reflects the price increase allowed by our regulator coupled with tight cost control, offset as expected by reduced water demand and ongoing cost pressures in areas such as power and bad debts, alongside an expected increase in depreciation. The price increase supports the high levels of essential investment in our assets, which helps the business meet strict environmental standards and deliver an improved service for our customers.

Capital expenditure in our regulated water and wastewater business amounted to £620 million during the year, including infrastructure renewals expenditure. This level of spend is consistent with our planned investment profile for the final year of the 2005-10 capital expenditure programme.

Our non-regulated activities delivered an underlying operating profit of £59 million, compared with £62 million in the prior year. In the second half of the year, we completed the disposals of our holdings in Northern Gas Networks and Manila Water Company for a combined price of £132 million. The dividends from these investments amounted to £2 million in 2009/10 and £12 million in 2008/09. Adjusting for these dividends would show a year on year increase in underlying non-regulated operating profit of £7 million. Earlier this month, the group also agreed to sell its Australian business for a total of approximately £135 million. We intend to retain the proceeds from these disposals within the group. The group is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and has amended the terms of its defined benefit pension schemes. This reduces future funding and deficit risk as well as future service cost, thereby enabling the company to retain defined benefit pension schemes for existing members. Following consultation, the changes to the rules of the pension scheme were supported by the company's trade unions. The reduction in service cost for 2010/11 is expected to be approximately £7 million, although the lower risk investment strategy is likely to reduce investment income and result in a lower net benefit at the profit before tax level. The amendments have also resulted in a reduction of £92 million to the group's pension deficit, which is required to be accounted for as a credit to operating profit in the group's income statement. Overall, the group's net pension deficit at the year end has decreased by £87 million, compared with the position at 30 September 2009, reflecting the aforementioned changes to the pension schemes and the routine actuarial assessment of movements in assets and liabilities.

The group benefits from headroom to cover its projected financing needs through to the spring of 2012. During the year we enhanced our liquidity through the issuance of £220 million of new bonds and £150 million of term extensions to existing committed bank facilities. 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 fourth consecutive year, despite extreme winter weather conditions. Customer satisfaction continues to increase and is now at its highest recorded levels. We have also halved the number of serious pollution incidents over the last few years.

Since 2005, we have narrowed the operational efficiency gaps to the most efficient water and wastewater companies and sustained these improvements. We have continued to remove properties from our sewer flooding register and have plans in place to offer mitigation measures for all properties on the register.

Although we are encouraged by the tangible progress we have made, we do recognise that there is more to do and the business is continuing to take steps to improve overall service performance. We expect improvement in our overall performance assessment (OPA) score for 2009/10 and the management actions we are taking will have a positive impact on our performance as measured by Ofwat's new service incentive mechanism, which is scheduled to be introduced in 2010/11.

Price review, capital structure and dividend policy

In November 2009 Ofwat published its final determination of price limits for the 2010-15 period, which sees customers benefit from lower prices and higher levels of capital investment. After careful consideration, United Utilities Water PLC (U UW) accepted these proposals and the new price limits took effect from 1 April 2010.

Over the last year, we have undertaken a comprehensive review of the business, challenging working practices across the group. As a result, we are implementing detailed plans to improve performance and reduce our cost base. We are streamlining our processes as we aim to become a leaner, more efficient company and have signed new supplier contracts for the 2010-15 period, which will deliver significant savings and help improve operational and capital efficiency. We have substantially reduced our workforce and have placed our pension provision on a much more sustainable footing.

Earlier in the year, Moody's re-affirmed its A3 credit rating for U UW and we intend to continue to target this credit rating, which we believe best mirrors the regulatory assumptions underpinning the final determination and remains appropriate to maintain efficient access to debt capital markets.

We are well prepared for the 2010-15 price review period, with a robust and sustainable capital structure in place. United Utilities has approximately £2 billion of index-linked debt at an average cost of 1.8% real, compared with Ofwat's cost of debt assumption of 3.6% real. The group has also fixed the cost of the majority of its remaining debt at an average nominal rate in the range 5.0% to 5.5%. Together with the group's index-linked debt, this equates to approximately £300 million of financing outperformance over the 2010-15 period, based on an RPI inflation rate of 2.5% per annum.

In line with the group's policy, we are proposing to increase the final dividend for 2009/10 by 5% to 23.13 pence per share. This takes the total dividend per share for the year to 34.30 pence. In order to meet the requirements of the 2009 water price review, we need to balance the retention of a sound financial profile with the importance of income to our investors. In view of this, the board intends to pay a dividend of 30 pence per share for the 2010/11 financial year and thereafter continue with our policy of targeting dividend growth of RPI+2% per annum through to 2015.

Board change

On behalf of the board, I would like to thank our Chief Financial Officer, Tim Weller, for the significant contribution he has made to United Utilities over the past four years and wish him well in his new role at Cable&Wireless Worldwide. We would also like to welcome Russ Houlden, who will join the group as Chief Financial Officer from Telecom New Zealand later in the year.

Outlook

Based on Ofwat's final determination, prices to U UW's customers across the 2010-15 regulatory period will decrease in real terms by an annual average of 0.4%, with a 4.3% real decrease in 2010/11. We are implementing a range of detailed efficiency and performance improvement initiatives and believe we can deliver outperformance in respect of the new regulatory contract. Our early capital investment planning should facilitate a smooth transition into the 2010-15 period and we expect capital expenditure to continue at high levels in 2010/11. Overall, we are well positioned for the next five years.

SEGMENTAL PERFORMANCE

REGULATED ACTIVITIES

Financial highlights

- Regulated revenue increased by 3% to £1,541 million
- Regulated underlying operating profit increased by 3% to £701 million

Revenue from regulated activities increased by 3% to £1,541 million, principally as a result of an allowed price increase of 6.0% (including inflation of 3.0%), partially offset, as expected and indicated previously, by reduced water demand reflecting the challenging economic climate. The regulated price increase supports significant investment in UUW's infrastructure which provides vital water and wastewater services to customers.

Underlying operating profit for the year increased by 3%, primarily reflecting the revenue increase coupled with the impact of tight cost control measures, offset by higher depreciation, bad debts and power costs. The increase in depreciation reflects the recent high levels of capital spend, in line with the planned profile of the investment programme. Reported operating profit was significantly higher than the prior year, reflecting a one-off credit of £77 million in respect of the group's revised pension provision and partly offset by restructuring costs of approximately £16 million.

As outlined previously, the business had entered into forward contracts for the majority of its power requirements for 2009/10. As a result, unit power costs in 2009/10 were approximately 10% higher than in 2008/09 and the power expense has increased by around £6 million. The business has also entered into forward contracts for the majority of its power requirements for 2010/11 and 2011/12 and unit power costs are expected to be in the order of 20% lower than in 2009/10. Bad debt expense is broadly in line with the prior year at approximately 3.5% of regulated revenue. This reflects the impact of the continuing tough economic environment on cash collection rates.

Capital investment in the year, including £114 million of infrastructure renewals expenditure, was £620 million. This level of spend was in line with the planned capital investment profile for the final year of UUW's 2005-10 regulatory programme.

Operational performance

Operational performance is a key area of focus and UUW 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 134 kilometres of water mains during the year. UUW continues to supply high quality drinking water with a mean zonal compliance water quality performance for the year of 99.94%, which compares with 99.92% for the previous year. UUW is making good progress against its key performance indicators:

- **Relative efficiency** – UUW has narrowed the operational efficiency gaps to the most efficient water and wastewater companies since 2005. This is reflected in Ofwat's most recent (2008/09) 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 this period. UUW expects at least to sustain these bandings in Ofwat's 2009/10 assessment.
- **Security of water supply** – UUW met its economic level of leakage rolling target for the fourth consecutive year in 2009/10, despite extreme winter weather conditions, reflecting strong management focus and the commitment of the workforce.

