United Utilities Group PLC
23 May 2013

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2013

£m	Year ended	
(Continuing operations)	31 March 2013	31 March 2012
Underlying operating profit*	607.1	594.1
Underlying profit before taxation*	354.3	327.0
Underlying profit after taxation*	266.3	240.9
Underlying earnings per share*,** (pence)	39.1	35.3
Revenue	1,636.0	1,564.9
Operating profit	604.5	591.5
Profit before taxation	304.7	280.4
Profit after taxation	282.3	311.4
Basic earnings per share** (pence)	41.4	45.7
Total dividends per ordinary share (pence)	34.32	32.01

* Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on page 16
** Earnings per share and underlying earnings per share are explained in the earnings per share section

* **Operational improvement delivers benefits for customers**
  - further customer service improvements: Ofwat's quantitative SIM score improved by 34%
  - met water and wastewater asset serviceability standards
  - outperformed regulatory leakage target

* **Effective delivery of capital investment programme**
  - accelerated the programme with investment up 16% at £787m for the year
  - much improved capex delivery – internal Time: Cost: Quality index up from c50% to c90%
  - delivered all capital investment Environment Agency commitments this year

* **On track to meet outperformance targets, benefiting customers and shareholders**
  - reinvesting c£200m of capex outperformance for the benefit of customers and the environment
  - customers will benefit from opex outperformance in 2015-20 regulatory period
  - reinvesting c£40m of financing outperformance on unfunded private sewers costs for customers

* **Strong financials**
  - underlying operating profit up £13m to £607m
  - RCV gearing of 60% in the middle of Ofwat's range
  - final dividend of 22.88 pence per share (total for the year of 34.32 pence), in line with policy

Steve Mogford, Chief Executive Officer, said:

"Customer satisfaction with our service continues to improve, underpinned by strong operational and environmental performance. We are improving the quality and reliability of our infrastructure and, across the 2010-15 period, expect to reinvest around £200 million of capital expenditure outperformance for the benefit of our customers and the environment.

"We accelerated our capital investment programme and invested £787 million in the year, taking the total investment in our network, since the start of the regulatory period in 2010, to just over £2 billion, providing an important contribution to the North West economy. We are delivering a smoother and more effective programme and we expect to invest around a further £800 million in 2013/14."

For further information on the day, please contact:

Gaynor Kenyon – Corporate Affairs Director	+44 (0) 7753 622282
Darren Jameson – Head of Investor Relations	+44 (0) 7733 127707
Peter Hewer / Michelle Clarke – Tulchan Communications	+44 (0) 20 7353 4200

A presentation to investors and analysts starts at 9.00 am on Thursday 23 May 2013, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025, access code 932243. A recording of the call will be available for seven days following Thursday 23 May 2013 on +44 (0) 20 7031 4064, access code 932243.

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

BUSINESS REVIEW

KEY OPERATIONAL PROGRESS

Improving operational performance and delivering benefits for customers and the environment remain top priorities for United Utilities (UU). Alongside this, we are on track to outperform our regulatory contract. We have made significant progress since the start of the 2010-15 regulatory period, as outlined below:

* **Significant improvements in customer service** – We have significantly improved the customer experience over the last three years, as demonstrated through Ofwat's customer service measure the service incentive mechanism (SIM). We achieved the best improvement in the industry on Ofwat's combined SIM score in 2011/12, moving up five places to 16th position out of the 21 water companies. We have built on this and have improved further in 2012/13, although our qualitative SIM score for the last quarter of the year saw us slip back against the trend achieved in the first three quarters. We ended the 2012/13 year in 14th place in the sector on this measure, up two places on the previous year. This represents a mid-ranking position among the ten water and wastewater companies. Encouragingly, we have recently received our qualitative SIM score for the first quarter of 2013/14 and we achieved 10th position out of the 21 water companies. Customer complaints to the Consumer Council for Water (CCW) have continued to fall with zero complaints warranting investigation by the CCW in 2012/13, the first time we have achieved this.

* **Strong operational performance** – We performed well across a broad front, as measured in Ofwat's latest (2011/12) key performance indicators report. Of the fifteen assessments, UU was rated 'Green' for eleven and 'Amber' on four, with no areas assessed as 'Red' on the traffic light reporting matrix. This balance of ratings is above the average performance level, in respect of the ten water and sewerage companies. This performance has helped provide benefits for customers, for example in terms of better customer service and very high levels of reliability and availability of water supply and wastewater services, alongside a range of environmental benefits.

* **Effective capital delivery drives customer and environmental benefits** – We continue to drive more effective and efficient delivery of our capital programme. This is reflected in a significant improvement in our Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to approximately 90% in 2012/13, meeting our target two years ahead of schedule. This has helped us accelerate our capital investment programme and has helped us deliver all of our capital investment Environment Agency commitments this year. We have met our water and wastewater asset serviceability standards and have confidence that our performance in respect of meeting our 2010-15 regulatory commitments will be much improved, compared with the 2005-10 period. Our aim is to deliver our commitments on time and to specification in order to avoid or minimise any revenue penalties in the 2015-20 period. We have now invested just over £2 billion across the first three years of this regulatory period, as we have sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

* **Outperformed regulatory leakage target** – We have met or outperformed our regulatory leakage target for the seventh consecutive year. This reflects strong year round operational focus, coupled with the benefits from our reinvestment initiatives, helping to support a robust water supply and demand position in our region and provide high levels of reliability for our customers.

* **Regulatory outperformance on track –** We have set clear targets for the 2010-15 period and remain on track or ahead of schedule in delivering these targets. We expect to reinvest around £200 million of capex outperformance, over 2010-15, for the benefit of our customers and the environment.

* **Corporate responsibility –** We have held a 'World Class' rating in the Dow Jones Sustainability Index for five consecutive years, attaining our highest ever score in the most recent assessment. We also have the highest 'Platinum Big Tick' ranking in Business in the Community's Corporate Responsibility Index. In addition, we hold membership of the FTSE 350 Carbon Disclosure Leadership Index and are the top UK utility company in this index by some distance. We are one of only four FTSE 100 companies to hold all three awards.

* **Extending our presence in the retail water market for business customers –** We have been building our capability to help ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market. We appointed Sue Amies-King from Aviva, in the newly created role of Retail Director in June 2012, and subsequently recruited Tony McHardy from Business Stream as Sales Director. We secured a Scottish water supply licence in 2012 and have won several business customers in Scotland, with a significant pipeline of opportunities. We are also delivering a range of value-added services.

FINANCIAL OVERVIEW

The group has delivered another good set of financial results for the year ended 31 March 2013. Revenue was up by £71 million to £1,636 million, principally as a result of the impact of the regulated price increase for 2012/13 of 5.8% nominal (0.6% real price increase plus 5.2% RPI inflation) partially offset by reduced volumes and the ongoing impact of customers switching to meters.

Underlying operating profit increased by £13 million to £607 million, despite an expected increase in depreciation, as we kept cost increases below price inflation.

Total regulatory capital investment for the year, including £161 million of infrastructure renewals expenditure, was £787 million, representing an increase of 16% compared with last year, reflecting continued progress on the capital investment programme.

Underlying profit before taxation was up 8%, at £354 million. This was a result of higher underlying operating profit, coupled with a lower underlying net finance expense mainly due to lower RPI inflation.

Underlying profit after taxation was 11% higher than last year, at £266 million, reflecting the reduction in the mainstream UK corporation taxation rate. Reported profit after taxation benefited from a £53 million deferred taxation credit (£105 million credit in 2011/12), which follows the UK Government's changes to reduce the mainstream corporation taxation rate.

The group has a robust capital structure and gearing (measured as group net debt to regulatory capital value) as at 31 March 2013 was 60%, in the middle of Ofwat's assumed range of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water PLC (UUW) has a long-term credit rating of A3 from Moody's Investors Service with a stable outlook.

The group benefits from headroom to cover its projected financing needs into 2015, following the recent raising of a £100 million index-linked loan at our lowest ever annual interest rate of 0.5% real. This provides good flexibility in terms of when and how further debt finance is raised to help fund the regulated capital investment programme. Reflecting this robust financing position, UU has completed early all previously agreed pension deficit repair payments covering the 2010-15 regulatory period.

In line with its policy, the board has proposed a final dividend of 22.88 pence per ordinary share, an increase of 7.2%, taking the total dividend for 2012/13 to 34.32 pence.

