United Utilities Group PLC
21 May 2015

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2015

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

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on page 16
[3] Regulatory capex represents fixed asset additions and infrastructure renewals expenditure using regulatory accounting guidelines; there is no equivalent GAAP measure
[4] Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water's RCV (outturn prices)

- **Step change in performance in 2010-15 regulatory period delivers benefits for all stakeholders**
  - significant customer service improvements, as measured through Ofwat's SIM mechanism
  - much improved delivery of capital investment programme; Time:Cost:Quality index above 95%
  - investment totalling c£3.8bn over the five years, enhancing assets and services for customers
  - upper quartile operational performance on Ofwat and Environment Agency KPI assessments
  - strong shareholder returns and dividend policy delivered
  - exceeded regulatory outperformance targets, enabling us to reinvest c£280m to benefit customers
  - responsible business practice, reflected by Dow Jones Sustainability Index 'World Class' rating

- **Strong 2014/15 financial performance**
  - underlying operating profit up £30m to £664m
  - RCV gearing at 59%, well within our target range of 55% to 65%
  - final dividend of 25.14 pence per share (total for the year of 37.70 pence), in line with policy

- **Good platform to deliver further value in next regulatory period**
  - already a leading operational performer, providing a solid foundation for further improvements
  - 'systems thinking' approach, leveraging technology and data intelligence to improve efficiency
  - regulatory capital investment of £3.5bn+; network resilience, customer and environmental benefits
  - robust capital structure and strong credit ratings
  - dividend growth rate target of at least RPI inflation each year through to 2020
  - below inflation growth in average household bills for the decade to 2020

Steve Mogford, Chief Executive Officer, said:

"We have now completed the 2010-15 regulatory period and are pleased to have achieved a strong overall performance for the benefit of all our stakeholders. We have delivered substantial improvements in customer satisfaction and have become a leading operational performer in our sector. We have exceeded our regulatory outperformance targets, enabling us to reinvest around £280 million in customer service improvements and in helping customers struggling to pay.

"We expected our 2015-20 price determination to be tough and it was. However, our operational improvements and preparation provide us with a good platform to deliver further value in the forthcoming regulatory period. For shareholders, we are targeting to grow dividends by at least RPI inflation for the next five years. For customers, we will continue to provide benefits through significant levels of investment, improved service and below inflation growth in average household bills for the decade to 2020."

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 / Martin Pengelley – Tulchan Communications	+44 (0) 20 7353 4200

A presentation to investors and analysts starts at 11.15am on Thursday 21 May 2015, 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 953098. A recording of the call will be available for seven days following Thursday 21 May 2015 on +44 (0) 20 7031 4064, access code 953098.

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

KEY OPERATIONAL PROGRESS

We have made significant progress over the last five years, as outlined below. Improving operational performance and delivering benefits for customers and the environment have been key focus areas for us through the 2010-15 regulatory period and will remain top priorities as we move through the 2015-20 period. We have exceeded our regulatory outperformance targets, enabling us to reinvest around £280 million for the benefit of all our stakeholders.

- **Significant improvements in customer service** – since 2010, every year we have continued to improve the customer experience. We have significantly improved our position on Ofwat's customer service measure, the service incentive mechanism (SIM), and customer complaints have fallen dramatically. Over the three measured years to 2013/14, we have moved up from last position to ninth place, out of the 19 water companies, on Ofwat's combined SIM measure and achieved an above average score in 2013/14. This good performance was recognised in Ofwat's final determination, in December 2014, with no penalty relating to SIM, averting the risk of a possible c£80 million revenue penalty had our performance not improved. In addition, throughout 2014/15, customer complaints have continued to fall, contributing to a total reduction of approximately 75% across the 2010-15 period. Ofwat is amending its SIM methodology for the 2015-20 period, based on domestic retail only and with more emphasis on qualitative performance, and Ofwat and the water companies have been piloting the new approach. This revised methodology is based on a different data set and quarterly results may well produce wider fluctuations compared with the last regulatory period.

- **Strong operational performance –** we delivered another strong performance across a broad front, as measured in Ofwat's latest (2013/14) key performance indicators report. The balance of ratings for UU across the fifteen assessment measures represented an upper quartile performance, in respect of the ten water and sewerage companies. The Environment Agency's latest assessment also indicates that UU is an upper quartile company and we achieved the lowest number of serious pollution incidents, by length of sewer, in England. To support our drive for continuous and sustained improvements, over the last few years, we have been integrating a 'systems thinking' approach into the way we run our business. This is an engineering-led approach which integrates the use of our assets, leverages data intelligence and employs technology and new work processes to deliver improved customer satisfaction and operational efficiency and will help us meet Ofwat's upper quartile efficiency challenge. This approach is expected to deliver savings of over £100 million across the 2015-20 period, which are already built into our business plan assumptions.

- **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 over 95% in 2013/14 and 2014/15. We again met our asset serviceability standards and this helped ensure that UU received no asset serviceability penalty in Ofwat's final determination in December 2014. We have invested a total of around £3.8 billion across the 2010-15 regulatory period and our smoother investment profile has helped to support the efficient delivery of outputs and reduce risk.

- **Leakage target –** we have now met or outperformed our regulatory leakage target in each of the last nine years.

- **Regulatory outperformance –** we set clear targets for outperformance on opex, capex and financing for the 2010-15 period and have exceeded all of these targets. This good performance has enabled us to reinvest around £280 million for the benefit of all our stakeholders.

- **Strong corporate responsibility credentials –** we retained a 'World Class' rating in the Dow Jones Sustainability Index for the seventh consecutive year, achieving industry leading performance status in the multi-utility/water sector in the most recent assessment. We also hold membership of the FTSE 350 Carbon Disclosure Project Leadership Index. We are the only UK water company to hold both accolades.

- **Business Retail: extending our presence –** we have been building our capability to ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market. After attaining a Scottish water supply licence in 2012, we quickly grew and are one of the most successful new entrants in Scotland. We have continued our expansion in 2014/15 and have now won over 200 customers, covering over 2,800 sites and representing future annual revenue of c£15 million. We remain a leading new entrant, although our selective bidding for business at attractive margins means we are not solely focusing on growing market share. We also continue to offer and develop our range of value-added services, such as leak detection and repair, waste digestion and wastewater system optimisation.

FINANCIAL OVERVIEW

The group has delivered another good set of financial results for the year ended 31 March 2015.