- **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 four years. One water and seven wastewater Category 1&2 incidents were recorded in 2009, compared with the base position of two water and 21 wastewater incidents in 2005.
- **Sewer flooding** – U UW continues to remove properties from the sewer flooding register. In 2009, an independent review of U UW’s sewer flooding recording and reporting process was undertaken, which was submitted to Ofwat for consideration. The independent reviewer concluded that the processes are generally fit for purpose with some scope for streamlining and further improvement. U UW agreed to implement changes required by Ofwat as a result of this review and has reassessed its sewer flooding registers. The number of properties on the register in 2009/10 is expected to be 1,028 (for properties at risk of experiencing at least one sewer flooding incident in ten years), which compares with a reassessed number for 2005/06 of 1,091 properties, a net reduction of 63 properties over the four year period. The company has plans in place to reduce the number of incidents due to sewer flooding (other causes) and to offer mitigation measures for all properties on the register.
- **Overall customer satisfaction** – Significant progress has been achieved and overall customer satisfaction in response to enquiries is now at its highest recorded levels, with a satisfaction rating of 82% for the 12 months to 31 March 2010. U UW achieved its target of 85% for March 2010, the highest score attained for an individual month. These satisfaction levels are based on a comprehensive independent survey conducted on behalf of U UW each month. Customer satisfaction has improved from less than 50% in 2005 to consistently over 80% during the second half of 2009/10. The business remains focused on achieving further improvements.

Although U UW has delivered real progress, the business recognises that there is more to do. As indicated previously, sewer flooding incidents, together with environmental underperformance at Fleetwood wastewater treatment works, negatively impacted the 2008/09 OPA score.

U UW has a capital investment programme designed to improve performance at Fleetwood works, which is scheduled to be completed later this year on time and on budget. The business has introduced an enhanced monitoring system across the company’s wastewater treatment works to help improve performance in respect of meeting consent standards at its works. With regard to sewer flooding, the business has identified those areas of its sewer network which are high risk with the potential to have a major flooding impact and has commenced a programme of work to help mitigate these risks.

Improving the company’s response to customer contacts is another key area of focus, in particular billing enquiries. The business has introduced new working practices to help improve performance and early progress is encouraging. The process of monitoring performance against regulatory targets has been enhanced and managers now have better information and the flexibility to reallocate resources to help meet these targets. The more technical work has also been brought back in-house, giving the business greater control to resolve issues and help meet its targets.

The business expects an improved OPA score for 2009/10, with an increase in points in the areas of wastewater treatment works compliance, company contact score and unplanned interruptions. The actions being taken will have a positive impact on U UW’s performance as measured by Ofwat’s new service incentive mechanism, which is replacing OPA and is due to be introduced in 2010/11.

2009 water price review

On 26 November 2009, Ofwat published its final determination of price limits for the 2010-15 period. After careful consideration, U UW accepted these proposals and the new price limits took effect from 1 April 2010. Ofwat’s final determination of price limits for U UW was based on:

- a £3.6 billion capital investment programme (2007/08 prices);
- real growth of 12%, or approximately £900 million, in the regulatory capital value over the five year period;
- an average annual underlying operating efficiency of 1.2% for the water service and 2.4% for the wastewater service;
- a return on capital of 4.5% (post-tax, real); and
- an average annual real price decrease of 0.4% across the five-year period, with a real price decrease of 4.3% in the first year.

United Utilities had indicated previously that there was potential for additional investment in respect of the North East Irish Sea, which was dependent on a European court case decision involving the UK government. A ruling by the European Court of Justice on 10 December 2009 concluded that United Utilities will not be required to undertake this additional investment.

Efficiency initiatives

U UW is well prepared for the 2010-15 price review period. Over the last year, United Utilities has undertaken a comprehensive review of the business, challenging working practices across the group, and is implementing detailed plans to improve performance and reduce its cost base.

Operating efficiency

During 2009/10, United Utilities reduced the number of people working in the group by the equivalent of around 500 full time employees (includes United Utilities staff and agency staff). Approximately 350 of the 500 worked in or supported the regulated business, equivalent to around 7% of that workforce. This provides an immediate contribution to the achievement of efficiency targets set by Ofwat.

Customer service is a key area of focus, as this forms part of Ofwat's relative efficiency analysis and will also contribute to the regulator's new service incentive mechanism assessment. U UW aims to reduce its cost to serve significantly, whilst continuing to improve the customer experience. The business has reduced its annual cost to serve from £23 per customer to £19 per customer over the last two years and is implementing plans to deliver further reductions, all while customer satisfaction has improved markedly. The company has amended staff incentive mechanisms to help get things right first time, with the aim of reducing unnecessary customer calls. Performance measurement is now based on first time resolution, rather than average call handling time. United Utilities' customer online self-serve system is being enhanced to make it more comprehensive and user friendly, with the aim of reducing by a third the need for customers to contact the company's call centre. U UW is focused on improving its debt collection rates and is planning to utilise more local authority collection agreements. The company is also enhancing systems to improve its customer segmentation analysis and to obtain better data on customers who have moved address, coupled with a more proactive debt follow up strategy.

United Utilities is reviewing and streamlining its processes as it aims to become a leaner, more efficient company. The group is focused on operating with fewer, simpler and more consistent processes. For example, U UW is halving the number of steps from metering to cash collection. The group is rationalising its IT infrastructure, providing greater automation and visibility of workflow. Managers now have ownership of all steps in a process to help enhance performance. Individuals also have greater visibility and understanding of how their performance influences the efficiency of the entire process.

The group will continue to focus on delivering benefits from its existing efficiency initiatives, such as its workforce management system which is a key element in improving the efficiency of frontline staff, utilising remote operational site management and optimisation of chemical and power usage, improving efficiency of operational pumps, developing combined heat and power assets, which recycle energy generated from wastewater treatment processes, and improving supply chain management to deliver further procurement economies. A number of these schemes are also key elements of United Utilities'

plan to mitigate its carbon emissions. In 2009, U UW was awarded funding from Defra to convert biogas, a by-product of the sludge treatment process, into bio-methane for vehicle fuel. There is potential in the future to export biogas into the national gas distribution network.

Capital delivery

United Utilities has a robust commercial capital delivery framework in place for the 2010-15 period. Contractor partners have been appointed and the company has signed new supplier contracts, which will deliver significant savings and help improve efficiency. Incentive mechanisms are closely linked to the U UW business plan and pain/gain incentives are assessed on a project basis, rather than a cumulative basis, providing more clarity on performance. A partial fee retention mechanism is also in place to help drive on-time project delivery. In addition, U UW has flexibility in respect of the level of competitive tendering it may use in the award of future work during the five year regulatory period.

United Utilities undertook detailed advanced planning which ensured smooth transition into the 2010-15 period and leveraged recent economic conditions to deliver procurement efficiency benefits. U UW expects capital investment, including infrastructure renewals expenditure, in 2010/11 to be substantial as the company aims for a smoother capital delivery profile across the five year period compared with 2005-10. U UW has a strong focus on asset serviceability and also expects to bring forward the delivery of certain outputs.

Financial

United Utilities has approximately £2 billion of long dated, index-linked debt at an average cost of 1.8% real. This compares with Ofwat's cost of debt assumption of 3.6% real and secures financing outperformance for the next five years. In line with its policy, the group has also fixed the interest rates on a significant proportion of the remainder of its existing debt portfolio, for the 2010-15 regulatory period, at an average nominal rate in the range 5.0% to 5.5% (inclusive of credit spread). This provides more clarity on U UW's ability to outperform the final determination. Taken together with the group's index-linked debt, this equates to approximately £300 million of financing outperformance over the five years, based on an RPI inflation rate of 2.5% per annum. In addition, the group requires little re-financing during the 2010-15 period.