OUTLOOK

Our sustained focus on operational performance, combined with continued substantial investment in our assets, is delivering benefits for our customers and the environment. We have improved further on

Ofwat's service incentive mechanism and believe there is plenty of scope to deliver more for our customers. We have made good progress on our capital expenditure programme and our disciplined investment approach provides us with confidence that we will deliver a good performance in respect of meeting our regulatory commitments across the 2010-15 period. We remain on track or ahead of schedule in meeting our five-year regulatory outperformance targets. We intend to continue with our dividend policy of targeting 2% per annum growth above the rate of RPI inflation through to at least 2015, underpinned by a robust capital structure. We will continue to positively engage with Government and regulators to support the progressive evolution of the water industry and are actively involving our customers to help shape our business plan for the forthcoming price review.

OPERATIONAL PERFORMANCE

Supporting our drive to improve operational performance, last year we put in place a revised management structure with a strong focus on accountability and delivery. We moved from our previous functional structure, to an organisational structure where managers are responsible for end-to-end delivery of capital projects and operational performance within their respective regions, providing a more integrated approach. We have refined our organisational structure further in preparation for a more competitive environment and to align with the separated price controls that will apply at the 2014 price review. With effect from April 2013, we have revised our structure and activities around three business areas: Wholesale; Domestic Retail; and Business Retail.

We continue to make good progress towards our objective of becoming a leading North West service provider and one of the best UK water and wastewater companies. We are pleased to have been consistently ranked third out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken quarterly. We are behind Marks & Spencer and John Lewis, but ahead of seven other major organisations covering utilities, telecoms, media and banking services. We have made further operational improvements during the year and have improved our performance relative to our water sector peers.

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

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

Best service to customers

We believe in delivering a fair deal for our customers and have continued to invest in our people, assets, systems and processes to improve the service our customers can expect of us. In addition, we expect to reinvest around £200 million of capex outperformance over the 2010-15 period for the benefit of our customers and the environment.

Robust water supply and reliability – We have implemented active pressure management in our water network to reduce bursts and leakage, helping us to meet or outperform our leakage target. Should we have a burst, the additional investment completed during the year in strategic mains refurbishment and connectivity has improved the capability of our water network to maintain supply. Whilst the North West did not experience the hose-pipe bans seen elsewhere in the country last spring, rainfall across our region was much lower than expected. We were able to benefit from our investment in an integrated regional water network to keep customers supplied throughout the dry period. Overall, our customers continue to benefit from our robust water supply and demand balance and high levels of water supply reliability. We have again achieved a high level of water quality, with mean zonal compliance continuing to be over 99.9%.

Investing to mitigate sewer flooding – The latter half of 2012 was characterised by a large number of exceptionally high rainfall events and this proved to be a testing time for our wastewater assets. We were disappointed to miss our Ofwat target in respect of the number of sewer flooding incidents, but have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

Improving customer service performance – We have continued to develop our systems and processes to deliver the experience our customers seek when they need to contact us, including multi-channel contact centre technology. This has helped us deliver further improvements in our performance on Ofwat's service incentive mechanism (SIM), reflecting our continuing strong focus on dealing with customer enquiries. The number of customer complaints made to the Consumer Council for Water (CCW) in 2012/13 has reduced by a further 11%, compared with 2011/12. We are pleased to report that the total number of escalated complaints assessed by the CCW was zero in the 2012/13 financial year, which is the first time we have achieved this. This has helped us improve our SIM performance further, as detailed in the KPIs section below, although our qualitative SIM score for the last quarter of 2012/13 saw us slip back against the trend achieved in the first three quarters. We ended the year in 14^{th} place in the sector on this measure, up two places on the previous year. Encouragingly, we have recently received our qualitative SIM score for the first quarter of 2013/14 and we achieved 10^{th} position out of the 21 water companies.

Asset serviceability – We have a range of actions to help support the serviceability of our assets. We are improving the robustness of our water treatment processes, refurbishing service reservoir assets, continuing with our comprehensive mains cleaning programme and are optimising water treatment to reduce discoloured water events. To help reduce sewer flooding, the actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. Our programme also includes defect identification through CCTV sewer surveys, along with continual improvement of wastewater reporting systems to enable real time operational information to be made visible at all management levels and promote early intervention. Our comprehensive range of actions has helped us meet our water and wastewater serviceability standards, as detailed in the KPIs section below.

Retail competition for business customers – We have been building our capability to help ensure we are in a strong position to compete as the business market for retail customers evolves. We secured a water supply licence in 2012 to compete in Scotland and have built a team with a deep retail background in the utility and commercial sectors. Although the financial benefits from retail activities are relatively small at this stage, the market will evolve and business customers are looking for services over and above meter reading and billing. We are delivering a range of value-added services, such as on-site engineering solutions and water efficiency advice. We are pleased to have extended our presence and have now won several business customers outside of our region. We also have a significant pipeline of opportunities, a number of which are multi-site customers.

Improving customer service remains a significant area of continued management focus and we see plenty of opportunity to deliver further benefits for our customers.

Key performance indicators:

* **Serviceability –** Long-term stewardship of assets is critical and Ofwat measures this through its serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). Our range of actions has helped us return our wastewater infrastructure assets to a 'stable' rating, from a 'marginal' rating, and we are now meeting our serviceability standards. We are currently assessed as 'improving' for our wastewater non-infrastructure assets and 'stable' for our water infrastructure, water non-infrastructure and wastewater infrastructure assets. The aim is to continue to hold at least a 'stable' rating for all four asset classes, which is aligned with Ofwat's target.

* **Service incentive mechanism (SIM) –** UU made significant progress on Ofwat's combined SIM assessment for 2011/12, moving up five places to 16th of the 21 water companies, compared with 2010/11. This represented the largest overall SIM score improvement in the industry. Further progress has been made in 2012/13, with a quantitative score of 179 points, representing a further 34% improvement compared with 2011/12. On the qualitative measure, UU has improved its 2012/13 average score by 0.25 points to 4.43 points, moving up two further places to 14th position, which represents 6th place among the ten water and sewerage companies. Our continued progress is encouraging, as we aim to move to the first quartile in the medium-term.

<u>Lowest sustainable cost</u>

We are continuing to implement a wide range of initiatives to help optimise our performance and deliver sustainable efficiencies.

Materials – Our asset optimisation programme continues to provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy.

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

Energy costs – We have substantially locked in the cost of our power requirements through to 2014/15, via hedging, securing outperformance. Although power unit costs for 2013-15 have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

Debt collection – We are continuing to enhance our proactive approach to debt collection and are implementing a detailed action plan. The North West faces a particularly tough economic environment, with unemployment having increased at a faster rate than any other UK region in 2011/12, particularly in the second half, resulting in an adverse impact on customers' ability to pay this year. Although North West unemployment improved in 2012/13, its remains higher than the position at March 2011 and is still above the national average. We recognise the financial difficulties facing many of our customers and provide a range of options to help our customers who are struggling to pay their bills, including our charitable trust, and we have helped many customers back onto manageable payment plans. Despite the tough economic climate, our range of actions have helped us to again deliver a good performance and we have sustained bad debts at 2.2% of regulated revenue for 2012/13, consistent with last year.

Pensions – UU placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further, with the group now benefiting from a small pension surplus. Further details on the group's pension provision are provided in the pensions section on page 14.

Capital delivery – The business is strongly focused on delivering its commitments efficiently and on time and has a robust commercial capital delivery framework in place for the 2010-15 period. We have improved our internal Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to approximately 90% in 2012/13. This means we have met our target two years ahead of schedule and we are firmly focused on sustaining this substantial improvement. This helped us accelerate our capital programme to help optimise capital delivery and reduce risk towards the end of the regulatory period. Regulatory capital investment in 2012/13, including £161 million of infrastructure renewals expenditure, was £787 million, an increase of 16% compared with last year. This increase of over £100 million means that our cumulative investment across the first three years of the 2010-15 regulatory period is now just over £2 billion, reflecting a smoother and more effective investment profile than the previous five-year cycle. We remain on track to deliver the five-year programme within the regulatory allowance of around

£3.5 billion and we are reinvesting any capex outperformance to deliver further customer benefits. We expect to deliver around £800 million of capital investment in 2013/14.

Regulatory commitments – Delivering our regulatory commitments is key, not only in terms of service to customers and the environmental impact, but also in respect of shareholder value. UU received a shortfalling revenue penalty of over £80 million at the last price review in 2009. Shortfalling is effectively where a company fails to deliver agreed requirements on time or to specification. We are strongly focused on meeting our regulatory commitments, as we aim to avoid, or at least minimise, any shortfalling revenue penalties at the 2014 price review. We are making good progress and we have delivered all of our capital investment Environment Agency commitments this year. This represents a much improved performance, so far, compared with the 2005-10 regulatory period, and we will continue to treat this as a priority area.