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

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

- **Capex –** total regulatory capital investment in the year, including £148 million of infrastructure renewals expenditure, was £869 million. This represents a small increase of £33 million compared with last year, reflecting a smoother investment profile across the 2010-15 period and transitional investment in the year to aid a more effective start to the next regulatory period.

- **Underlying profit before taxation –** up by £59 million to £447 million. This was £29 million higher than the increase in underlying operating profit as underlying net finance expense decreased markedly, mainly due to the impact of lower RPI inflation on the group's index-linked debt.

- **Underlying profit after taxation –** up by £49 million to £354 million, as the yearly increase in underlying profit before tax was partly offset by an increase in underlying tax due on higher profits.

- **Capital structure –** the group has a robust capital structure with gearing (measured as group net debt to regulatory capital value) of 59% as at 31 March 2015. This gearing level is comfortably within our target range, of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has long-term credit ratings of A3 from Moody's and BBB+ from Standard & Poor's, both with a stable outlook.

- **Financing headroom –** following recently arranged financing, the group now benefits from headroom to cover its projected needs into 2017. This headroom provides good flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulated capital investment programme.

- **Dividend –** in line with its policy, the board has proposed a final dividend of 25.14 pence per ordinary share, taking the total dividend for 2014/15 to 37.70 pence.

PRICE REVIEW 2014 – ACCEPTANCE OF FINAL DETERMINATION

On 12 December 2014, Ofwat published its final determination of price controls for UUW covering the period 1 April 2015 to 31 March 2020. After careful consideration, the company accepted the final determination on 27 January 2015.

The determination delivers value for all of our stakeholders, with a strong focus on customer benefits, including reduced bills in 2015/16, alongside continued high levels of investment which will provide further environmental benefits and a significant contribution to the regional economy. The 2015-20 regulatory period will see a greater emphasis on operational excellence and we have formulated a range of KPIs which recognise the tougher operational and financial targets inherent in the final determination settlement.

We aim to maintain efficient access to debt capital markets throughout the economic cycle and believe that it is appropriate to keep gearing, measured as net debt to regulatory capital value, within our existing target range of 55% to 65%. Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain, as a minimum, its existing credit ratings of A3 with Moody's and BBB+ with Standard & Poor's for UUW and debt issued by its financing subsidiary, United Utilities Water Finance PLC.

The group will target growth in the dividend per share, from the 2014/15 base, of at least RPI inflation each year through to 2019/20. This target reflects detailed analysis and assessment of the final determination, including the lower allowed regulatory return for AMP6.

The board believes that this represents an appropriate balance, recognising the challenges of the final determination, the importance of income to shareholders and the need to retain a robust and sustainable financial profile, for the benefit of all stakeholders.

OUTLOOK

We are encouraged by our operational and customer service performance improvements and believe we can improve further, a key focus for the next five years. Our significant and sustained performance improvements, combined with our 'systems thinking' approach to operating the business, provide a solid foundation for the future. Substantial investment in our assets will continue and we are confident of delivering further benefits for our customers and the environment. For shareholders, we are targeting a dividend growth rate of at least RPI inflation each year through to 2020, all underpinned by a robust capital structure.

OPERATIONAL PERFORMANCE

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

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

Best service to customers

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

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

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

Leading North West service provider – we are pleased to have been consistently ranked third out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken quarterly. This covers key attributes such as 'reputation', 'trustworthy' and 'customer service'. We are behind only Marks & Spencer and John Lewis, and ahead of seven other major organisations covering utilities, telecoms, media and banking services.

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

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

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

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

Key performance indicators:

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

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

Lowest sustainable cost

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

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

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

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

Although bad debts will continue to be challenging for us, we do expect the level to fall to around 2.5% of regulated revenue in 2015/16 as our recent reviews have resulted in an additional current year charge which is not expected to continue at the same level.

Pensions – 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. Further details on the group's pension provision are provided in the pensions section on page 15.

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

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

Key performance indicators:

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

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

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

Responsible manner

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

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

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

Carbon footprint – we are committed to reducing our carbon footprint and increasing our generation of renewable energy. In 2014/15, our carbon footprint totalled 473,708 tonnes of carbon dioxide equivalent. We set a target of achieving a 21% reduction in carbon emissions by 2015, measured from a 2005/06 baseline. We have achieved significant reductions and were pleased to meet this target in 2013/14. However, we narrowly missed the target in 2014/15, being 19% below the baseline, impacted adversely by an 11% increase in the carbon content in the UK energy mix in the year which increased our reported carbon emissions. Notwithstanding this, in 2014/15, we have purchased less electricity than in any of the previous ten years and still achieved our highest ever renewable energy production of 144 GWh. This is the equivalent of c18% of our total electricity consumption, up from c17% in the previous year and c13%

in 2012/13. We are already implementing plans to significantly increase self-generation over the next few years, with a target of around 35% of our electricity consumption by 2020.

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

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

Key performance indicators:

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

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

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

'Systems thinking' approach

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

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

- **'Systems thinking' –** we have progressively instilled an engineering-led 'systems thinking' approach which integrates the use of our assets, leverages data intelligence and employs technology and new work processes. We have audited our asset base and are investing in a new enterprise asset management system and field force scheduling system, supported by the recruitment of new people from other sectors with experience in these areas. By capturing and processing data from multiple information points, we are aiming for ever-improving asset intelligence. We have fitted sensors in our water networks to provide visibility as to how they are performing, helping us to reduce burst frequency, and we are currently piloting drainage system performance monitoring in our wastewater networks. We are building enhanced visibility of our assets and more effective monitoring and control, enabling us to make more informed and proactive management decisions. This should lead to better modelling and prediction of events before they occur, reducing reactive work and thereby improving efficiency, operational performance and, importantly, customer service.

- **Production lines –** for the last few years we have considered our treatment works as 'factories', each with its own production line. We have over 600 of these 'factories', small and large, producing clean water, bio waste and energy. Our business has been re-structured to create a strong focus on accountability and delivery, integrating the disciplines often found as functional silos in other companies. Our managers are responsible for the performance of their production lines including investment of capital to optimise operational performance, to deliver environmental or water quality requirements and to maximise energy production, providing a more integrated approach.

- **Organisational structure aligned with new price control –** we recognised that we would best address the regulatory reform agenda by aligning our organisational structure with the new price control, with three business areas: Wholesale, Domestic Retail and Business Retail. We did this nearly three years ago and recruited a business retail team experienced in competitive utility markets.