The changes to the defined benefit pension schemes have significantly reduced the company's pension deficit, reduced the future service cost and reduced future funding and deficit risk, thereby placing the company's pension provision on a much more sustainable footing.

NON-REGULATED ACTIVITIES

Financial highlights

- Non-regulated revenue marginally down at £890 million
- Non-regulated underlying operating profit marginally lower at £59 million

Non-regulated revenue was marginally lower at £890 million, reflecting the impact of difficult conditions in the UK property market on the group's utility connections business and, as expected, a reduction in contribution from the group's UK outsourcing contracts in the final year of the 2005-10 regulatory period. Reported operating profit was £63 million, in line with the prior year. This reflects a one-off credit of £9 million in relation to the group's revised pension provision, partly offset by restructuring costs of approximately £5 million. The prior year profit numbers have been restated in accordance with IFRIC 12, as explained in note 1 of the financial statements.

During the second half of the year, United Utilities disposed of its investment in Northern Gas Networks Holdings Limited (NGN) for approximately £86 million and sold its economic interest in Manila Water Company (MWC) for approximately £46 million. The intention is to retain these proceeds within the group. As a result of the disposals, dividends from these investments, which are included in operating profit, were materially lower in 2009/10, at £2 million, compared with £12 million received in 2008/09. Adjusting for the impact of these disposals and the aforementioned one-off items would show an increase in non-regulated underlying operating profit growth of £7 million, for the year ended 31 March 2010, reflecting tight cost control in the business.

Business update

United Utilities applies its utility skills from its regulated activities through outsourced utility contracts and investments. In June 2009, United Utilities, via the 4D consortium, won a new capital delivery contract with Southern Water to manage the design and build of a new wastewater treatment works in the Brighton and Hove area. The contract is underway and construction is expected to take approximately three years, followed by the potential for a two-year contract to operate and maintain the new plant. In addition, the 4D consortium has responsibility for managing part of Southern Water's regulatory capital investment programme through to 2015.

The contract with Scottish Water, via Scottish Water Solutions Limited in which United Utilities is a major partner, came to a natural end in March 2010. Following the outcome of the recent water price review, Welsh Water announced in February 2010 that it intended to take operations and maintenance services in-house and therefore the contract with United Utilities has not been renewed for the 2010-15 regulatory period.

Following the sales of its holdings in NGN and MWC, United Utilities received several expressions of interest for its non-regulated activities. In May 2010, the group agreed the disposal of its Australian business for approximately £135 million, comprising £106 million in cash and £29 million in net debt assumed by the purchaser. The transaction is subject to a number of consents and regulatory approvals and financial close is expected in the second half of 2010. The group is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses.

ALL OTHER SEGMENTS

As expected, the group's other activities, which include central costs, delivered an underlying operating loss during the year of £4 million, compared with an underlying operating loss of £6 million in 2008/09. As indicated previously, the difficult conditions in the UK property market have affected the performance of United Utilities Property Services, the group's property sales and management business. The reported operating loss for other activities was £7 million. This reflects restructuring costs of approximately £10 million, partly offset by a one-off credit of £7 million in respect of the group's revised pension provision.

FINANCIAL PERFORMANCE

Investment income and finance expense

Finance expense of £384 million was £113 million higher than the prior year. This expense included £136 million of net fair value losses on debt and derivative instruments, compared with £24 million of net fair value losses in 2008/09. The impact of changes in credit spreads on debt accounted for at fair value through profit or loss can result in significant volatility and this is the principal reason for the large net fair value movement in the year. In addition, the 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 a substantial proportion 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. However, this volatility in fair values has no cashflow impact. A reduction in returns on the group's pension schemes' assets in 2009/10, compared with the prior year, has also contributed to the increase in finance expense in the year.

Investment income was £14 million, compared with £71 million in the prior year, principally reflecting a reduction in cash, following the return of approximately £1.5 billion to shareholders in the previous financial year, and lower returns on cash deposits.

The underlying cost of net borrowings for continuing operations of £236 million was £39 million higher than in 2008/09. This reflects higher average net debt in 2009/10 and an increase in the group's average net borrowing rate from around 4.7% to 4.9%. Average net debt was lower in 2008/09, primarily due to the group holding approximately £1.1 billion of cash proceeds from the sale of United Utilities Electricity (UUE) prior to the return of approximately £1.5 billion to shareholders in August 2008.

Profit before taxation

Underlying profit before taxation was £500 million, 6% lower than 2008/09, principally reflecting an increase in interest expense as a result of higher average net debt, following the return of £1.5 billion to shareholders in August 2008, an increase in the underlying cost of net borrowings, a reduction in investment income and lower expected returns on pension assets. This underlying measure adjusts for the impact of one-off items, fair value movements in respect of debt and derivative instruments and the short-term interest benefit in the previous year associated with the cash proceeds from the sale of UUE, prior to the £1.5 billion return to shareholders. Reported profit before taxation decreased by 10% to £474 million principally as a result of an increase in finance expense and lower investment income, partly offset by the £92 million one-off credit associated with the changes to the group's pension schemes and a £37 million profit on disposal of investments.

Taxation

During the year the group received a cash tax inflow for the year of £51 million, following agreement with UK tax authorities of prior years' tax returns. After taking account of this repayment, the net position for 2009/10 was a small cash outflow of £1 million.

The current tax charge was £22 million and the current tax effective rate was 5%, compared with 26% in the prior year. The current tax charge included a £48 million credit in relation to the agreement with the tax authorities of prior years' tax returns.

In the prior year, the group recognised a one-off deferred tax charge of £206 million relating to the abolition of industrial buildings allowances with a cash impact expected to be spread over a period of approximately 20 years. This one-off item resulted in a significant increase in the effective tax rate for the prior year.

The group has recognised a net deferred tax charge of £49 million compared with a deferred tax charge in the prior year of £210 million. This included a £7 million credit in relation to the agreement with the tax authorities of prior years' tax returns.

An overall tax charge of £71 million has been recognised for the year ended 31 March 2010. Excluding the impact of prior years' adjustments and the abolition of industrial buildings allowances, the total tax charge relating to continuing operations would be £125 million or 26% compared with a £148 million charge or 28% in the prior year.

Earnings per share

Basic earnings per share relating to continuing operations increased from 26.5 pence to 59.2 pence. In 2008/09, there was a one-off deferred tax charge of £206 million relating to the abolition of industrial buildings allowances (equivalent to 30.3 pence per share). In 2009/10, there was a one-off credit of £55 million relating to the agreement of prior years' tax returns (equivalent to 8.0 pence per share).

Dividend per share

The board has proposed a final dividend of 23.13 pence per ordinary share in respect of the year ended 31 March 2010. This is an increase of 5.0%, in line with the group's dividend policy of targeting a real growth rate of RPI+2.0%. The inflationary increase of 3.0% is based on the RPI element included within the allowed regulated price increase for U UW for the 2009/10 financial year (i.e. the movement in RPI between November 2007 and November 2008).

The final dividend is expected to be paid on 2 August 2010 to shareholders on the register at the close of business on 18 June 2010. The ex-dividend date is 16 June 2010.

As outlined on 21 January 2010, following detailed analysis and assessment of the final determination, the board intends to pay a dividend per share of 30.0 pence for the 2010/11 financial year. Thereafter, the intention is to continue to target a dividend per share growth rate of RPI+2% per annum through to 2015.