Private sewers – The transfer of private sewers around 18 months ago has gone well and is now embedded within our 'business as usual' activities. The volume of work and the level of expenditure continues to be a little below our expectations. The mix of work continues to relate more to enhancement capex than opex, compared with what we initially expected at the onset. Our operating model has evolved to reflect the revised work scope and volumes. In addition to routine maintenance activity, we are enhancing the quality of the assets where appropriate. This will bring the private sewer infrastructure more in line with our asset standards and will reduce the risk of future problems for our customers. In 2012/13, we spent £8 million on opex, £11 million on infrastructure renewals expenditure and £14 million in relation to enhancement capex. Although spend rates remain a little lower than we anticipated, we are still only 18 months into the transfer so we are not changing our 2011-15 total cost estimate of £160 million (£40 million opex, £60 million infrastructure renewals expenditure and £60 million enhancement capex) at this stage. This lower rate of spend and the mix of work continues to be positive for both our customers and our investors.

Key performance indicators:

* **Financing outperformance –** UU has secured over £300 million of financing outperformance across the 2010-15 period, when compared with Ofwat's allowed cost of debt of 3.6% real, based on an average RPI inflation rate of 2.5% per annum. We expect to reinvest around £40 million of our financing outperformance in unfunded private sewers costs.

* **Operating expenditure outperformance –** The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. We have now delivered cumulative operating expenditure outperformance of around £50 million in the first three years of the regulatory period and are ahead of schedule.

* **Capital expenditure outperformance –** UU is continuing to deliver significant efficiencies in the area of capital expenditure and expects to meet Ofwat's allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices. We expect to reinvest around £200 million of capital expenditure outperformance for the benefit of our customers and the environment.

Responsible manner

Acting responsibly is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors as a strategic decision in its decision making.

Leakage – We were pleased to beat our regulatory leakage target in 2012/13. This reflects our year round operational focus and the implementation of range of initiatives, such as active pressure management. Our leakage performance, alongside the network resilience improvements we are making, are helping us to maintain a robust water supply and demand balance and deliver high levels of reliability for our customers.

Improving rivers and bathing water quality – We have a range of capital projects which are delivering significant customer and environmental benefits. We are undertaking a £100 million+ project in Preston, which is designed to improve river and bathing quality. The project involves building a 3.5 kilometre storm water storage tunnel and the construction of shafts to divert storm water flows, which will be retained in the new storage tunnel. It will reduce the number of spills to the River Ribble from combined sewers and should deliver significant improvements to the Flyde Coast bathing waters and the Ribble Estuary. This is one our largest projects in the 2010-15 period and is now nearing completion. Our Liverpool wastewater treatment works expansion project, at around £200 million, is our largest capital programme in this regulatory cycle. The project will enhance the capacity of the works so it can treat up to 11,000 litres of wastewater per second. The project is progressing well and the higher standards of treatment will continue the rejuvenation of the River Mersey and improve bathing waters across the river on the Wirral. It also provides a significant contribution to the local economy. The extended works are expected to come online in early 2016.

Reducing our carbon footprint – We are committed to reducing our carbon footprint and increasing our generation of renewable energy. Our carbon footprint for 2012/13 was 524,264 tonnes of carbon dioxide equivalent, a minor increase of 0.4% compared with last year. This was as a result of an increase in the amount of electricity purchased as we undertook additional pumping activity. Not only did we experience one of the wettest years on record, resulting in significantly more wastewater in our sewers and treatment works, the year began and ended with a prolonged dry spell, so we needed to pump additional volumes of water around our integrated network. We were pleased to retain the Certified Emissions Measurement and Reduction Scheme certification for our carbon accounting methodology. We remain on track to meet our target of a 21% reduction in carbon emissions by 2015 (measured from a 2005/06 baseline). UU has consistently generated around 100 GWh of renewable electricity annually for the past four years, principally from sludge processing. By 2014, we expect to have finished commissioning an innovative £100 million+ recycling and energy plant at one our largest wastewater treatment works at Davyhulme, near Manchester. By treating sludge that is left over at the end of the wastewater treatment process, we can generate enough electricity from biogas to power the Davyhulme site. Sludge is also converted into a valuable agricultural fertiliser.

Environmental performance – This is a high priority for UU and we were pleased to report the lowest number of major pollution incidents of the ten water and wastewater companies, per kilometre of pipe, for 2011/12 (the latest available assessment). Our operational and environmental focus is delivering results and we were pleased to achieve our best performance for many years in the Environment Agency's performance metrics, where we have been rated as an 'above average performer', as detailed in the KPIs section below.

Employees – A committed, capable and motivated workforce is central to delivering our vision and we remain strongly focused on high levels of employee development and engagement. We continue to be successful in attracting and retaining people and we were pleased to also extend our apprentice programme during the last year. We currently employ over 80 apprentices and plan to recruit up to a further 40 apprentices each year through to 2015. Alongside this, we are continuing to expand our graduate recruitment scheme, with plans to add more than 20 graduates in 2013/14. This is in addition to over 35 graduates we currently employ. As part of our health and safety improvement programme, we implemented a number of initiatives throughout the year and launched a set of behavioural standards at our main office sites, called the 'Safety Six'. Health and safety will continue to be a significant area of focus for the company, as we strive for continuous improvement.

Communities – We continue to support community partnerships, which help in meeting our company objectives. For example, our partnership with UTV Media takes an online programme into schools to enable them to create a radio advert (part of the national curriculum) linked to one of our key campaigns, such as water efficiency or reservoir safety. With an emphasis on promoting the adverts through social media, this provides an innovative way for our key messages to reach our customers. Education is an integral part of our community approach and our new outreach education partnership started this year and has already reached 139 schools and 4,754 children. Where we cause disruption as part of our major capital works, we invite local community groups to apply for small scale grants to support their work. Last year we contributed to 116 groups in 10 locations across the North West. We also contributed approximately £2 million supporting local communities providing debt advisory services and undertook over 26,000 hours of employee volunteering.

Leading credentials – Our environmental and sustainability performance across a broad front has received external recognition. UU continues to be rated 'World Class' in the Dow Jones Sustainability Index and has retained the highest ranking, 'Platinum Big Tick', in Business in the Community's Corporate Responsibility Index. In addition, UU holds membership of the FTSE 350 Carbon Disclosure Leadership Index. UU is one of only four FTSE 100 companies to hold all three awards.

Key performance indicators:

* **Leakage –** UU met its economic level of leakage rolling target for the seventh consecutive year in 2012/13, with a performance of 457 megalitres per day versus the regulatory target of 464 megalitres per day. The aim is to meet our regulatory leakage target each year.

* **Environmental performance –** On the Environment Agency's latest assessment, which covers a broad range of operational metrics, UU has been rated as an 'above average performer'. UU has three areas highlighted as 'Green', four as 'Amber', and, importantly, no areas highlighted as 'Red' on the traffic light reporting matrix. This would indicate 3rd position among the ten water and sewerage companies. Although the EA has revised its performance measure, UU was in 7th position on the EA's composite assessment for the previous year, so this represents good progress against the medium-term goal of being a first quartile company on a consistent basis.

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

POLITICAL AND REGULATORY DEVELOPMENTS

UU is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to engage with all key stakeholders. The retention of investor confidence and customer affordability remain key areas of importance.

Water Bill

We have been actively engaging with the UK Government on its reform agenda. The UK Government published a draft Water Bill in July 2012 and we provided evidence to the Efra Select Committee, as we strive to achieve the optimal outcome for all of our stakeholders. The reform agenda for our sector is also providing new opportunities for us. In addition to the adoption of private sewers and the expanding retail water market for business customers, we are currently exploring opportunities in areas such as water and sludge trading with our regulators. A Water Bill was announced in the Queen's Speech on 8 May 2013 and we now await the UK Government's publication of the Bill with interest.

2014 price review

We continue to play an active role and engage positively in regulatory reform. Following a period of constructive dialogue with Ofwat, we were pleased to accept the revised licence modification proposals which were published by the regulator on 21 December 2012. These revised licence proposals focus on the changes required to facilitate the 2014 price review and we are now working closely with the regulator to help shape the forthcoming price review. Ofwat published its 2014 price review methodology consultation in January 2013 and we submitted our response to Ofwat in March. We await Ofwat's methodology document later in the year. We are actively engaging our customers and other stakeholders to help us formulate our business plan for the 2015-20 period. We expect to submit this plan to Ofwat later this year.

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the year ended 31 March 2013. Revenue increased by £71 million to £1,636 million, principally reflecting a 5.8% nominal (0.6% real price increase plus 5.2% RPI inflation) regulated price increase, partially offset by reduced volumes and the ongoing impact of customers switching to meters. The impact of meter switching was in line with our expectations while commercial and domestic volumes continued to be impacted by the persisting tough economic climate. We would expect to recover a substantial element of any regulated revenue shortfall through the regulatory methodology.