- **Wholesale business split –** we subsequently subdivided our Wholesale business to concentrate on three business areas: Water, Wastewater and Energy, with a strong focus on increasing our renewable and self-generation to reduce the amount of electricity we purchase. Our people are all aligned to this model and our production leadership team has responsibility, authority and accountability for the performance of their assets using a total expenditure, whole life cost approach to decision management.

- **Integrated control centre –** underpinning our 'systems thinking' ethos is our recently opened integrated control centre in Warrington, which acts as the 'digital brain' of our systems approach and provides visualisation of the quality of service we are providing to our customers across the region.

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

Key performance indicators for 2015-20

Measurement of our progress in delivering our plans across the next five years will use a mix of existing and new measures, which reflect the revised structure and features of the 2015-20 price control. This five-year regulatory period will see a greater emphasis on operational excellence and we have formulated a range of KPIs which recognise the tougher operational and financial targets inherent in the final determination settlement.

Financial KPIs

Our financial KPIs will remain the same except that we will no longer be specifically including capital investment (as this is now covered within our operational KPIs), as we align our KPIs with the opportunities available under Ofwat's new totex based price control.

- Revenue
- Underlying operating profit
- Underlying earnings per share

- Dividend per share
- Gearing: net debt to regulatory capital value

Operational KPIs

Our operational KPIs have also evolved to reflect the move to a totex price control, with totex outperformance measures for wholesale replacing the previous separate opex outperformance and capex outperformance measures. We are including Outcome Delivery Incentive (ODI) KPIs across our wholesale business to monitor our performance against these important new operational measures. This replaces the previous serviceability KPI which is incorporated within the ODI measures. There are 18 wholesale ODIs and the risk is skewed to the downside, with nine attracting a penalty only. The service incentive mechanism (SIM) will remain an important KPI, although Ofwat is changing the methodology which may produce wider fluctuations in results compared with the last regulatory period. With the retail household price control now being separated, we are introducing a new KPI to measure our costs in this area. In the business retail price control, with the expansion of the competition, we are including a new KPI measuring the impact of customer gains and losses. We intend to continue publishing our leakage position, with it being an important measure from a corporate responsibility perspective. The degree to which our actions are viewed as responsible is taken from performance measures set by the industry regulator, the Environment Agency and those which measure global best practice, as defined by the Dow Jones Sustainability Index.

We intend to set targets for the 2015-20 period once we have gained more experience under the new regulatory regime.

Best service to customers
- Wholesale ODI composite – net reward or penalty across UU’s wholesale ODIs
- Service incentive mechanism – qualitative assessment
- Service incentive mechanism – quantitative assessment
- Business retail customer growth – net revenue gain or loss

Lowest sustainable cost
- Totex outperformance – cumulative 2015-20 wholesale totex performance
- Financing outperformance – cumulative 2015-20 financing performance
- Domestic retail cost to serve – average cost to serve measure

Responsible manner
- Leakage – average annual leakage in megalitres per day
- Environment Agency (EA) performance assessment – industry EA composite assessment
- Dow Jones Sustainability Index – independent composite rating

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the year ended 31 March 2015. Revenue increased by £31 million to £1,720 million. This increase principally reflects the allowed regulated price rise, partly offset by the previously announced special customer discount of £21 million.

Operating profit

Underlying operating profit was up £30 million to £664 million, as we tightly managed our cost base despite the expected increase in depreciation and other cost pressures, including bad debt. As planned, there was also a £17 million reduction in infrastructure renewals expenditure this year as we transition from this regulatory period to the next. Reported operating profit increased by £23 million, to £653 million.

Investment income and finance expense

The underlying net finance expense of £222 million was £29 million lower than last year, primarily reflecting the impact of lower RPI inflation on the group's index-linked debt. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £47 million, compared with a net charge of £83 million last year. The group had approximately £3.1 billion of index-linked debt as at 31 March 2015 at an average real rate of 1.6%. The lower RPI inflation charge contributed to the group's average underlying interest rate of 4.0% being lower than the rate of 4.6% for 2013/14.

Reported investment income and finance expense of £317 million was significantly higher than the £92 million expense in 2013/14. This £225 million increase principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £129 million gain in 2013/14 to a £105 million loss in 2014/15. The £105 million fair value loss is largely due to losses on the regulatory swap portfolio, resulting from a significant decrease in medium-term sterling interest rates during the period, partly offset by a gain from the unwinding of the derivatives hedging interest rates to 2015. The group uses these swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by the regulator at each price review. The group fixed the majority of its non index-linked debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%.

Profit before tax

Underlying profit before tax was £447 million, £59 million higher than last year, due to the £30 million increase in underlying operating profit and the £29 million decrease in underlying net finance expense. This underlying measure adjusts for the impact of one-off items, principally from restructuring within the business, and other items such as fair value movements in respect of debt and derivative instruments. Reported profit before tax decreased by £202 million to £342 million, primarily due to the aforementioned fair value movements.

Taxation

In 2014/15, we paid corporation tax of £62 million, which represents an effective cash tax rate of 18%, 3% lower than the mainstream rate of corporation tax of 21%. In 2013/14, we paid corporation tax of £64 million. For both years, the key reconciling items to the mainstream rate were allowable tax deductions on net capital investment and timing differences in relation to fair value movements on treasury derivatives. In 2013/14, the company also received an exceptional tax refund of £96 million in relation to prior years' tax matters, covering a period of over 10 years in total.

The current tax charge was £57 million in 2014/15, compared with a charge of £75 million in the previous year. In addition, there were current tax credits of £10 million in 2014/15 and £141 million in 2013/14, both following agreement with the UK tax authorities of prior years' tax matters.

For 2014/15, the group recognised a deferred tax charge of £14 million, compared with a charge of £41 million in 2013/14. In addition, in 2014/15 the group recognised a deferred tax charge of £9 million relating to prior years' tax matters, compared to a deferred tax credit of £13 million in 2013/14. In 2013/14, the group also recognised a deferred tax credit of £157 million relating to the 3% staged reduction in the mainstream rate of corporation tax, substantively enacted on 2 July 2013, to reduce the rate to 20% by 2015/16.

The total tax charge, excluding one-off charges and credits, of £71 million for 2014/15 represents a rate of 21%, similar to the rate in 2013/14.

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £140 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes and other regulatory service fees such as water abstraction charges.