Cashflow

Cash generated for the year ended 31 March 2010 was £1,016 million, compared with £911 million in the prior year. The group's net capital expenditure was £573 million (including the purchase of intangible assets and proceeds from sales of property, plant and equipment), 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 2010 was £4,906 million, compared with £4,895 million at 31 March 2009. Expenditure on the regulatory capital investment programmes and payments of dividends and interest, were broadly offset by the proceeds from the disposals of the group's holdings in Northern Gas Networks and Manila Water Company, operational cash flows and the aforementioned cash tax receipt.

Debt financing and interest rate management

Gearing (measured as group net debt divided by U UW's regulatory capital value) decreased to 64% at 31 March 2010, compared with 66% at 31 March 2009. Adjusting for the group's non-recourse joint venture debt of £234 million, gearing was 61%.

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 Services and Standard & Poor's Ratings Services respectively. Shortly after U UW accepted Ofwat's final determination on 21 January 2010, Moody's re-affirmed its credit ratings of A3 for United Utilities Water PLC and Baa1 for

United Utilities PLC, both with stable outlook. However, as expected, Standard & Poor's downgraded United Utilities Water PLC to BBB+ from A- and United Utilities PLC to BBB- from BBB+, both with stable outlook, reflecting differing methodologies particularly with regard to the treatment of infrastructure renewals expenditure.

Cash and short-term deposits at 31 March 2010 amounted to £302 million. During the year, the group's financing headroom position was enhanced through the issuance of an additional £100 million, 5.75% bond maturing in March 2022; an additional £50 million, 6.125% bond maturing in December 2015; and a new £70 million, 2.40%+RPI index-linked bond maturing in July 2039. United Utilities has headroom to cover its projected financing needs through to the spring of 2012.

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 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 2010, approximately 42% of the group's net debt was in index-linked form, representing around 27% of UUW'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 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 fixes interest costs for a substantial proportion of the group's debt for the duration of each price control period at around the time of that price control determination. 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 2010 was £1,100 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 the spring of 2012.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. United Utilities' cash is held in the form of short-term (generally no longer than three months) money market deposits with either prime commercial banks or with triple A rated money market funds. As at 31 March 2010, no cash deposits were held in money market funds.

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

Pensions

The group has sought to adopt a more sustainable approach to the delivery of pension provision and has amended the terms of its defined benefit pension schemes. The measures taken include a cap on the increase in pensionable earnings, an increase in the normal retirement age, an increase in employee contribution rates, an adjustment to the accrual rates and a re-balancing of the pensions investment strategy. This reduces both the future service cost and the future funding risk to the company, thereby enabling the company to retain defined benefit pension schemes for existing members. The changes to the scheme rules were supported by the company's trade unions. The reduction in service cost for 2010/11 is expected to be approximately £7 million, although the lower risk investment strategy is likely to reduce investment income and result in a lower net benefit at the profit before tax level. These amendments have also resulted in a reduction of £92 million to the group's pension deficit, which is required to be accounted for as a credit to operating profit in the group's income statement.

Overall, the group's net pension deficit at the year end has decreased by £87 million, compared with the position at 30 September 2009, reflecting the aforementioned changes to the pension schemes and the routine actuarial assessment of movements in assets and liabilities. As a result of changes in market conditions over the 12 months, the group's net pension obligations increased during the year from £213 million at 31 March 2009 to £271 million at 31 March 2010. Further detail is provided in note 8 ("Retirement benefit obligations") of these condensed consolidated financial statements. The group will continue to evaluate its pensions investment strategy to de-risk further its pension provision.

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 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.

Underlying profit

In considering the underlying results for the year, the directors have excluded fair value movements on debt and derivative instruments and those significant items identified as non-recurring. Statutory 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>	Regulated activities	Non-regulated activities	All other segments	Group
Operating profit/(loss) for the year ended 31 March 2010				
	£m	£m	£m	£m
Operating profit/(loss) per published results	761.7	63.1	(6.9)	817.9
Impact of changes to pension schemes	(76.7)	(8.9)	(6.7)	(92.3)
Restructuring costs	15.8	4.9	10.0	30.7
Underlying operating profit/(loss)	700.8	59.1	(3.6)	756.3

<i>Continuing operations</i>	Regulated activities	Non-regulated activities	All other segments	Group
Operating profit/(loss) for the year ended 31 March 2009 (restated)				
	£m	£m	£m	£m
Operating profit/(loss) per published results	678.4	63.4	(12.3)	729.5
Restructuring costs	1.0	(1.0)	1.2	1.2
Other reorganisation costs ⁴	-	-	5.4	5.4
Underlying operating profit/(loss)	679.4	62.4	(5.7)	736.1

<i>Continuing operations</i>	Year ended 31 March 2010	Restated Year ended 31 March 2009
Profit before taxation		
	£m	£m
Profit before taxation per published results	474.2	529.3
Impact of changes to pension schemes	(92.3)	-
Restructuring costs	30.7	1.2
Other reorganisation costs ⁴	-	5.4
Profit on disposal of investments	(36.6)	-
Evaluation and disposal costs relating to non-regulated businesses	10.8	-
Net fair value losses on debt and derivative instruments	135.8	24.3
Interest on swaps and debt under fair value option	(22.2)	(8.3)
Interest associated with cash proceeds from UUE sale ⁵	-	(20.6)
Underlying profit before taxation	500.4	531.3

<i>Continuing operations</i>	Year ended 31 March 2010	Restated Year ended 31 March 2009
Underlying cost of net borrowings		
	£m	£m
Finance expense	(383.6)	(270.9)
Net fair value losses on debt and derivative instruments	135.8	24.3
Interest on swaps and debt under fair value option	(22.2)	(8.3)
Investment income	14.1	70.7
Adjustment for net pension interest expense/(income)	23.2	(6.8)
Adjustment for IFRIC 12 financing income	(2.9)	(5.2)
Underlying cost of net borrowings	(235.6)	(196.2)
Add back adjustment for net pension interest (expense)/income	(23.2)	6.8
Add back adjustment for IFRIC 12 financing income	2.9	5.2
Interest associated with cash proceeds from UUE sale ⁵	-	(20.6)
Underlying net interest payable	(255.9)	(204.8)

⁴ Relates to the capital restructuring associated with the £1.5 billion return to shareholders.

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.

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 assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals. The board assesses the group's appetite and tolerance to risk and clear risk tolerance boundaries are set. Managers are required to employ both proactive and reactive mitigation measures in a prioritised manner to reduce exposures and ensure ongoing resilience should a risk materialise. The executive management team regularly reviews significant risks. The audit committee regularly reviews the framework's effectiveness and the group's compliance with it.

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 (such as increased maintenance or enhancement costs) or amounts funded in regulatory 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 UuW's regulators 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 outperformance.

Service incentive mechanism and serviceability assessment

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 the SIM it could receive a revenue penalty or reward when price limits are next reset in 2014.

In preparation for the change, systems and processes are being developed and enhanced, where necessary, to allow the company to report accurately on the volume of 'unwanted' contacts it receives. The company's focus is on ensuring right first time service delivery to its customers, thus avoiding the need for 'unwanted' contacts. Where 'unwanted' contacts do arise, there is a clear focus on identifying the root causes. These actions are intended to ensure that the company's performance under the SIM is optimised and thereby mitigating the risk of a penalty at the next price setting.

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 at least as good as in the past. Where serviceability falls below required reference levels of performance Ofwat may impose a penalty in revenue at the next price-setting. Or, if performance were 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 taken.

The adoption of private sewers

In 2008, the government announced its intention to transfer sewers and pumping stations currently owned by private individuals and businesses to sewerage undertakers. The precise date and nature of the transfer is yet to be determined but could occur as soon as 2011. No allowance has been made in price limits for the costs associated with the transfer. Therefore, any costs incurred will represent an unbudgeted increase in operating and capital expenditure.