Operating profit

Underlying operating profit increased by 2% to £607 million, primarily as a result of an increase in revenue, largely offset by an expected increase in depreciation alongside higher infrastructure renewals expenditure, power and other operating costs. Reported operating profit increased by 2% to £605 million.

Investment income and finance expense

The underlying net finance expense of £253 million was £14 million lower than last year, principally reflecting lower RPI inflation in respect of the group's index-linked debt with an eight month lag. The indexation of the principal on index-linked debt amounted to a net charge in the income statement of £86 million, compared with a net charge of £100 million last year. The group had approximately £2.9 billion of index-linked debt as at 31 March 2013. The lower RPI indexation charge contributed to the group's average underlying interest rate of 4.9% being lower than the rate in 2011/12 of 5.5%.

Reported investment income and finance expense of £300 million was £11 million lower than in 2011/12, principally reflecting a reduction in the underlying net finance expense. The £42 million net fair value loss in the year is largely due to losses on the regulatory swap portfolio, resulting from a further decrease in sterling interest rates during the period. The group uses these swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by the regulator at each price review. The group fixed the majority of its non index-linked debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%.

Profit before taxation

Underlying profit before taxation was £354 million, £27 million higher than last year due to the £13 million increase in underlying operating profit and the £14 million reduction in underlying finance expense. This underlying measure adjusts for the impact of one-off items, principally from restructuring and reorganisation within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation increased by £24 million to £305 million.

Taxation

The current taxation charge was £74 million in the year and the current taxation effective rate was 24%. This compares with 16% in the previous year which included a £16 million credit following agreement with the UK taxation authorities of prior years' taxation matters.

The group has recognised a net deferred taxation credit of £52 million for the year, which primarily relates to a £53 million credit in respect of the change substantively enacted by the UK Government on 3 July 2012 to reduce the mainstream rate of corporation taxation from 24% to 23% with effect from 1 April 2013. A net deferred taxation credit of £77 million was recognised in the previous year, which included a £105 million credit reflecting a 2% staged reduction in the rate of corporation taxation.

An overall taxation charge of £22 million has been recognised for the year ended 31 March 2013. Excluding the deferred taxation impact relating to the future reduction in the corporation taxation rate, the total taxation charge would have been £75 million or 25% compared with a £74 million charge or 26% in the previous year. This reduction is principally due to the decrease in the mainstream rate of corporation taxation from 26% for 2011/12 to 24% for 2012/13.

The taxation benefit of £16 million relating to pension contributions for deficit funding has been recorded in the statement of comprehensive income, rather than the income statement, as the actuarial movements giving rise to the deficit were previously recorded there. Deferred taxation movements of £26 million are also included in the statement of comprehensive income. The comparative prior year figures were a current taxation benefit of £33 million and a £29 million deferred taxation charge.

The group made cash taxation payments during the year of £55 million. This was higher than the group's net taxation payment of £5 million in 2011/12 primarily reflecting a £35 million cash taxation inflow last year relating to prior years' taxation matters and also reflecting the higher levels of pension contributions made last year.

Profit after taxation

Underlying profit after taxation of £266 million was £25 million higher than the previous year, principally reflecting the increase in underlying profit before taxation. Reported profit after taxation was £282 million, compared with £311 million last year, as the increase in underlying profit was more than offset by a decrease in deferred taxation credits associated with the enactment of the reductions in corporation taxation rates between the two years.

Earnings per share

Underlying earnings per share increased from 35.3 pence to 39.1 pence. This underlying measure is derived from underlying profit after taxation. This includes the adjustments for the deferred taxation credits in both 2012/13 and 2011/12, associated with the reductions in the corporation taxation rate. Basic earnings per share decreased from 45.7 pence to 41.4 pence, mainly due to the higher deferred taxation credit in 2011/12.

Dividend per share

The board has proposed a final dividend of 22.88 pence per ordinary share in respect of the year ended 31 March 2013. Taken together with the interim dividend of 11.44 pence per ordinary share, paid in February, this produces a total dividend per ordinary share for 2012/13 of 34.32 pence. This is an increase of 7.2%, compared with the dividend relating to the previous year, in line with group's dividend policy of targeting a growth rate of RPI+2% per annum through to at least 2015. The inflationary increase of 5.2% is based on the RPI element included within the allowed regulated price increase for the 2012/13 financial year (i.e. the movement in RPI between November 2010 and November 2011).

The final dividend is expected to be paid on 2 August 2013 to shareholders on the register at the close of business on 21 June 2013. The ex-dividend date is 19 June 2013.

Cash flow

Net cash generated from continuing operating activities for year ended 31 March 2013 was £631 million, compared with £560 million last year. This mainly reflected a reduction in the total pension contribution payments between the two years. The group's net capital expenditure was £642 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives at 31 March 2013 was £5,451 million, compared with £5,076 million at 31 March 2012. This expected increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and taxation, alongside the accelerated pension deficit repair payments and an increase in the principal of our index-linked debt, partly offset by operating cash flows.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value adjusted for actual capital expenditure) marginally increased to 60% at 31 March 2013, compared with 59% at 31 March 2012, and is in the middle of Ofwat's 55% to 65% assumed gearing range. The group now has a small pension surplus of £15 million, on an IFRS basis, compared with a deficit of £92 million as at 31 March 2012.

At 31 March 2013, UUW had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies. In December 2012, Standard & Poor's put both the group's ratings on positive outlook, citing improving financial metrics and operational performance.

Cash and short-term deposits at 31 March 2013 amounted to £202 million. In March 2013, UUW arranged a new £100 million, 10-year index-linked loan with an existing relationship bank. The group also renewed £150 million of existing bank facilities in the period. The group has headroom to cover its projected financing needs into 2015.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and UUW 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.

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 2013, approximately 52% of the group's net debt was in index-linked form, representing around 31% of UUW's regulatory capital value, with an average real interest rate of 1.7%. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is approximately 25 years.

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

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

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. In addition to its €7 billion euro medium-term note programme, the group has a €2 billion euro-commercial paper programme, both of which do not represent funding commitments.

In line with the board's treasury policy, UU aims to maintain a robust headroom position. Available headroom at 31 March 2013 was £336 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2015.

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

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

Pensions

As at 31 March 2013, the group had an IAS 19 net retirement benefit, or pension, surplus of £15 million, compared with a net pension deficit of £92 million at 31 March 2012. This £107 million positive movement principally reflects payments of £65 million in respect of accelerated, previously agreed, deficit repair contributions, payments under the inflation funding mechanism and investment returns exceeding expectation. Following the accelerated deficit repair contributions paid in the first half of 2012/13, the group completed early all scheduled deficit repair payments through to March 2015.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and prior to the start of the 2010-15 regulatory period amended the terms of its defined benefit pension schemes. UU stated previously that it would continue to evaluate its pensions investment strategy to de-risk further its pension provision and introduced an inflation funding mechanism, which facilitates a move to a lower risk investment strategy. This allowed UU to reduce the allocation of its pension assets to approximately 25% in equities and other high risk assets, down from 48% at 31 March 2010. In addition, UU has adopted the use of more prudent longevity assumptions. Over the last two financial years, the group also progressively increased its interest rate hedge and this has now been extended to around 90% of the pension scheme liabilities. Although any additional payments under the inflation funding mechanism would reduce financing outperformance, there would be a positive benefit to the pensions surplus or deficit position.

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

The last actuarial valuations of the United Utilities Pension Scheme and the United Utilities PLC Group of the Electricity Supply Pension Scheme were carried out as at 31 March 2010. The valuations are performed on a triennial basis, and therefore discussions will take place over the coming months between the group and the trustees regarding the basis of the 31 March 2013 valuations. The actuarial valuations are based on scheme specific factors which may result in a different assessment of the pension schemes' position to the IAS19 numbers reported in the group's financial statements.

Further detail is provided in note 8 ("Retirement benefit surplus/(obligations)") of these condensed consolidated financial statements.

BOARD CHANGES

Paul Heiden will stand down at the forthcoming AGM, on 26 July 2013, after over seven years as a non-executive director. Brian May, who was appointed as a non-executive director on 1 September 2012, will replace Paul as chair of both the audit and risk committee and the treasury committee.