Profit after tax

Underlying profit after tax of £354 million was £49 million higher than for 2013/14, reflecting an increase in underlying profit before tax partly offset by an increase in underlying tax charge due on higher profits. Reported profit after tax was £271 million, compared with £739 million for 2013/14, impacted by the £234 million movement in fair value on debt and derivative instruments and the £266 million net increase in tax between the two periods.

Earnings per share

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

Dividend per share

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

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

Cash flow

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

Net debt including derivatives at 30 March 2015 was £5,924 million, compared with £5,516 million at 31 March 2014. This increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and tax, alongside fair value losses on the group's debt and derivative instruments, partly offset by operating cash flows.

Fair value of debt

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

Debt financing and interest rate management

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

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

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme (EMTN). On 19 November 2014, the EMTN programme was updated adding a new financing subsidiary of UUW, United Utilities Water Finance PLC (UUWF), to issue new listed debt on behalf of UUW going forwards following UUW's re-registration as a private limited company. The EMTN programme provides for the periodic issuance by United Utilities PLC and UUWF (guaranteed by UUW) of debt instruments on terms and conditions determined at the time the notes are issued. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

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

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

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

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2015, approximately 52% 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 1.6%. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is over 20 years.

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

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

Liquidity

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

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

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 money market deposits with prime commercial banks.

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

Pensions

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

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

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

Underlying profit

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

Continuing operations

Operating profit	**Year ended 31 March 2015 £m**	**Restated[1] Year ended 31 March 2014 £m**
Operating profit per published results	**653.3**	**630.2**
One-off items[2]	11.0	4.4
Underlying operating profit	**664.3**	**634.6**

Net finance expense	**£m**	**£m**
Finance expense	(317.8)	(98.7)

Investment income	1.0	6.8
Net finance expense per published results	**(316.8)**	**(91.9)**
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value option	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying net finance expense	**(222.0)**	**(251.5)**

Profit before tax

	£m	**£m**
Share of profits of joint ventures	**5.1**	**5.0**
Profit before tax per published results	**341.6**	**543.3**
Adjustments:		
One-off items[2]	11.0	4.4
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value option	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying profit before tax	**447.4**	**388.1**

Profit after tax

	£m	**£m**
Underlying profit before tax	**447.4**	**388.1**
Reported tax (charge)/credit	(70.4)	195.3
Deferred tax credit – change in tax rate	-	(156.8)
Agreement of prior years' UK tax matters	(0.7)	(154.3)
Tax in respect of adjustments to underlying profit before tax	(22.2)	32.6
Underlying profit after tax	**354.1**	**304.9**

Earnings per share

	£m	**£m**
Profit after tax per published results (a)	271.2	738.6
Underlying profit after tax (b)	354.1	304.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	39.8p	108.3p
Underlying earnings per share, in pence (b/c)	**51.9p**	**44.7p**

[1] The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

[2] Relates to restructuring costs within the business.

Underlying operating profit reconciliation

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

Continuing operations

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

UUW regulatory underlying operating profit	**701.3**	**681.6**

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

PRINCIPAL RISKS AND UNCERTAINTIES

We have developed a sophisticated approach to the assessment, management and reporting of risks, with a process aligned to ISO31000:2009 and a well-established governance structure for the group board to review the nature and extent of the risks that the group faces and for the audit committee to review process effectiveness. This process is supported by a central database, tools, templates and guidance to drive consistency.

Our risk profile currently illustrates circa 200 event-based risks. All event types (strategic, financial, operational, compliance and hazard) are considered in the context of our strategic themes (best service to customers; lowest sustainable cost; and responsible manner). For internal or external drivers, each event is assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur.

Responsibility for the assessment and management of the risk (including monitoring and updating) is assigned to the appropriate individual manager who is also responsible for reporting on assessment, management and control / mitigation at least twice a year, in line with the reporting to the group board at full and half-year statutory accounting reporting periods.

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

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

In order to address this, further understand the nature and extent of our entire profile and support the disclosure of principal risks, event-based risks are categorised (based on the event), when recorded onto the central database, into areas that define business activity or contributing factors where value can be lost. These categories have been set out under 'Risks' below to reflect the principal risks (aggregated), together with associated issues or areas of uncertainty, potential for material effect and the extent of control/mitigation.

Key features, developments over the last year and looking ahead

As expected, following the 2014 price determination the group's risk profile is returning to one based more on operational performance, compliance and delivery risk. We have challenging demands on customer benefits, operational performance and investment requirements in light of population growth, climate change and strict legal/regulatory requirements. Competition and market reform remain high on the agenda however, with the ongoing development of the non-household market and uncertainty surrounding the impact of upstream competition for water and wastewater services.

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

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

• In March 2010, Manchester Ship Canal Company (MSCC) issued proceedings seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW's discharges of water and treated effluent into the canal. Whilst the matter has not reached a final conclusion, the Supreme Court has found substantively in UUW's favour on a significant element of the claim and referred the remainder of the proceedings back to the High Court.

Risks

1. The regulatory environment and framework

Current key risks, issues or areas of uncertainty include:
i) Market reform including non-household and upstream competition
ii) A possible change from using the retail prices index to the consumer prices index for regulatory indexation

Potential impacts
Changes to regulation and the regulatory regime (either through political or regulatory events) may increase costs of administration, reduce income and margin and lead to greater variability of returns.

Control mitigation
We engage in relevant government and regulatory consultations which may affect policy and regulation in the sectors where we operate. We also consult with customers to understand their requirements and proactively consider all the opportunities and threats associated with any potential change, exploiting opportunities and mitigating risks where appropriate.

2. Corporate governance and legal compliance

Current key risks, issues or areas of uncertainty include:
i) Competition law and regulatory compliance whilst preparing for and operating within a changing competitive market
ii) Material litigation (see above)
iii) New higher fine levels for environmental offences

Potential impacts
Non-compliance with existing or future UK or international laws or regulations (especially given the highly regulated environment we operate in) could result in additional workload and operating costs in justifying or defending our position and financial penalties (including of up to 10 per cent of relevant regulated turnover for extreme events) and compensation following litigation is also possible, together with additional capital/operating expenditure as a result of the imposition of enforcement orders. In more remote but extreme circumstances, impacts could ultimately include licence revocation or the appointment of a special administrator.

Control mitigation

Legislative and regulatory developments are continually monitored. Risk-based training of employees is undertaken and we participate in consultations to influence legislative and regulatory developments. Funding for any additional compliance costs in the regulated business is sought as part of the price determination process. The group also robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible.