Although there are costs associated with the transfer, as long as they are incurred efficiently they are expected to be largely recoverable when price limits are next reset, either at an interim determination or the next periodic review, but there can be no guarantee of full cost recovery at this stage.

Economic environment, inflation and capital market conditions

In recent years, the global banking crisis and economic downturn have impacted the bank lending environment, as well as the debt and equity capital markets. This has resulted in the cost of capital increasing and has made the arranging of finance and issuance of new equity and debt capital more expensive and difficult to secure.

A compounding challenge arises from the relationship between the regulatory capital value (RCV) of the regulated business and the Retail Prices 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 gearing (and other key financial ratios), credit ratings of the regulated business (and the group as a whole), and increase the cost or limit the availability of credit. 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 downturn continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to the group.

The group monitors closely 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, predominantly 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. The group's current schemes had a combined IAS 19 deficit of £271 million as at 31 March 2010, compared with a deficit of £213 million as at 31 March 2009 and a deficit of £359 million as at 30 September 2009.

Increases to pension fund deficits may result in an increased liability for the group, the size of the liability depending upon the extent to which additional deficits are recoverable through the regulatory price determination process. In its final determination for the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in U UW's final business plan for the regulated business when setting its overall price controls. In response to the size of its ongoing pension risks and pension costs the group has recently been consulting on a series of changes for employees in its defined benefit schemes. These changes, which came into force on 31 March 2010, will result in reduced costs and risks, including deficit, associated with defined benefit liabilities in future. In conjunction with the trustees, the

group continues to monitor the investment strategy 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 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.

Increased competition in the water and wastewater industry

The Cave review of competition and innovation in water markets was published in April 2009 and in September 2009 the government consulted on legislation to implement a number of the review's proposals. If its recommendations are implemented, this could eventually expand the competitive market allowing retail competition to all non-household customers. Ofwat and the Environment Agency are considering the introduction of reforms to the regulation of water abstraction licences that would allow trading of licences. Ofwat is also examining the scope for 'upstream' competition in treated water supply.

Ofwat has 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, one of which is 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 government and Ofwat consultations on the Cave review and other aspects of competition. A relatively small proportion of the group's profits derive from the retailing of water and wastewater services to non-household customers. However, United Utilities recognises 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. If competition is expanded, there would also be opportunities for the group to participate in a wider market in England and Wales.

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, a significant interruption of service provision or catastrophic damage could occur resulting in: significant loss of life; and/or environmental damage; and/or economic and social disruption. Such circumstances might arise, for example, from electricity, gas or 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. 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 upon 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 the group's control.

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. These recognise that possible events can have varying causes, 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 catastrophic 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 utility 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, together with 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 counterclaimed for approximately three billion baht; however, based upon the facts and matters currently known, the counterclaim 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 multiparty '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 per cent 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. 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), owners of the Manchester Ship Canal (the “canal”), issued proceedings, seeking, amongst other relief, damages alleging trespass against UUIW in respect of UUIW’s discharges of water and treated effluent into the canal. The respective legal rights of MSCC and UUIW relating to the discharges are unclear. Accordingly, the relevant legal principles need to be tested through court process. UUIW will be filing a defence and counterclaim in support of its believed entitlement to make discharges into the canal without charge and MSCC’s claim will be vigorously defended thereafter.

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 consolidated 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 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 2010 £m	Restated* Year ended 31 March 2009 £m
Continuing operations		
Revenue	2,439.1	2,427.2
Employee benefits expense		
- excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	(362.4)	(347.2)
- pension schemes curtailment gains arising on amendment of pension obligations (note 8)	92.3	-
- restructuring costs	(30.7)	(1.2)
Total employee benefits expense	(300.8)	(348.4)
Depreciation and amortisation expense	(304.7)	(261.9)
Infrastructure renewals expenditure	(113.7)	(117.8)
Other operating costs	(905.1)	(982.7)
Other reorganisation costs	-	(5.4)
Other income	3.1	18.5
Total operating expenses	(1,621.2)	(1,697.7)
Operating profit	817.9	729.5
Investment income (note 2)	14.1	70.7
Finance expense (note 3)	(383.6)	(270.9)
Investment income and finance expense	(369.5)	(200.2)
Profit on disposal of investments (note 5)	36.6	-
Evaluation and disposal costs relating to non-regulated businesses	(10.8)	-
Profit before taxation	474.2	529.3
Current taxation charge	(22.0)	(139.1)
Deferred taxation charge	(48.7)	(3.5)
Deferred taxation charge – abolition of industrial buildings allowances	-	(206.4)
Taxation (note 4)	(70.7)	(349.0)
Profit for the year from continuing operations	403.5	180.3
Discontinued operations		
Loss for the year from discontinued operations (note 5)	-	(1.2)
Profit for the year	403.5	179.1
Earnings per share		
from continuing and discontinued operations (note 6)**		
Basic	59.2p	26.3p
Diluted	59.2p	26.2p
Earnings per share		
from continuing operations (note 6)**		
Basic	59.2p	26.5p
Diluted	59.2p	26.4p
Dividend per ordinary share (note 7)	34.30p	32.67p

* See note 1

** The weighted average number of shares for the prior year has been based on the 681,381,233 new ordinary shares in United Utilities Group PLC issued on 28 July 2008 (note 6).

Consolidated statement of comprehensive income

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
Profit for the year	403.5	179.1
Other comprehensive income		
Actuarial losses on defined benefit pension schemes (note 8)	(125.4)	(124.3)
Tax on actuarial losses on defined benefit pension schemes	35.1	34.8
Revaluation of investments	3.4	(20.3)
Reclassification from other reserves arising on sale of financial asset investment	(36.6)	-
Net fair value gains/(losses) on cashflow hedges	0.9	(1.6)
Tax on net fair value (gains)/losses on cashflow hedges	(0.5)	0.4
Foreign exchange adjustments	6.4	8.3
Total comprehensive income for the year	286.8	76.4

There is no tax impact on the items of other comprehensive income except where stated in the table above.

Consolidated statement of financial position

	31 March 2010 £m	Restated* 31 March 2009 £m	Restated* 31 March 2008 £m
ASSETS			
Non-current assets			
Property, plant and equipment	8,122.8	7,866.8	7,481.8
Goodwill	2.5	2.6	2.3
Other intangible assets	208.6	198.9	176.2
Investments	7.7	136.8	155.5
Trade and other receivables	56.5	44.2	53.1
Derivative financial instruments	378.5	445.7	70.0
	8,776.6	8,695.0	7,938.9
Current assets			
Inventories	74.8	73.0	63.3
Trade and other receivables	451.0	491.6	456.2
Cash and short-term deposits	301.5	298.6	1,810.5
Derivative financial instruments	18.3	193.3	73.3
	845.6	1,056.5	2,403.3
Total assets	9,622.2	9,751.5	10,342.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	(146.5)	(139.8)	(125.5)
Borrowings	(5,307.9)	(5,200.1)	(3,788.9)
Retirement benefit obligations (note 8)	(271.3)	(213.1)	(101.2)
Deferred tax liabilities	(1,355.4)	(1,341.3)	(1,166.6)
Provisions	(8.3)	(17.2)	(18.7)
Derivative financial instruments	(102.3)	(90.8)	(42.3)
	(7,191.7)	(7,002.3)	(5,243.2)
Current liabilities			
Trade and other payables	(594.0)	(672.4)	(771.9)
Borrowings	(168.3)	(479.6)	(878.4)
Current income tax liabilities	(89.0)	(67.6)	(66.9)
Provisions	(45.5)	(22.6)	(21.0)
Derivative financial instruments	(25.8)	(62.3)	(147.6)
	(922.6)	(1,304.5)	(1,885.8)
Total liabilities	(8,114.3)	(8,306.8)	(7,129.0)
Total net assets	1,507.9	1,444.7	3,213.2
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	499.8	499.8	881.6
Share premium account	0.9	0.7	1,429.3
Revaluation reserve	158.8	158.8	158.8
Treasury shares	(0.1)	(0.3)	(0.3)
Cumulative exchange reserve	22.3	15.9	7.6
Merger reserve	329.7	313.0	-
Other reserves	3.8	36.6	58.1
Retained earnings	492.7	420.2	678.1
Shareholders' equity (note 10)	1,507.9	1,444.7	3,213.2