Underlying profit

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

Continuing operations

Operating profit	**Year ended 31 March 2013 £m**	**Year ended 31 March 2012 £m**
Operating profit per published results	**604.5**	**591.5**
One-off items*	2.6	2.6
	-----	-----
Underlying operating profit	**607.1**	**594.1**
	-----	-----

Net finance expense	**£m**	**£m**
Finance expense	(302.1)	(315.5)
Investment income	2.3	4.4
	-----	-----
Net finance expense per published results	**(299.8)**	**(311.1)**
Net fair value losses on debt and derivative instruments	41.5	43.2
Adjustment for interest on swaps and debt under fair value option	8.3	7.2
Adjustment for net pension interest expense	11.5	3.3
Adjustment for capitalised borrowing costs	(14.3)	(9.7)
	-----	-----
Underlying net finance expense	**(252.8)**	**(267.1)**
	-----	-----

Profit before taxation	**£m**	**£m**
Profit before taxation per published results	**304.7**	**280.4**
One-off items*	2.6	2.6
Net fair value losses on debt and derivative instruments	41.5	43.2
Adjustment for interest on swaps and debt under fair value option	8.3	7.2
Adjustment for net pension interest expense	11.5	3.3
Adjustment for capitalised borrowing costs	(14.3)	(9.7)
	-----	-----
Underlying profit before taxation	**354.3**	**327.0**
	-----	-----

Profit after taxation	**£m**	**£m**
Underlying profit before taxation	**354.3**	**327.0**

Reported taxation	(22.4)	31.0
Deferred taxation credit – change in taxation rate	(53.0)	(104.6)
Agreement of prior years' UK taxation matters	(0.7)	(0.4)
Taxation in respect of adjustments to underlying profit before taxation	(11.9)	(12.1)
	-----	-----
Underlying profit after taxation	**266.3**	**240.9**
	-----	-----

* Principally relates to restructuring costs within the business

Underlying operating profit reconciliation

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

Continuing operations

Underlying operating profit	**Year ended 31 March 2013 £m**	**Year ended 31 March 2012 £m**
Group underlying operating profit	**607.1**	**594.1**
Underlying operating profit not relating to United Utilities Water	(1.8)	(10.9)
Infrastructure renewals accounting	32.6	40.2
Other differences	-	(3.9)
	-----	-----
United Utilities Water statutory underlying operating profit	**637.9**	**619.5**
Revenue recognition	1.7	2.6
Infrastructure renewals accounting	5.1	(2.5)
Non-appointed business	(6.2)	(7.0)
	-----	-----
United Utilities Water regulatory underlying operating profit	**638.5**	**612.6**
	-----	-----

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk through line management supported by our corporate risk management framework which aims for continuous improvement. With an overarching mandate from and commitment by the group board, the framework consists of four key areas: governance; approach; guidance; and process.

The application of our framework involves regular review of internal and external risk environments, the assessment of factors that will limit or prevent the achievement of our company objectives and the prioritised implementation of controls and mitigation to manage the exposure and build resilience.

The audit and risk committee regularly reviews the framework's effectiveness and our compliance with it. There is also twice yearly formal reporting of the most significant risks and profile summary to the executive and the group board. These activities facilitate the determination of the nature and extent of those risks we are willing to take in pursuing our objectives and accord with good corporate governance practice.

Key developments during the year

Regulatory related risks have featured prominently in our risk profile over the last 12 months with key areas of focus typically being the Government's market reform agenda and Ofwat's proposals for future price limits.

In addition, the risk of potential change in RPI methodology with the potential impact to RCV and income continues to exist but is a reduced risk for the group. This risk was highlighted in our half year accounts but the Office of National Statistics has now recommended no change to the methodology.

There are two on-going pieces of material litigation worthy of note but, based on the facts and matters currently known to us and the provisions carried in the group's statement of financial position, our directors are of the opinion that the possibility of the disputes having a material adverse effect on the group's financial position is remote.

Government market reform agenda

The Government's White Paper (Water for Life) highlighted key policy priorities for the water industry. A draft Water Bill was published on 10 July 2012 and incorporates changes to legislation that would be required to enable many of the changes set out in the White Paper. These include measures to introduce competition and the removal of barriers to entry. The scale and impact of retail and upstream competition will depend on the mechanisms set out in an expected new draft bill and what ultimately becomes legislation. As a result and until this publication, there is significant uncertainty about the potential impacts; however, these could include: increased costs, reduced income and reduced confidence in the RCV mechanism leading to a rise in future costs of borrowing.

Control/Mitigation

We have been fully engaged, as has the whole industry, in all Government and Ofwat consultations in relation to competition and industry reform.

We are also making determined efforts to retain customers in area, win out of area customers and prepare for a more competitive environment and the potential opportunities that this may bring.

Future price limits and the price control review 2014

In May 2012, Ofwat published a document setting out the key principles it expects to follow in future price reviews. Ofwat then undertook a lengthy and ongoing consultation over its proposals for reform of the methodology and approach for setting prices from 2015, the most recent of which was the draft methodology issued on 28 January 2013. The principal decision to date is that Ofwat will set two binding retail price controls (one for household and one for non-household) and two binding wholesale controls (one for water and one for wastewater). Other proposals include: household/non-contestable retail cost recovery based on an average cost to serve; the introduction of a new 'Totex' menu approach to assessing cost assumptions; the setting of a lower cost of capital and the potential for different approaches to sharing the benefits of outperformance between shareholders and customers. These areas contribute to a wider risk of failing to achieve a successful Final Determination following Ofwat's price control review which could result in loss of income and profit, significant cost recovery shortfall, a reduction in allowed expenditure (both capital and operating expenditure) and the ability to outperform. There will also be additional costs for preparing for and administrating separate price controls for retail and wholesale.

Control/Mitigation

We have raised and explained our concerns with Ofwat and, where appropriate, made alternative proposals as part of the consultation process. We continue to make strong representation to Ofwat on these issues, particularly in relation to the 'cost to serve' proposals.

More generally, a successful price control review (meeting the needs of customers and stakeholders) is being targeted through a dedicated PR14 programme team whose activities are focused on appropriate deliverables and stakeholder engagement. The final price review methodology proposals are due to be issued later this summer.

Failure to comply with applicable law or regulations

We are subject to various UK and international laws and regulations associated with water and wastewater service, health and safety, the environment, property/land management and the general running of a company. If we fail to comply, or become involved in third party proceedings including civil actions by third parties for infringement of rights or nuisance, we could face a range of outcomes. These include financial penalties (of up to 10 per cent of relevant regulated turnover), the imposition of an enforcement order requiring additional capital/operating expenditure, or compensation following litigation. In more extreme circumstances, impacts could ultimately include the revocation of our licence to operate or the appointment of a special administrator.

The UK Government has lost a case in the Court of Justice of the European Union relating to the Government's approach to enforcement of the Urban Waste Water Treatment Directive (the 'Whitburn' case). The Directive relates to waste water discharges and, if this case leads to a change in the law or enforcement of it, our capital investment programme and associated funding requirements could change.

Control/Mitigation
We have robust processes in place to identify risks to our compliance with legal and regulatory obligations. This includes the continual monitoring of legislative and regulatory developments, the training of employees in new developments and the participation in consultations to influence their outcome, either directly or through industry trade associations for wider issues. Funding for any additional compliance costs in our regulated business is sought as part of the price determination process. We also robustly defend litigation where appropriate and seek to minimise our exposure by establishing a provision and seeking recovery wherever appropriate.

No decision has been made on potential change to the law or its enforcement following 'Whitburn' but we are engaged with the industry and industry trade associations on this issue.

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

In March 2010, Manchester Ship Canal Company (MSCC) issued proceedings seeking, amongst other relief, damages alleging trespass against United Utilities Water PLC (UUW) in respect of UUW's discharges of water and treated effluent into the canal. UUW filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC's response. Although UUW won a 'summary judgment' application against MSCC in January on a significant element of the claim, MSCC subsequently appealed to the Court of Appeal who dismissed UUW's summary judgment. UUW was then granted permission to appeal to the Supreme Court, the hearing to be in the next 6 to 12 months.

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

Pension deficit risk
The group participates in a number of pension arrangements. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require the group to make additional contributions to these pension schemes which,

to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect the group's financial position.

Control/Mitigation

In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in UUW's final business plan over a 10-year period (subject to reaffirmation at the next price review) and allowed for half of this deficit when setting its overall price controls for the 2010–15 period. In response to the size of our ongoing pension risks and pension costs we introduced a series of changes for employees in defined benefit (DB) schemes. These changes, which came into force on 31 March 2010, should result in reduced costs and risks, including deficit, associated with DB liabilities in the future. In conjunction with the trustees we continue to monitor and to look to reduce the investment strategy risks for the pension schemes, including our exposure to investment risks. We are also engaged with Ofwat on the appropriate allowance for pension deficits for the next price review period.

Counterparty risk

The group participates in treasury activities including the depositing of cash and holding of derivatives and foreign exchange instruments. Although we do not consider there to be an imminent exposure, a potential loss of deposits, financial assets or hedge due to bank failure, error or delay in receiving funds from a bank or sequestration could impact cash flow, the ability to meet debt obligations, credit rating and cost of borrowing.