3. Water and wastewater service

Current key risks, issues or areas of uncertainty include:
i) Dealing with the impacts of population growth, climate change and weather conditions
ii) Meeting infrastructure investment requirements and balancing supply and demand
iii) Expected change to the abstraction licensing regime

Potential impacts
Operational performance problems or service failures can lead to increased regulatory scrutiny, regulatory penalties and/or additional operating or capital expenditure. In more extreme situations the group could also be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage.

Control mitigation
Mitigation is provided through core business processes, including forecasting, quality assurance procedures, risk assessments and rigorous sampling/testing regimes. Ongoing integration of water and wastewater networks improves service provision and measures of success have been developed to monitor performance. We also undertake customer education programmes, seeking to minimise related operational issues.

4. Security, assets and operational resilience

Current key risks, issues or areas of uncertainty include:
i) The threat of cybercrime and/or terrorism affecting our assets or operations

Potential impacts
Our resources, assets and infrastructure are exposed to various threats (malicious or accidental) and natural hazards which could impact the provision of vital services to the public and commercial business.

Control mitigation
Physical and technological security measures combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. Ongoing integration of water and wastewater networks improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We also maintain insurance cover for loss and liability and the licence of the regulated business also contains a ‘shipwreck’ clause that, if applicable, may offer a degree of recourse to Ofwat/customers in the event of a catastrophic incident.

5. Human and IT resource

Current key risks, issues or areas of uncertainty include:
i) Delivering required employee engagement, talent management, technological innovation and IT asset management

Potential impacts
Capacity, capability and effectiveness problems associated with human and IT resource will impact the efficiency and effectiveness of business activity, the ability to make appropriate decisions and ultimately meet targets. This can also affect the ability to recruit and retain knowledge/expertise or to recover effectively following an incident. In remote but extreme circumstances there is also the potential for

higher levels of regulatory scrutiny, financial penalties, reputational damage and missed commercial opportunities.

Control mitigation
Developing our people with the right skills and knowledge, combined with delivering effective technology are important enablers to support the business to meet its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, faster and more cost-effective operations.

6. Tax, treasury and financial control

Current key risks, issues or areas of uncertainty include:
i) Stability of financial institutions and the world economy
ii) The speed of economic recovery
iii) Inflation/deflation
iv) Financial market conditions, interest rates and funding costs

Potential impacts
The failure of financial counterparties could result in additional financing cost, an adverse impact on the income statement and potential reputational damage. Variability in inflation (as measured by the UK Retail Prices Index) and changes in interest rates, funding costs and other market risks could adversely impact the economic return on the regulatory capital value (RCV) and affect our pension schemes with a requirement for the group to make additional contributions. In extreme but remote cases adverse market conditions could affect our access to debt capital markets and subsequently available liquidity and credit ratings.

Control mitigation
Refinancing is long-term with staggered maturity dates to minimise the effect of short-term downturns. Counterparty credit, exposure and settlement limits exist to reduce any potential future impacts. These are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. The group also employs hedging strategies to stabilise market fluctuation for inflation, interest rates and commodities (notably energy prices). Sensitivity analysis is carried out as part of the business planning process, influencing the various financial limits employed. Continuous monitoring of the markets takes place including movements in credit default swap prices and movements in equity levels.

7. Programme delivery

Current key risks, issues or areas of uncertainty include:
i) Supply chain security of supply and delivery of solutions, quality and innovation
ii) New contract delivery partnerships for the 2015–2020 period with a new approach to construction and design

Potential impacts
Failure to deliver capital or change programmes against relevant time, cost or quality measures could result in a failure to secure competitive advantage or operating performance efficiency and cost benefits. There is also the risk of increased delivery costs or a failure to meet our obligations and customer outcomes which, depending on the nature and extent of failure, could result in an impact at future price reviews, regulatory or statutory penalties and negative reputational impact with customers and regulators.

Control mitigation
We have a developed and clear view of our investment priorities which are built into our programmes, projects and integrated business and asset plans. We have created better alignment and integration

between our capital delivery partners and engineering service provider including alignment with our operating model. Our programme and project management capabilities are well established with strong governance and embedded processes to support delivery, manage risks and achieve business benefits. We utilise a time, cost and quality index (TCQi) as a key performance indicator and enhance our performance through a dedicated programme change office to deliver change in a structured and consistent way. Supply chain management is utilised to deliver end-to-end contract management which includes contract strategy and tendering, category management, security of supply, price and price volatility and financial and operational service level performance.

8. Revenues

Current key risks, issues or areas of uncertainty include:
i) Socio-economic deprivation in the North West
ii) Welfare reform and the impact on domestic bad debt
iii) Competition in the water and wastewater market and competitor positioning
iv) The standards of service to our customers

Potential impacts
Poor service to customers can result in financial penalties issued by the regulator through components of the service incentive mechanism for domestic customers and loss of revenue associated with commercial churn for commercial customers using 5 megalitres and above per annum. The proposed opening of the market for retail services to all non-household customers in England from 2017 generates both opportunities and risk associated with market share, scale and margin erosion. There is also much uncertainty surrounding the form of upstream reform which is now anticipated to materialise post-2019.

Control mitigation
For domestic retail there is a transformation plan in place covering a wide range of initiatives and activities to improve customer service, with a number of controls in place to monitor achievement against the plan. Similarly, we look to retain existing and acquire new commercial customers by striving to meet their needs more effectively. We monitor competitor activity and target a reduction in operating costs.

9. Health, safety and environmental

Current key risks, issues or areas of uncertainty include:
i) Risks associated with excavation, tunnelling and construction work and working with water and wastewater
ii) Weather conditions

Potential impacts
Working with and around water, sewage, construction and excavation sites, plant and equipment exposes employees, contractors and visitors to various man-made and naturally occurring hazards which could cause harm to people and the environment. Depending on the circumstances the group could be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage.

Control mitigation
We have developed a strong health, safety and environmental culture supported by strong governance and management systems which include policies and procedures which are certified to OHSAS 18001 and ISO 14001.