* See note 1

Consolidated statement of changes in equity

Year ended 31 March 2010

	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 2009 (restated)	499.8	0.7	158.8	(0.3)	15.9	313.0	36.6	420.2	1,444.7
Profit for the year	-	-	-	-	-	-	-	403.5	403.5
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	-	-	(125.4)	(125.4)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	-	35.1	35.1
Revaluation of investments	-	-	-	-	-	-	3.4	-	3.4
Reclassification from other reserves arising on sale of financial asset investment	-	-	-	-	-	-	(36.6)	-	(36.6)
Net fair value gains on cashflow hedges	-	-	-	-	-	-	0.9	-	0.9
Tax on net fair value gains on cashflow hedges	-	-	-	-	-	-	(0.5)	-	(0.5)
Foreign exchange adjustments	-	-	-	-	6.4	-	-	-	6.4
Total comprehensive income/(expense) for the year	-	-	-	-	6.4	-	(32.8)	313.2	286.8
Transactions with owners									
Dividends (note 7)	-	-	-	-	-	-	-	(226.2)	(226.2)
New share capital issued	-	0.2	-	-	-	-	-	-	0.2
Shares disposed of from employee share trust	-	-	-	0.2	-	-	-	(0.2)	-
Capital reorganisation (note 10)	-	-	-	-	-	16.7	-	(16.7)	-
Equity-settled share-based payments	-	-	-	-	-	-	-	2.4	2.4
At 31 March 2010	499.8	0.9	158.8	(0.1)	22.3	329.7	3.8	492.7	1,507.9

Year ended 31 March 2009

	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
Restated									
At 1 April 2008	881.6	1,429.3	158.8	(0.3)	7.6	-	58.1	678.1	3,213.2
Profit for the year	-	-	-	-	-	-	-	179.1	179.1
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	-	-	(124.3)	(124.3)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	-	34.8	34.8
Revaluation of investments	-	-	-	-	-	-	(20.3)	-	(20.3)
Net fair value losses on cashflow hedges	-	-	-	-	-	-	(1.6)	-	(1.6)
Tax on net fair value losses on cashflow hedges	-	-	-	-	-	-	0.4	-	0.4
Foreign exchange adjustments	-	-	-	-	8.3	-	-	-	8.3
Total comprehensive income/(expense) for the year	-	-	-	-	8.3	-	(21.5)	89.6	76.4
Transactions with owners									
Dividends (note 7)	-	-	-	-	-	-	-	(349.9)	(349.9)
New share capital issued	499.8	0.7	-	-	-	-	-	-	500.5
Capital reorganisation (note 10)	(881.6)	(1,429.3)	-	-	-	313.0	-	-	(1,997.9)
Equity-settled share-based payments	-	-	-	-	-	-	-	2.4	2.4
At 31 March 2009	499.8	0.7	158.8	(0.3)	15.9	313.0	36.6	420.2	1,444.7

Consolidated statement of cashflows

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
<i>Continuing operations</i>		
Operating activities		
Cash generated from operations	1,015.7	911.4
Interest paid	(225.5)	(232.3)
Interest received and similar income	12.4	90.4
Tax paid	(51.2)	(32.8)
Tax received	50.6	-
Net cash generated from operating activities	802.0	736.7
Investing activities		
Purchase of property, plant and equipment	(543.2)	(668.2)
Purchase of other intangible assets	(34.4)	(45.9)
Proceeds from sale of property, plant and equipment	4.4	3.8
Purchase of investments	(0.8)	-
Proceeds from disposal of investments	132.1	-
Evaluation and disposal costs relating to non-regulated businesses	(10.8)	-
Net cash used in investing activities	(452.7)	(710.3)
Financing activities		
Proceeds from issue of ordinary shares	0.2	1.6
Cash used in structured financing	-	(163.9)
Proceeds from borrowings	272.9	3,784.7
Repayment of borrowings	(348.4)	(3,310.9)
Dividends paid to equity holders of the company	(226.2)	(349.9)
Return to shareholders on capital reorganisation	(16.7)	(1,482.3)
Net cash used in financing activities	(318.2)	(1,520.7)
Effects of exchange rate changes	13.5	(1.8)
Net increase/(decrease) in cash and cash equivalents	44.6	(1,496.1)
Cash and cash equivalents at beginning of the year	209.1	1,705.2
Cash and cash equivalents at end of the year	253.7	209.1

Cash generated from operations

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
<i>Continuing operations</i>		
Profit before taxation	474.2	529.3
Adjustment for investment income and finance expense	369.5	200.2
Adjustment for profit on disposal of investments	(36.6)	-
Adjustment for evaluation and disposal costs relating to non-regulated businesses	10.8	-
Operating profit	817.9	729.5
Adjustments for:		
Depreciation of property, plant and equipment	275.2	238.0
Amortisation of other intangible assets	29.5	23.9
Loss on disposal of property, plant and equipment	7.3	0.8
Equity-settled share-based payments charge	2.4	1.9
Other non-cash movements – pension schemes curtailment gains arising on amendment of pension obligations	(92.3)	-
Changes in working capital:		
Increase in inventories	(1.8)	(9.7)
Decrease/(increase) in trade and other receivables	27.1	(22.9)
Decrease in provisions and payables	(49.6)	(50.1)
Cash generated from continuing operations	1,015.7	911.4

Segment reporting

The group is organised into two principal operating divisions for management purposes, being regulated and non-regulated activities. These divisions form the basis on which the operating segment information, presented in accordance with IFRS 8 'Operating Segments' (see note 1), is reported. The comparative figures for the year ended 31 March 2009 have been restated in accordance with IFRS 8.

The regulated activities segment is as previously reported and includes the regulated results of United Utilities Water PLC.

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

The 'all other segments' category was previously reported as the group's other activities segment. This category includes the results of United Utilities Property Services Limited (formerly United Utilities Property Solutions Limited), United Utilities Group PLC and other group holding companies.

The disclosure correlates with the information provided to the United Utilities Group PLC board of directors (the 'board') for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit and operating profit by segment, but assets and liabilities are reviewed at a consolidated level. Investment income and finance expense, and taxation are managed on a group basis and are not allocated to operating segments.

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Year ended 31 March 2010				
<i>Continuing operations</i>				
Total revenue	1,540.7	890.2	14.1	2,445.0
Inter-segment revenue	(0.8)	-	(5.1)	(5.9)
External revenue	1,539.9	890.2	9.0	2,439.1
Underlying segmental operating profit/(loss)	700.8	59.1	(3.6)	756.3
Restructuring costs	(15.8)	(4.9)	(10.0)	(30.7)
Pension schemes curtailment gains arising on amendment of pension obligations	76.7	8.9	6.7	92.3
Segmental operating profit/(loss)	761.7	63.1	(6.9)	817.9
Investment income				14.1
Finance expense				(383.6)
Profit on disposal of investments				36.6
Evaluation and disposal costs relating to non-regulated businesses				(10.8)
Profit before taxation				474.2
	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Restated				
Year ended 31 March 2009				
<i>Continuing operations</i>				
Total revenue	1,499.5	911.8	22.4	2,433.7
Inter-segment revenue	(0.9)	(0.1)	(5.5)	(6.5)
External revenue	1,498.6	911.7	16.9	2,427.2
Underlying segmental operating profit/(loss)	679.4	62.4	(5.7)	736.1
Restructuring costs	(1.0)	1.0	(1.2)	(1.2)
Other reorganisation costs	-	-	(5.4)	(5.4)
Segmental operating profit/(loss)	678.4	63.4	(12.3)	729.5
Investment income				70.7
Finance expense				(270.9)
Profit before taxation				529.3

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2010 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 2010.