Control/Mitigation

Risks from treasury activities are covered by policies set by our treasury committee with operational management the responsibility of our treasury department. These include establishing a total credit limit for each counterparty which comprises a counterparty credit limit and an additional settlement limit to cover intra day gross settlement cash flows. In addition, potential derivative exposure limits are also established to take account of potential future exposures. These limits are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. In respect of cash, short-term deposits and derivative financial instruments, the group does not have a material exposure to any financial instruments based within the Eurozone with the exception of Germany and has not experienced any credit issues in the financial year.

Customer service risk

Failure to deliver good customer service can be caused by failures in supply and quality requirements (see below) and also the effectiveness of communication and response. The Service Incentive Mechanism (SIM), introduced by Ofwat for the 2010–15 period, replacing the Overall Performance Assessment (OPA), compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well a company then deals with those contacts. Depending on UUW's relative performance under SIM it could receive a revenue penalty (up to 1 per cent of turnover in 2010–15) or reward (up to 0.5 per cent of turnover in 2010–15) when price limits are next reset in 2014.

Control/Mitigation

The group has been monitoring and measuring customer satisfaction for a number of years and results have been improving consistently. We have already improved our SIM score as detailed in our KPIs. We have an overall customer experience programme covering a range of initiatives to improve customer service, responding to our customers' requirements and focusing on people, processes and systems. The company's focus is on ensuring right first time service delivery to our customers, thus avoiding the need for 'unwanted' contacts and reducing associated operating costs. Where 'unwanted' contacts do arise, there is a clear focus on identifying the root causes to improve the overall customer experience and the SIM score. These actions are intended to ensure that the company's performance under SIM is optimised thereby mitigating the risk of a penalty at the next price review.

Bad debt risk

The service we provide is predominantly in the North West of England where the level of socio-economic deprivation is much higher than in any other region, leading to, amongst other things, an increased risk of bad debt. The law prohibits the disconnection of a water supply from certain premises including domestic dwellings as a method of enforcing payment.

Control/Mitigation
Bad debt risk is managed in-house by the customer collections department whose approach includes the adoption of best practice collection techniques and segmentation of customers based on their credit risk profile.

Operational service risk
The group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. Physical, environmental, technological or human factors, either within or outside the company’s control, could result in impacts ranging from a decline in performance to interruptions and environmental impact. Ofwat could make financial adjustments at the next price review if corrective actions do not restore service to the required reference levels for each of their serviceability measures and could go on to force additional operating or capital expenditure if performance were to continue to decline. Additionally, depending on the nature and extent of an operational service incident, we could be fined for breaches of statutory obligations, be held liable to third parties or be required to provide an alternative water supply of equivalent quality, at additional cost.

Control/Mitigation
Operational processes combined with the capital investment programme are targeted to maintain stable serviceability of our water and wastewater assets and to minimise the risk of significant operational events occurring. The various indicators of performance are closely and routinely monitored by management. There are also governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. Where adverse trends in performance or asset integrity develop, corrective action is identified and taken. The sustainability and resilience of our water supply is also managed through regional aqueduct networks allowing flexibility and we operate emergency plans, incident management and disaster recovery processes for the response and/or recovery of operational service failures. Insurance cover is also in place against loss and liabilities associated with significant risks.

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

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

Control/Mitigation
Capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for outperformance and any necessary corrective actions. Executive directors are incentivised, as part of their bonusable measures, on time, cost and quality of delivery of our capital investment programme.

Secure supply of safe clean drinking water risk
A secure and reliable supply of safe, clean drinking water is critical for our way of life. There are several events, either within or outside our control, that could put at risk this key requirement. These include inadequate supply and demand prediction, leakage performance issues, operational or asset failures, changes to abstraction licences, low rainfall or malicious acts. Depending on the nature and extent of these circumstances, the impact to the group may include: failure to meet the security of supply index or quality standards with associated regulatory penalties, increased frequency of hosepipe bans and drought

permits and additional operational activity and cost. In extreme and remote circumstances, impacts may include unavoidable water resource shortfalls or an impact on public health.

Control/Mitigation
Our management of water catchments is designed to ensure reliable yields of good quality raw water. In addition, our water resources management plan compares future demand with availability, analyses historic droughts and climate change data and seeks to inform the delivery of supply enhancements and demand reductions. It covers leakage reduction programmes, enhanced water efficiency and network enhancements. We also maintain a drought management plan which includes processes, supporting communication plans and options for reserve supplies.

Our treatment of water is based on quality assurance procedures and water supply is through an increasingly integrated network. Security measures are in place to protect these assets and our capital investment programme targets improvements to water quality and supply. This is all supported by testing regimes through our scientific services department and drinking water safety plans to ensure that risks to drinking water quality are identified and managed across our entire network. We also operate emergency and incident management processes should there ever be a need for alternative water supply of equivalent quality.

Significant and catastrophic events
Our core activity involves the building, control and operation of water and wastewater networks and the maintenance of the associated assets with the objective of providing a continuous service. This includes major construction work and operations above and below ground and includes the use of vehicles, equipment and chemicals subject to a variety of physical and environmental factors/conditions. In exceptional and remote circumstances, such as the failure of an asset, an element of a network or supporting systems, plant or equipment, the impact could be significantly greater than operational service failures set out in other risks in this section. These could range from environmental impact, economic and social disruption to loss of life. Such consequences may arise due to a number of circumstances either within or outside our control e.g. human error, an individual's malicious intervention or unavoidable resource shortfalls.

Whilst we seek to ensure that we have appropriate processes and preventative controls in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of our customers, regulators, Government and the wider stakeholder community. We could be fined for breaches of statutory obligations or be held liable to third parties or be required to provide an alternative water supply of equivalent quality, which could increase our costs.

Control/Mitigation
We have developed and continue to focus on a strong safety and health culture throughout the organisation and seek to achieve the highest safety standards not simply to comply with legislation but to contribute to our overall business performance while protecting employees, contractors and the public from harm. In support of this, the business operates a Health and Safety Management System (HSMS) which sets out minimum expectations and requirements including monitoring the occupational health of individuals when appropriate.

We operate long-standing, well tested and appropriately resourced incident response and escalation procedures. Our processes continue to be refined alongside related risk management and business continuity procedures which complement the governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. Disaster recovery processes also exist for the recovery of IT applications, all recognising that possible events can have varying causes, impacts and likelihoods. The sustainability and resilience of our water supply is also managed through regional aqueduct networks which are enhanced by the West East Link pipeline. We also maintain insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance cover that can be obtained cost-effectively. The licence of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat/customers (by way of interim determination) in the event of a catastrophic incident.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Consolidated income statement

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Continuing operations		
	-----	-----
Revenue	**1,636.0**	1,564.9
	-----	-----
Employee benefits expense:		
- excluding restructuring costs	**(127.5)**	(135.4)
- restructuring costs	**(2.6)**	(2.6)
	-----	-----
Total employee benefits expense	**(130.1)**	(138.0)
	-----	-----
Other operating costs	**(414.1)**	(388.0)
Other income	**3.1**	4.8
Depreciation and amortisation expense	**(329.2)**	(297.8)
Infrastructure renewals expenditure	**(161.2)**	(154.4)
	-----	-----
Total operating expenses	**(1,031.5)**	(973.4)
	-----	-----
Operating profit	**604.5**	591.5
Investment income	**2.3**	4.4
Finance expense (note 3)	**(302.1)**	(315.5)
	-----	-----
Investment income and finance expense	**(299.8)**	(311.1)
	-----	-----
Profit before taxation	**304.7**	280.4
Current taxation charge	**(74.2)**	(45.5)
Deferred taxation charge	**(1.2)**	(28.1)
Deferred taxation credit – change in taxation rate	**53.0**	104.6
	-----	-----
Taxation (note 4)	**(22.4)**	31.0

	-----	-----
Profit after taxation from continuing operations	**282.3**	311.4
Discontinued operations		
Profit after taxation from discontinued operations (note 5)	**14.6**	5.1
	-----	-----
Profit after taxation	**296.9**	316.5
	-----	-----
Earnings per share		
from continuing and discontinued operations (note 6)		
Basic	**43.5p**	46.4p
Diluted	**43.5p**	46.4p
Earnings per share		
from continuing operations (note 6)		
Basic	**41.4p**	45.7p
Diluted	**41.3p**	45.6p
Dividend per ordinary share (note 7)	**34.32p**	32.01p