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 2015 £m	Restated* Year ended 31 March 2014 £m
Continuing operations		
Revenue	**1,720.2**	1,688.8
Employee benefits expense:		
- excluding restructuring costs	**(134.1)**	(129.3)
- restructuring costs	**(11.0)**	(4.4)
Total employee benefits expense	**(145.1)**	(133.7)
Other operating costs	**(424.3)**	(425.6)
Other income	**3.3**	2.7
Depreciation and amortisation expense	**(352.6)**	(336.9)
Infrastructure renewals expenditure	**(148.2)**	(165.1)
Total operating expenses	**(1,066.9)**	(1,058.6)
Operating profit	**653.3**	630.2
Investment income (note 3)	**1.0**	6.8
Finance expense (note 4)	**(317.8)**	(98.7)
Investment income and finance expense	**(316.8)**	(91.9)
Share of profits of joint ventures	**5.1**	5.0
Profit before taxation	**341.6**	543.3
Current taxation (charge)/credit	**(47.1)**	65.7
Deferred taxation charge	**(23.3)**	(27.2)
Deferred taxation credit - change in taxation rate	**-**	156.8
Taxation (note 5)	**(70.4)**	195.3
Profit after taxation from continuing operations	**271.2**	738.6
Discontinued operations		
Profit after taxation from discontinued operations	**-**	0.8
Profit after taxation	**271.2**	739.4
Earnings per share		
from continuing and discontinued operations (note 6)		
Basic	**39.8p**	108.4p
Diluted	**39.7p**	108.2p

Earnings per share

from continuing operations (note 6)		
Basic	**39.8p**	108.3p
Diluted	**39.7p**	108.1p
Dividend per ordinary share (note 7)	**37.70p**	36.04p

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

Consolidated statement of comprehensive income

	Year ended 31 March 2015 £m	**Year ended 31 March 2014 £m**
Profit after taxation	**271.2**	739.4
Other comprehensive income		
Remeasurement gains/(losses) on defined benefit pension schemes (note 8)	**250.5**	(200.8)
Taxation on items taken directly to equity (note 5)	**(50.1)**	40.9
Foreign exchange adjustments	**(3.1)**	(1.2)
Total comprehensive income	**468.5**	578.3

Consolidated statement of financial position

	31 March 2015 £m	**Restated* 31 March 2014 £m**
ASSETS		
Non-current assets		
Property, plant and equipment	**9,716.3**	9,318.5
Intangible assets	**144.9**	110.2
Interests in joint ventures	**31.7**	35.6
Investments	**8.6**	6.9
Trade and other receivables	**2.5**	2.4
Retirement benefit surplus (note 8)	**79.2**	-
Derivative financial instruments	**681.6**	456.0
	10,664.8	9,929.6
Current assets		
Inventories	**40.5**	39.8
Trade and other receivables	**353.3**	330.4
Cash and short-term deposits	**244.0**	115.8
Derivative financial instruments	**1.0**	56.9
	638.8	542.9
Total assets	**11,303.6**	10,472.5
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(480.0)**	(451.0)
Borrowings	**(6,067.3)**	(5,929.2)
Retirement benefit obligations (note 8)	-	(177.4)
Deferred taxation liabilities	**(1,123.8)**	(1,050.4)
Derivative financial instruments	**(196.6)**	(52.3)
	(7,867.7)	(7,660.3)
Current liabilities		

Trade and other payables	**(381.2)**	(382.1)
Borrowings	**(578.1)**	(112.3)
Current tax liabilities	**(21.1)**	(34.8)
Provisions	**(12.5)**	(16.3)
Derivative financial instruments	**(8.6)**	(50.8)
	(1,001.5)	(596.3)
Total liabilities	**(8,869.2)**	(8,256.6)
Total net assets	**2,434.4**	2,215.9
EQUITY		
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.9
Other reserve	**-**	158.8
Cumulative exchange reserve	**(8.7)**	(5.6)
Merger reserve	**329.7**	329.7
Retained earnings	**1,610.7**	1,230.3
Shareholders' equity	**2,434.4**	2,215.9

*The comparatives have been restated to reflect the requirement of IFRS 11 'Joint Arrangements'. See note 1 for details.

Consolidated statement of changes in equity

Year ended 31 March 2015

	Share capital	Share premium account	Other reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2014	499.8	2.9	158.8	(5.6)	329.7	1,230.3	2,215.9
Profit after taxation	-	-	-	-	-	271.2	271.2
Other comprehensive (expense)/income							
Remeasurement gains on defined benefit pension schemes (note 8)	-	-	-	-	-	250.5	250.5
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	(50.1)	(50.1)
Foreign exchange adjustments	-	-	-	(3.1)	-	-	(3.1)
Total comprehensive (expense)/income	-	-	-	(3.1)	-	471.6	468.5
Dividends (note 7)	-	-	-	-	-	(249.4)	(249.4)
Transfer of other reserve	-	-	(158.8)	-	-	158.8	-
Equity-settled share-based payments	-	-	-	-	-	2.9	2.9
Exercise of share options – purchase of shares	-	-	-	-	-	(3.5)	(3.5)
At 31 March 2015	**499.8**	**2.9**	**-**	**(8.7)**	**329.7**	**1,610.7**	**2,434.4**

Year ended 31 March 2014

	Share capital	Share premium account	Other reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	-	-	-	-	-	739.4	739.4
Other comprehensive (expense)/income							
Remeasurement losses on defined benefit pension schemes (note 8)	-	-	-	-	-	(200.8)	(200.8)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	40.9	40.9
Foreign exchange adjustments	-	-	-	(1.2)	-	-	(1.2)

Total comprehensive (expense)/income	-	-	-	(1.2)	-	579.5	578.3
Dividends (note 7)	-	-	-	-	-	(237.9)	(237.9)
Equity-settled share-based payments	-	-	-	-	-	4.4	4.4
Exercise of share options – purchase of shares	-	-	-	-	-	(0.8)	(0.8)
At 31 March 2014	**499.8**	**2.9**	**158.8**	**(5.6)**	**329.7**	**1,230.3**	**2,215.9**

On the group's transition to IFRS in the year ended 31 March 2006, the other reserve arose from the uplift to fair value of the infrastructure assets. This reserve is a component of retained earnings and, as such, has been transferred and presented within retained earnings during the year.