The adoption of the following standards and interpretations, at 1 April 2009, has had no material impact on the group's financial statements:

IFRIC 12 '*Service Concession Arrangements*'

The interpretation addresses accounting by private sector operators involved in the provision of public sector infrastructure assets and services. Relevant assets within its scope have been reclassified from property, plant and equipment to financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or intangible assets (where the operator's future cashflows are not specified); or a combination of both (where the operator's return is provided partially by a financial asset and partially by an intangible asset). Its application is retrospective and hence requires the restatement of the information presented for the years ended 31 March 2009 and 31 March 2008. Operating profit for the year ended 31 March 2009 has been reduced by £5.7 million, broadly offset by a corresponding increase in investment income of £5.2 million.

IAS 23 '*Borrowing Costs (March 2007)*'

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of that asset. Qualifying assets include property, plant and equipment, inventories and intangible assets developed in projects that take a significant period of time to complete. The standard has been adopted as a prospective change and borrowing costs have been capitalised on projects commencing from 1 April 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed. During the year ended 31 March 2010, borrowing costs of £0.5 million have been capitalised.

IAS 1 '*Presentation of Financial Statements (September 2007)*'

The application of this standard has resulted in the consolidated balance sheet and consolidated cashflow statement being renamed the 'consolidated statement of financial position' and the 'consolidated statement of cashflows' respectively. The shareholders' equity note is presented as a primary statement and is renamed the 'consolidated statement of changes in equity'. The consolidated statement of recognised income and expense is also presented as a primary statement and is renamed the 'consolidated statement of comprehensive income'. Taxation on each item within the consolidated statement of comprehensive income is shown separately.

'Improvements to IFRS (2008)'

The amendments to IAS 1 clarify the categorisation of derivative financial instruments as current or non-current. Previously the group has categorised as current all derivative financial instruments classified as 'held for trading' under IAS 39 'Financial Instruments: Recognition and Measurement'. As a result of these amendments, 'held for trading' derivatives have now been categorised between current and non-current, based upon the contractual maturity date or, where applicable, the contractual early termination date.

IFRS 2 '*Share-based Payments*' (June 2009)

The amendment to IFRS 2 is effective for periods commencing on or after 1 January 2010, was endorsed by the EU on 23 March 2010, and has been early adopted.

IFRS 8 '*Operating Segments*'

The application of this standard requires disclosure of information about the group's operating segments on the same basis as that used for internal reporting, and replaces the requirement to determine the primary (business) and secondary (geographical) reporting segments. The group determined that its operating segments were the same as the business segments previously identified under IAS 14 'Segment Reporting', except that the 'other activities' segment has been renamed 'all other segments'. Additional disclosures about each of these segments are provided on page 26.

1. Basis of preparation and accounting policies (continued)

As a result of the adoption of these standards, the group has presented a restated consolidated statement of financial position for each of the years ended 31 March 2009 and 31 March 2008, together with notes for the relevant restated comparatives.

The consolidated income statement for the year ended 31 March 2009 has been re-presented to better reflect the nature of restructuring and reorganisation costs.

At the date of authorisation of these condensed consolidated financial statements, the following relevant standards and interpretations were in issue but not yet effective.

IFRS 3 'Business Combinations'

This revised standard, issued in January 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 12 June 2009. This will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future.

IFRIC 18 'Transfers of Assets from Customers'

This interpretation was issued in January 2009, it is effective for transfers from customers received on or after 1 July 2009, for periods commencing on or after 31 October 2009 and was endorsed by the EU on 27 November 2009. This interpretation will therefore be adopted by the group in the year ending 31 March 2011. The adoption of IFRIC 18 is expected to change the group's policy for the valuation of assets transferred from customers and may lead to an increase in revenue, the value of assets capitalised and future depreciation costs.

The impact of all other IFRS's and IFRIC's issued but not yet adopted is not considered to be material to the group.

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 435 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 2010.

The comparative figures for the years ended 31 March 2009 and 31 March 2008 do not comprise the group's statutory accounts for those financial years. Those accounts have been reported upon by the group's auditors and delivered to the registrar of companies. The reports of the auditors were unqualified and did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report. The report for the year ended 31 March 2009 did not contain a statement under section 498(2) or (3) of the Companies Act 2006, and the report for the year ended 31 March 2008 did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

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 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. Investment income

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
Interest receivable	14.1	27.8
Foreign exchange gains on forward contracts	-	36.1
	<hr/> 14.1	<hr/> 63.9
Expected return on pension schemes' assets (note 8)	-	124.3
Interest cost on pension schemes' obligations (note 8)	-	(117.5)
	<hr/> -	<hr/> 6.8
Net pension interest income	<hr/> 14.1	<hr/> 70.7

3. Finance expense

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Interest payable	(224.6)	(246.6)
Fair value losses on debt and derivative instruments	(135.8)	(24.3)
	<u>(360.4)</u>	<u>(270.9)</u>
Expected return on pension schemes' assets (note 8)	94.1	-
Interest cost on pension schemes' obligations (note 8)	(117.3)	-
	<u>(23.2)</u>	<u>-</u>
Net pension interest expense	<u>(383.6)</u>	<u>(270.9)</u>

The group follows a policy of economic hedging of 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 losses, adjusting for the reclassification of interest income and expenditure associated with the group's defined benefit pension schemes and adjusting for the reclassification of financing income relating to the group's service concession arrangements, would give an economic underlying cost of net borrowings of £235.6 million (2009: £196.2 million):

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
Finance expense	(383.6)	(270.9)
Fair value losses on debt and derivative instruments	135.8	24.3
Add back interest on swaps and debt under fair value option	(22.2)	(8.3)
Investment income	14.1	70.7
Adjustment for net pension interest expense/(income)	23.2	(6.8)
Adjustment for service concession financing income (note 1)	(2.9)	(5.2)
Underlying cost of net borrowings	<u>(235.6)</u>	<u>(196.2)</u>

4. Taxation

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
Current taxation		
UK corporation tax	(71.0)	(147.0)
Foreign tax	1.1	(2.1)
Prior year adjustments	47.9	10.0
	<u>(22.0)</u>	<u>(139.1)</u>
Deferred taxation		
Current year	(55.3)	0.7
Prior year adjustments	6.6	(4.2)
	<u>(48.7)</u>	<u>(3.5)</u>
Abolition of industrial buildings allowances	-	(206.4)
	<u>(48.7)</u>	<u>(209.9)</u>
Total tax charge for the year	<u>(70.7)</u>	<u>(349.0)</u>

4. Taxation (continued)

The prior year adjustments relate to agreement of prior years' UK tax returns.

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 was a one-off deferred tax charge of £206.4 million, which was included in the deferred tax charge for the year ended 31 March 2009; however the cash impact will be spread over a period of approximately 20 years.

5. Disposal of investments and discontinued operations

The group disposed of its 11.7 per cent economic interest in Manila Water Company (MWC) to Ayala Corporation and Philwater Holdings Company Inc, both existing shareholders of MWC, for a cash consideration of US\$73 million (£46.3 million) on 12 November 2009. On completion of the transaction in March 2010, the group has reinvested approximately US\$1.2 million (£0.8 million) in new preference shares in Philwater Holdings Company Inc.