Consolidated statement of comprehensive income

	Year ended 31 March 2013 £m	**Year ended 31 March 2012 £m**
Profit after taxation	**296.9**	316.5
Other comprehensive income		
Actuarial gains/(losses) on defined benefit pension schemes (note 8)	**42.1**	(24.3)
Taxation on items taken directly to equity (note 4)	**(10.0)**	4.4
Foreign exchange adjustments	**0.6**	(1.9)
	-----	-----
Total comprehensive income	**329.6**	294.7
	-----	-----

Consolidated statement of financial position

	31 March 2013 £m	**31 March 2012 £m**
ASSETS		
Non-current assets		
Property, plant and equipment	**8,990.7**	8,644.5
Goodwill	**5.0**	5.0
Other intangible assets	**99.9**	89.5
Investments	**5.7**	3.3
Trade and other receivables	**2.2**	1.1
Retirement benefit surplus (note 8)	**15.1**	-
Derivative financial instruments	**659.2**	567.5
	-----	-----
	9,777.8	9,310.9

	-----	-----
Current assets		
Inventories	**39.6**	47.4
Trade and other receivables	**326.9**	301.4
Cash and short-term deposits	**201.7**	321.2
Derivative financial instruments	**62.0**	49.9
	-----	-----
	630.2	719.9
	-----	-----
	-----	-----
Total assets	**10,408.0**	10,030.8
	-----	-----
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(419.8)**	(378.0)
Borrowings	**(6,007.4)**	(5,728.1)
Retirement benefit obligations (note 8)	**-**	(92.0)
Deferred taxation liabilities	**(1,219.0)**	(1,245.2)
Provisions	**(3.4)**	(4.0)
Derivative financial instruments	**(196.2)**	(159.7)
	-----	-----
	(7,845.8)	(7,607.0)
	-----	-----
Current liabilities		
Trade and other payables	**(440.1)**	(447.6)
Borrowings	**(166.1)**	(127.1)
Current taxation liabilities	**(71.5)**	(78.1)
Provisions	**(8.8)**	(6.3)
Derivative financial instruments	**(3.8)**	(0.1)
	-----	-----
	(690.3)	(659.2)
	-----	-----
Total liabilities	**(8,536.1)**	(8,266.2)
	-----	-----
Total net assets	**1,871.9**	1,764.6
	-----	-----
EQUITY		
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.4
Revaluation reserve	**158.8**	158.8
Cumulative exchange reserve	**(4.4)**	(5.0)
Merger reserve	**329.7**	329.7
Retained earnings	**885.1**	778.9
	-----	-----
Shareholders' equity	**1,871.9**	1,764.6
	-----	-----

Consolidated statement of changes in equity

Year ended 31 March 2013

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2012	499.8	2.4	158.8	(5.0)	329.7	778.9	1,764.6

Profit after taxation	-	-	-	-	-	296.9	296.9
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 8)	-	-	-	-	-	42.1	42.1
Taxation on items taken directly to equity (note 4)	-	-	-	-	-	(10.0)	(10.0)
Foreign exchange adjustments	-	-	-	0.6	-	-	0.6
Total comprehensive income	-	-	-	0.6	-	329.0	329.6
Transactions with owners							
Dividends (note 7)	-	-	-	-	-	(223.5)	(223.5)
New share capital issued	-	0.5	-	-	-	-	0.5
Equity-settled share-based payments	-	-	-	-	-	1.7	1.7
Exercise of share options – purchase of shares	-	-	-	-	-	(1.0)	(1.0)
At 31 March 2013	**499.8**	**2.9**	**158.8**	**(4.4)**	**329.7**	**885.1**	**1,871.9**

Year ended 31 March 2012

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2011	499.8	1.3	158.8	(3.1)	329.7	691.0	1,677.5
Profit after taxation	-	-	-	-	-	316.5	316.5
Other comprehensive income							
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	(24.3)	(24.3)
Taxation on items taken directly to equity (note 4)	-	-	-	-	-	4.4	4.4
Foreign exchange adjustments	-	-	-	(1.9)	-	-	(1.9)
Total comprehensive (expense)/income	-	-	-	(1.9)	-	296.6	294.7
Transactions with owners							
Dividends (note 7)	-	-	-	-	-	(209.0)	(209.0)
New share capital issued	-	1.1	-	-	-	-	1.1
Equity-settled share-based payments	-	-	-	-	-	1.2	1.2
Exercise of share options – purchase of shares	-	-	-	-	-	(0.9)	(0.9)
At 31 March 2012	499.8	2.4	158.8	(5.0)	329.7	778.9	1,764.6

Consolidated statement of cash flows	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Operating activities		
Cash generated from continuing operations	**852.2**	727.4
Interest paid	**(168.3)**	(167.2)
Interest received and similar income	**2.4**	4.4
Tax paid	**(55.2)**	(39.8)
Tax received	**-**	35.0
	-----	-----
Net cash generated from operating activities (continuing operations)	**631.1**	559.8
	-----	-----
Net cash used in operating activities (discontinued operations)	**(1.4)**	-
	-----	-----
Investing activities		
Proceeds from disposal of discontinued operations	**-**	3.5
Transaction costs, deferred consideration and cash disposed	**-**	2.0
	-----	-----
Proceeds from disposal of discontinued operations net of transaction costs, deferred consideration and cash disposed	**-**	5.5
Purchase of property, plant and equipment	**(625.6)**	(502.2)
Purchase of other intangible assets	**(35.3)**	(17.3)
Proceeds from sale of property, plant and equipment	**2.9**	4.8
Grants and contributions received	**16.3**	13.0
Purchase of investments	**(3.0)**	(2.2)
Proceeds from sale of investments	**0.9**	-
	-----	-----
Net cash used in investing activities (continuing operations)	**(643.8)**	(498.4)
	-----	-----
Financing activities		
Proceeds from issue of ordinary shares	**0.5**	1.1
Proceeds from borrowings	**147.9**	446.3
Repayment of borrowings	**(39.4)**	(231.7)
Exercise of share options - purchase of shares	**(1.0)**	(0.9)
Dividends paid to equity holders of the company	**(223.5)**	(209.0)
	-----	-----
Net cash (used in)/generated from financing activities (continuing operations)	**(115.5)**	5.8
	-----	-----
Effects of exchange rate changes (continuing operations)	**-**	0.5
	-----	-----
Net (decrease)/increase in cash and cash equivalents (continuing operations)	**(128.2)**	67.7
	-----	-----
Net decrease in cash and cash equivalents (discontinued operations)	**(1.4)**	-
	-----	-----
Cash and cash equivalents at beginning of the year	**312.1**	244.4
	-----	-----
Cash and cash equivalents at end of the year	**182.5**	312.1
	-----	-----

Cash generated from continuing operations

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Operating profit	**604.5**	591.5
Adjustments for:		
Depreciation of property, plant and equipment	**305.9**	278.0
Amortisation of other intangible assets	**23.3**	19.8
Loss on disposal of property, plant and equipment	**6.6**	5.5
Loss on disposal of other intangible assets	**3.2**	2.6
Amortisation of deferred grants and contributions	**(7.1)**	(6.9)
Equity-settled share-based payments charge	**1.7**	1.2
Other non-cash movements	**(1.9)**	(0.1)
Changes in working capital:		
Decrease/(increase) in inventories	**7.8**	(0.1)
Increase in trade and other receivables	**(26.5)**	(8.2)
Increase/(decrease) in trade and other payables	**9.3**	(11.9)
Decrease in provisions and retirement benefit obligations	**(74.6)**	(144.0)
	-----	-----
Cash generated from continuing operations	**852.2**	727.4
	-----	-----

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2013 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 year 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 2013.

The adoption of the following standards and interpretations, at 1 April 2012, had no material impact on the group's financial statements:

Amendments to IFRS 7 'Financial Instruments'
This amendment introduces new disclosure requirements about transfers of financial assets which will impact the group only if it enters into any relevant transactions in the future.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2013.

The comparative figures for the year ended 31 March 2012 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern
The directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the financial statements. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group as well as consideration of the group's capital adequacy. In addition, the directors considered, amongst other matters, the regulator's legal duty to ensure that United Utilities Water PLC is able to finance its activities.

2. Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit, operating profit, assets and liabilities at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

3. Finance expense

Continuing operations	**Year ended 31 March 2013 £m**	**Year ended 31 March 2012 £m**
Interest payable	**(249.1)**	(269.0)
Net fair value losses on debt and derivative instruments	**(41.5)**	(43.2)
	-----	-----
	(290.6)	(312.2)
Expected return on pension schemes' assets	**96.8**	100.5
Interest cost on pension schemes' obligations	**(108.3)**	(103.8)
	-----	-----
Net pension interest expense (note 8)	**(11.5)**	(3.3)
	-----	-----
	(302.1)	(315.5)
	-----	-----

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period. Following the revision in the prior year to its interest rate management strategy, the group has continued to extend the fixing of interest rates out to a one year maturity on a reducing balance basis, seeking to lock in a 10-year rolling average of 10-year interest rates, on the group's nominal liabilities. In addition, the group has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable.