Consolidated statement of cash flows

	Year ended 31 March 2015 £m	**Restated* Year ended 31 March 2014 £m**
Operating activities		
Cash generated from continuing operations	**941.7**	931.9
Interest paid	**(175.6)**	(168.7)
Interest received and similar income	**1.0**	2.7
Tax paid	**(61.9)**	(64.2)
Tax received	**1.3**	95.5
Net cash generated from operating activities (continuing operations)	**706.5**	797.2
Net cash used in operating activities (discontinued operations)	**-**	(0.8)
Investing activities		
Purchase of property, plant and equipment	**(665.7)**	(661.7)
Purchase of intangible assets	**(63.4)**	(39.4)
Proceeds from sale of property, plant and equipment	**2.0**	2.8
Grants and contributions received	**18.1**	16.4
Purchase of investments	**(0.8)**	(1.9)
Proceeds from sale of investments	**-**	0.1
Dividends received from joint ventures	**4.9**	5.1
Net cash used in investing activities (continuing operations)	**(704.9)**	(678.6)
Financing activities		
Proceeds from borrowings	**411.2**	372.0
Repayment of borrowings	**(19.1)**	(344.8)
Dividends paid to equity holders of the company (note 7)	**(249.4)**	(237.9)
Exercise of share options – purchase of shares	**(3.5)**	(0.8)
Net cash generated from/(used in) financing activities (continuing operations)	**139.2**	(211.5)
Net increase/(decrease) in cash and cash equivalents (continuing operations)	**140.8**	(92.9)
Net decrease in cash and cash equivalents (discontinued operations)	**-**	(0.8)
Cash and cash equivalents at beginning of the year	**78.9**	172.6
Cash and cash equivalents at end of the year	**219.7**	78.9

*The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

Cash generated from continuing operations

	Year ended 31 March	**Restated* Year ended 31 March**

	2015 £m	2014 £m
Operating profit	**653.3**	630.2
Adjustments for:		
Depreciation of property, plant and equipment	**323.6**	312.9
Amortisation of intangible assets	**29.0**	24.0
Loss on disposal of property, plant and equipment	**5.1**	6.4
Loss on disposal of intangible assets	**0.5**	-
Amortisation of deferred grants and contributions	**(7.7)**	(7.4)
Equity-settled share-based payments charge	**2.9**	4.4
Other non-cash movements	**(1.2)**	(2.0)
Changes in working capital:		
Increase in inventories	**(0.7)**	(2.1)
Increase in trade and other receivables	**(23.0)**	(7.4)
Decrease in trade and other payables	**(23.2)**	(24.2)
(Decrease)/increase in provisions	**(3.8)**	4.1
Pension contributions paid less pension expense charged to operating profit	**(13.1)**	(7.0)
Cash generated from continuing operations	**941.7**	931.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The accounting policies, presentation and methods of computation have been prepared on a basis consistent with the United Utilities Group PLC audited financial statements for the year ended 31 March 2015, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The adoption of the following standards and interpretations, at 1 April 2014, has had no material impact on the group's financial statements.

IFRS 11 'Joint Arrangements'

The standard replaces IAS 31 'Interests in Joint Ventures' and removes the option previously taken by the group to proportionately consolidate its joint ventures, requiring instead the application of the equity method. Under the equity method, the group's interests in the profit after taxation and net assets of its joint ventures are presented as one line in the consolidated income statement and the consolidated statement of financial position respectively. The application of the standard is retrospective and, hence, requires the restatement of the comparative period ended 31 March 2014. The impacts on the consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows are detailed below.

Impact on the consolidated income statement

	Year ended 31 March 2014 £m
Decrease in revenue	(15.7)
Decrease in total operating expenses	9.0
Decrease in operating profit	(6.7)
Decrease in investment income and finance expense	0.3
Increase in share of profits of joint ventures	5.0

Decrease in profit before taxation	(1.4)
Increase in taxation credit	1.4
Net impact on profit after taxation	-

Impact on the consolidated statement of financial position

	31 March 2014 £m
Increase in interests in joint ventures*	35.6
Decrease in other non-current assets	(52.0)
Decrease in current assets	(19.2)
Decrease in non-current liabilities	28.4
Decrease in current liabilities	7.2
Net impact on net assets	-

*Includes £4.9 million of goodwill previously reported separately.

Impact on the consolidated statement of cash flows

	Year ended 31 March 2014 £m
Decrease in net cash generated from operating activities	(8.1)
Decrease in net cash used in investing activities	6.5
Net decrease in cash and cash equivalents	(1.6)

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 2015.

The comparative figures for the year ended 31 March 2014 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 group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose. This conclusion is based upon a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities as well as consideration of the group's capital adequacy, consideration of the primary legal duty of United Utilities Water Limited's economic regulator to ensure that water and wastewater companies can finance their functions, and any material uncertainties. In reaching this conclusion, the board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the directors would consider undertaking.

2. Segment 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, regulatory capital expenditure and RCV gearing at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

3. Investment income

Restated

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Continuing operations		
Interest receivable	**1.0**	1.0
Interest receivable on tax settlement	**-**	4.5
Net pension interest income (note 8)	**-**	1.3
	1.0	6.8

4. Finance expense

	Year ended 31 March 2015 £m	Restated Year ended 31 March 2014 £m
Continuing operations		
Interest payable	**(206.1)**	(227.9)
Net fair value (losses)/gains on debt and derivative instruments	**(104.7)**	129.2
	(310.8)	(98.7)
Net pension interest expense (note 8)	**(7.0)**	-
	(317.8)	(98.7)

The group fixed interest costs for a substantial proportion of the group's net debt for the duration of the 2010-15 regulatory pricing period. In addition, the group hedges currency exposures at inception, 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 £222.0 million (31 March 2014 restated: £251.5 million) is derived as shown in the table below.

	Year ended 31 March 2015 £m	Restated Year ended 31 March 2014 £m
Continuing operations		
Finance expense	**(317.8)**	(98.7)
Investment income	**1.0**	6.8
Investment income and finance expense	**(316.8)**	(91.9)
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	**104.7**	(129.2)
Interest on swaps and debt under fair value option	**4.0**	8.1
Net pension interest expense/(income) (note 8)	**7.0**	(1.3)
Capitalised borrowing costs	**(20.9)**	(19.4)
Release of tax interest accrual	**-**	(13.3)
Interest receivable on tax settlement	**-**	(4.5)
Underlying net finance expense	**(222.0)**	(251.5)

5. Taxation

	Year ended 31 March 2015 £m	Restated Year ended 31 March 2014 £m
Continuing operations		
Current taxation		
UK corporation taxation	**56.8**	75.3
Adjustments in respect of prior years	**(9.7)**	(141.0)
Total current taxation charge/(credit) for the year	**47.1**	(65.7)
Deferred taxation		
Current year	**14.3**	40.5
Adjustments in respect of prior years	**9.0**	(13.3)

	23.3	27.2
Change in taxation rate	**-**	(156.8)
Total deferred taxation charge/(credit) for the year	**23.3**	(129.6)
Total taxation charge/(credit) for the year	**70.4**	(195.3)

The current taxation credit for the year ended 31 March 2014 includes a credit of £141.0 million, and an associated deferred taxation credit of £13.3 million relating to agreed matters in relation to prior years covering a period of over 10 years in total. In addition, deferred taxation credits for the year ended 31 March 2014 include a credit of £156.8 million, reflecting the staged reductions in the mainstream rate of corporation tax from 23 per cent in the year ended 31 March 2014 to 20 per cent effective from 1 April 2015.