In addition, the group disposed of its 15.0 per cent economic interest in Northern Gas Networks Holdings Limited (NGN) to Cheung Kong Infrastructure Holdings Limited (CKI) and SAS Trustee Corporation (managed by RREEF Alternative Investments), both existing shareholders of NGN, for a cash consideration of £85.8 million on 16 November 2009. These disposals, combined, generated a profit of £36.6 million in the year ended 31 March 2010.

The contributions from the group's investments in MWC and NGN have been included in continuing operations, within the non-regulated activities business segment, in the group's results for the year ended 31 March 2010 (£2.4 million) and 31 March 2009 (£12.3 million).

The group has previously reported as discontinued operations the disposal of United Utilities Electricity (UUE), which took place on 19 December 2007. The results of UUE, along with the profit on disposal of £493.0 million, were disclosed as discontinued operations in the group's financial statements in the year ended 31 March 2008. An adjustment of £1.2 million loss was recorded in the year ended 31 March 2009.

6. 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 2010	681.5	682.0
Year ended 31 March 2009	681.4	682.3

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

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 2010	Restated Year ended 31 March 2009
From continuing and discontinued operations		
Basic	59.2p	26.3p
Diluted	59.2p	26.2p
From continuing operations		
Basic	59.2p	26.5p
Diluted	59.2p	26.4p

7. Dividends

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Dividends relating to the year comprise:		
Interim dividend	76.1	72.5
Final dividend	157.6	150.1
	233.7	222.6
	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Dividends deducted from shareholders' equity comprise:		
Interim dividend	76.1	72.5
Final dividend	150.1	277.4
	226.2	349.9

The proposed final dividends for the years ended 31 March 2010 and 31 March 2009 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 2010 and 31 March 2009 respectively.

The final dividend of 23.13 pence per ordinary share (2009: final dividend of 22.03 pence per ordinary share) will be paid on 2 August 2010 to shareholders on the register at the close of business on 18 June 2010. The ex-dividend date for the final dividend is 16 June 2010.

The interim dividend of 11.17 pence per ordinary share (2009: interim dividend of 10.64 pence per ordinary share) was paid on 4 February 2010 to shareholders on the register at the close of business on 18 December 2009.

8. Retirement benefit obligations

The main financial assumptions used by the actuary were as follows:

	Year ended 31 March 2010 % pa	Year ended 31 March 2009 % pa
Discount rate – United Utilities Pension Scheme (UUPS)	5.70	7.00
Discount rate – United Utilities Group section of the Electricity Supply Pension Scheme (ESPS)	5.70	7.00
Discount rate – Northern Gas Networks Pension Scheme (NGNPS)	5.70	6.90
Expected return on assets – UUPS	6.20	6.60
Expected return on assets – ESPS	6.30	6.20
Expected return on assets – NGNPS	6.10	5.90
Pensionable salary growth – UUPS	3.30	4.15
Pensionable salary growth – ESPS	3.30	4.20
Pensionable salary growth – NGNPS	4.30	4.20
Pension increases	3.30	3.20
Price inflation	3.30	3.20

8. Retirement benefit obligations (continued)

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

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Current service cost	(26.0)	(36.7)
Curtailments/settlements		
- arising on reorganisation*	(17.2)	-
- arising on amendment of pension obligations	92.3	-
Past service cost	(2.8)	(3.1)
Pension income/(expense) credited/(charged) to operating profit	46.3	(39.8)
Expected return on schemes' assets	94.1	124.3
Interest on schemes' obligations	(117.3)	(117.5)
Pension (expense)/income (charged)/credited to investment income and finance expense (note 3, 2)	(23.2)	6.8
Net pension income/(expense) credited/(charged) before taxation	23.1	(33.0)

* Curtailments arising on reorganisation of £17.2 million (2009: £nil) are included within restructuring costs of £30.7 million (2009: £1.2 million) within total employee benefits expense.

The reconciliation of the opening and closing statement of financial position balances is as follows:

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
At the start of the year	(213.1)	(101.2)
Income/(expense) recognised in the income statement	23.1	(33.0)
Contributions paid	44.1	45.4
Actuarial losses gross of taxation	(125.4)	(124.3)
At the end of the year	(271.3)	(213.1)

The closing obligation at each reporting date is analysed as follows:

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Present value of defined benefit obligations	(2,182.2)	(1,696.9)
Fair value of schemes' assets	1,910.9	1,483.8
Net retirement benefit obligations	(271.3)	(213.1)

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 2010 £m	Re-presented Year ended 31 March 2009 £m
Operating profit items:		
Restructuring costs	30.7	1.2
Pension schemes curtailment gains arising on amendment of pension obligations	(92.3)	-
Other reorganisation costs	-	5.4
Finance expense items:		
Fair value losses on debt and derivative instruments	135.8	24.3
Interest on swaps and debt under fair value option	22.2	(8.3)
Interest associated with cash proceeds from UUE sale	-	(20.6)
Investing activity items:		
Profit on disposal of investments	(36.6)	-
Evaluation and disposal costs relating to non-regulated businesses	10.8	-

10. Shareholders' equity – capital reorganisation

The movements on the accounts within shareholders' equity of the group which are affected by the capital reorganisation which took place during the prior 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	(881.6)	(1,429.3)	313.0	(1,997.9)
At 31 March 2009	499.8	0.7	313.0	813.5
New share capital issued	-	0.2	-	0.2
Capital reorganisation	-	-	16.7	16.7
At 31 March 2010	499.8	0.9	329.7	830.4

In July 2008 the High Court (the "Court") approved a scheme of arrangement (the "Scheme") of United Utilities PLC to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. United Utilities PLC shareholders received 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC shares, together with one United Utilities Group PLC B share of 170.0 pence for each United Utilities PLC share.

The Court then approved the reduction of the capital of United Utilities Group PLC, whereby the nominal value of each ordinary share was reduced from 500.0 pence to five pence.

In addition, a merger reserve was created in the United Utilities Group PLC company, which was capitalised into A shares that were cancelled as part of the reduction of capital.

The Scheme and the subsequent reduction in capital increased the distributable reserves of United Utilities Group PLC by £4.8 billion enabling the return of £1,499.0 million capital and allowing future dividends.

On 14 April 2009, the remaining B shares were redeemed. This has been recorded as an adjustment to equity and has eliminated the outstanding financial liability. This transaction concluded the capital reorganisation.

The merger reserve, as shown above, arises on consolidation and represents the capital adjustment 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 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 trading transactions were carried out with the group's joint ventures:

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Sales of services	92.9	109.8
Purchases of goods and services	4.8	11.4

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

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Amounts owed by related parties	19.2	12.8
Amounts owed to related parties	0.9	1.9

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 £126.8 million (2009: £80.7 million) to its joint ventures, which are included in the total disclosed in note 12. A £0.4 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2009: £0.1 million). A £0.3 million expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2009: £nil).

12. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2010, where a financial limit has been specified, of £201.2 million (2009: £119.8 million).

13. Events after the reporting period

In May 2010 the group agreed the disposal of its Australian business for approximately £135 million comprising £106 million in cash and £29 million in net debt assumed by the purchaser. The transaction is subject to a number of consents and regulatory approvals and financial close is expected in the second half of 2010. The results of the Australian business are included within continuing operations for the year ended 31 March 2010 and are presented within the group's non-regulated activities segment.

The group's contract with Welsh Water has not been renewed for the 2010-15 regulatory period. The contribution from this contract was immaterial to the non-regulated activities segmental result for the year ended 31 March 2010.

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 2010. 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.

This responsibility statement was approved by the board on 20 May 2010 and signed on its behalf by:

Philip Green
Chief executive officer

Tim Weller
Chief financial officer