The underlying net finance expense for the continuing group of £252.8 million (2012: £267.1 million) is derived as shown in the table below.

	Year ended 31 March 2013 £m	**Year ended 31 March 2012 £m**
Finance expense	**(302.1)**	(315.5)
Investment income	**2.3**	4.4
Net fair value losses on debt and derivative instruments	**41.5**	43.2
Interest on swaps and debt under fair value option	**8.3**	7.2
Adjustment for net pension interest expense (note 8)	**11.5**	3.3
Adjustment for capitalised borrowing costs	**(14.3)**	(9.7)
	-----	-----
Underlying net finance expense	**(252.8)**	(267.1)
	-----	-----

4. Taxation

Continuing operations	**Year ended 31 March 2013 £m**	**Year ended 31 March 2012 £m**
Current taxation		
UK corporation tax	**79.4**	60.1
Foreign tax	**1.3**	1.3
Adjustments in respect of prior years	**(6.5)**	(15.9)
	-----	-----
	74.2	45.5
	-----	-----
Deferred taxation		
Current year	**(4.6)**	12.6
Adjustments in respect of prior years	**5.8**	15.5
	-----	-----
	1.2	28.1
Change in taxation rate	**(53.0)**	(104.6)
	-----	-----
Total deferred taxation credit for the year	**(51.8)**	(76.5)
	-----	-----
Total taxation charge/(credit) for the year	**22.4**	(31.0)
	-----	-----

The deferred taxation credit for the year ended 31 March 2013 includes a credit of £53.0 million to reflect the change enacted on 3 July 2012 to reduce the mainstream rate of corporation tax from 24 per cent to 23 per cent effective from 1 April 2013. A related deferred taxation charge of £0.9 million is included within items taken directly to equity.

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

There will be a further phased reduction in the mainstream rate of corporation tax to 20 per cent effective from 1 April 2015. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £150.0 million.

For a group of our size, negotiations with tax authorities in relation to tax returns can span a number of years. The net adjustment of £0.7 million (2012: 0.4 million) in respect of prior years relates to those matters agreed in the current year.

Taxation on items taken directly to equity

The taxation charge/(credit) relating to items taken directly to equity is as follows:

Continuing operations	**Year ended 31 March 2013 £m**	**Year ended 31 March 2012 £m**
Current taxation		
Relating to other pension movements	**(15.6)**	(33.1)
	-----	-----
Deferred taxation		
On actuarial gains/(losses) on defined benefit pension schemes	**9.7**	(5.8)
Relating to other pension movements	**15.0**	30.6
Change in taxation rate	**0.9**	3.9
	-----	-----
	25.6	28.7

	-----	-----
	-----	-----
Total taxation charge/(credit) on items taken directly to equity	**10.0**	(4.4)
	-----	-----

5. Discontinued operations

Discontinued operations represent the retained obligations in respect of businesses sold in prior years. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations,' the post-tax results of discontinued operations are disclosed separately in the consolidated income statement and consolidated statement of cash flows.

The profit after taxation from discontinued operations is analysed as follows:

	Year ended 31 March 2013 £m	**Year ended 31 March 2012 £m**
Total proceeds	**-**	3.5
Net assets disposed of	**-**	(0.4)
Transaction and other costs of disposal	**14.6**	2.0
	-----	-----
Profit after taxation from discontinued operations	**14.6**	5.1
	-----	-----

The profit after taxation from discontinued operations for the year ended 31 March 2013 relates primarily to the release of accrued costs of disposal in respect of certain elements of the group's non-regulated disposal programme.

6. Earnings per share

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

	Basic million	**Diluted million**
Year ended 31 March 2013	**681.9**	**682.8**
Year ended 31 March 2012	681.8	682.2

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

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

	Year ended 31 March 2013	**Year ended 31 March 2012**
From continuing and discontinued operations		
Basic	**43.5p**	46.4p
Diluted	**43.5p**	46.4p
From continuing operations		
Basic	**41.4p**	45.7p
Diluted	**41.3p**	45.6p

7. Dividends

	Year ended	**Year ended**

	31 March 2013 £m	31 March 2012 £m
Dividends relating to the year comprise:		
Interim dividend	**78.0**	72.7
Final dividend	**156.0**	145.5
	-----	-----
	234.0	218.2
	-----	-----

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**78.0**	72.7
Final dividend	**145.5**	136.3
	-----	-----
	223.5	209.0
	-----	-----

The proposed final dividends for the years ended 31 March 2013 and 31 March 2012 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 2013 and 31 March 2012 respectively.

The final dividend of 22.88 pence per ordinary share (2012: final dividend of 21.34 pence per ordinary share) is expected to be paid on 2 August 2013 to shareholders on the register at the close of business on 21 June 2013. The ex-dividend date for the final dividend is 19 June 2013.

The interim dividend of 11.44 pence per ordinary share (2012: interim dividend of 10.67 pence per ordinary share) was paid on 1 February 2013 to shareholders on the register at the close of business on 19 December 2012.

8. Retirement benefit surplus/(obligations)

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

	Year ended 31 March 2013 %pa	Year ended 31 March 2012 %pa
Discount rate	**4.60**	5.00
Expected return on assets	**4.60**	4.50
Pensionable salary growth and pension increases	**3.30**	3.25
Price inflation	**3.30**	3.25

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

	Year ended 31 March 2013 Years	Year ended 31 March 2012 Years
Retired member – male	**26.7**	26.5
Non-retired member – male	**28.5**	28.3
Retired member – female	**30.0**	29.8
Non-retired member – female	**31.9**	31.7

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

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Current service cost	**(15.9)**	(13.3)
Curtailments/settlements arising on reorganisation	**(0.6)**	(5.4)
	-----	-----
Pension expense charged to operating profit	**(16.5)**	(18.7)
	-----	-----
Expected return on pension schemes' assets	**96.8**	100.5
Interest cost on pension schemes' obligations	**(108.3)**	(103.8)
	-----	-----
Net pension interest expense charged to finance expense (note 3)	**(11.5)**	(3.3)
	-----	-----
Net pension expense charged before taxation	**(28.0)**	(22.0)
	-----	-----

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

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
At the start of the year	**(92.0)**	(195.0)
Expense recognised in the income statement - continuing operations	**(28.0)**	(22.0)
Expense recognised in the income statement - discontinued operations	**-**	(0.4)
Contributions paid	**93.0**	149.7
Actuarial gains/(losses) gross of taxation	**42.1**	(24.3)
	-----	-----
At the end of the year	**15.1**	(92.0)
	-----	-----

The closing surplus/(obligations) at each reporting date are analysed as follows:

	31 March 2013 £m	31 March 2012 £m
Present value of defined benefit obligations	**(2,426.9)**	(2,205.0)
Fair value of schemes' assets	**2,442.0**	2,113.0
	-----	-----
Net retirement benefit surplus/(obligations)	**15.1**	(92.0)
	-----	-----

9. 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 2013 £m	Year ended 31 March 2012 £m
Sales of services	**1.3**	1.1
Purchases of goods and services	**0.7**	0.3
	-----	-----

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

	31 March 2013 £m	31 March 2012 £m
Amounts owed by related parties	**1.0**	1.0
	-----	-----

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.2 million (2012: £5.4 million) in support of its joint ventures.

No allowance has been made for doubtful receivables in respect of the amounts owed by related parties (2012: £nil). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2012: £nil).

10. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2013 where a financial limit has been specified of £72.1 million (2012: £85.2 million).

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

From 1 April 2012 to 31 March 2013 market interest rates have fallen significantly and there has generally been a decrease in credit spread in relation to the group's borrowings.

The group's borrowings have a carrying amount of £6,173.5 million (2012: £5,855.2 million). The fair value of these borrowings is £6,470.0 million (2012: £5,830.3 million). There has been a net increase in funds from new borrowings during the year of £108.5 million (2012: £214.6 million). The group's derivatives measured at fair value are a net asset of £521.2 million (2012: £457.6 million).

12. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the financial statements for the year ended 31 March 2013.

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 2013. 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 IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors of United Utilities Group PLC at the date of this announcement are listed below:

Dr John McAdam
Steve Mogford
Russ Houlden
Dr Catherine Bell CB
Paul Heiden
Nick Salmon
Sara Weller
Brian May (appointed 1 September 2012)

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

………………………..	……………………….
Steve Mogford	Russ Houlden
22 May 2013	22 May 2013
Chief Executive Officer	Chief Financial Officer