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 2015 £m**	**Year ended 31 March 2014 £m**
Current taxation		
Relating to other pension movements	**-**	(1.9)
Deferred taxation		
On remeasurement gains/(losses) on defined benefit pension schemes	**50.1**	(40.2)
Relating to other pension movements	**-**	1.7
Change in taxation rate	**-**	(0.5)
	50.1	(39.0)
Total taxation charge/(credit) on items taken directly to equity	**50.1**	(40.9)

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 2015	**681.9**	**683.3**
Year ended 31 March 2014	681.9	683.2

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

The basic and diluted earnings per share are as follows:

	Year ended 31 March 2015	**Year ended 31 March 2014**
From continuing and discontinued operations		
Basic	**39.8p**	108.4p
Diluted	**39.7p**	108.2p
From continuing operations		
Basic	**39.8p**	108.3p
Diluted	**39.7p**	108.1p

7. Dividends

	Year ended 31 March 2015 £m	**Year ended 31 March 2014 £m**
Dividends relating to the year comprise:		
Interim dividend	**85.6**	81.9

Final dividend	**171.4**	163.9
	257.0	245.8

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**85.6**	81.9
Final dividend	**163.8**	156.0
	249.4	237.9

The proposed final dividends for the years ended 31 March 2015 and 31 March 2014 were subject to approval by equity holders of United Utilities Group PLC and hence have not been included as liabilities in the consolidated financial statements as at 31 March 2015 and 31 March 2014 respectively.

The final dividend of 25.14 pence per ordinary share (2014: 24.03 pence per ordinary share) is expected to be paid on 3 August 2015 to shareholders on the register at the close of business on 26 June 2015. The ex-dividend date for the final dividend is 25 June 2015.

The interim dividend of 12.56 pence per ordinary share (2014: 12.01 pence per ordinary share) was paid on 2 February 2015 to shareholders on the register as at the close of business on 19 December 2014.

8. Retirement benefit surplus/(obligations)

The main financial assumptions used by the 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 2015 %pa	Year ended 31 March 2014 %pa
Discount rate	**3.1**	4.3
Pensionable salary growth and pension increases	**3.0**	3.3
Price inflation	**3.0**	3.3

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

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Continuing operations		
Current service cost	**(18.1)**	(17.2)
Curtailments/settlements	**(5.5)**	(1.7)
Administrative expenses	**(2.6)**	(2.2)
Pension expense charged to operating profit	**(26.2)**	(21.1)
Net pension interest (expense) (note 4)/income (note 3)	**(7.0)**	1.3
Net pension expense charged before taxation	**(33.2)**	(19.8)

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 2015 £m	Year ended 31 March 2014 £m
At the start of the year	**(177.4)**	15.1

Expense recognised in the income statement	**(33.2)**	(19.8)
Contributions paid	**39.3**	28.1
Remeasurement gains/(losses) gross of taxation	**250.5**	(200.8)
At the end of the year	**79.2**	(177.4)

Under the prescribed IAS19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and the current member mortality assumptions. These projected cash flows are then discounted by an AA corporate bond rate which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension scheme through hedging strategies applied to the underlying interest rate and the forecast RPI. The underlying interest rate has been largely hedged through external market swaps, the value of which is included in the scheme assets, and the forecast RPI has been largely hedged through the Inflation Funding Mechanism (IFM), with RPI in excess of 3.0% p.a. being funded through an additional schedule of deficit contribution.

As a consequence, the reported statement of financial position under IAS19 remains volatile to changes in credit spread which have not been hedged, primarily due to the difficulties in doing so over long durations; changes in inflation, as the IFM results in changes to the IFM deficit contributions rather than a change in the schemes' assets; and, to a lesser extent, changes in mortality as management has decided not to hedge this exposure due to its lower volatility in the short-term and the relatively high hedging costs.

In contrast, the scheme specific funding basis, which forms the basis for regular (non-IFM) deficit repair contributions, is unlikely to suffer from volatility due to credit spread or inflation. This is because a prudent, fixed credit spread assumption is applied, and inflation linked contributions are included within the IFM.

In the IAS19 assessment of financial position at 31 March 2015, price inflation fell by 0.3% and although the discount rate has fallen by 1.2%, this masks a credit spread increase of 0.1%. The price inflation reduction and credit spread increase results in substantially all of the reported £256.6 million improvement. During the year ended 31 March 2015, there has not been any significant change in the deficits on a scheme specific funding basis that impact the level of deficit repair contributions.

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

	31 March 2015 £m	**31 March 2014 £m**
Present value of defined benefit obligations	**(3,054.5)**	(2,554.4)
Fair value of schemes' assets	**3,133.7**	2,377.0
Net retirement benefit surplus/(obligations)	**79.2**	(177.4)

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 transactions were carried out with the group's joint ventures and other investments:

	Year ended 31 March 2015 £m	**Year ended 31 March 2014 £m**
Sales of services		
Joint ventures	**1.0**	1.5
Other investments	**0.1**	0.1
	1.1	1.6
Purchases of goods and services		
Joint ventures	**0.8**	0.8
	0.8	0.8

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

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

	31 March 2015 £m	Restated 31 March 2014 £m
Amounts owed by related parties		
Joint ventures	**2.8**	2.6
Other investments	**-**	0.1
	2.8	2.7

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £4.7 million (2014: £5.2 million) in support of its joint ventures.

No expense or allowance has been made for bad and doubtful receivables in respect of the amounts owed by related parties (2014: £nil).

10. Contingent liabilities

The group has entered into performance guarantees as at 31 March 2015 where a financial limit has been specified of £9.7 million (2014: £47.1 million).

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

From 1 April 2014 to 31 March 2015 market interest rates have decreased, which has increased the fair value of the group's borrowings and derivative assets.

The group's borrowings have a carrying amount of £6,645.4 million (2014 restated: £6,041.5 million). The fair value of these borrowings is £7,350.2 million (2014 restated: £6,308.6 million). The group's derivatives measured at fair value are a net asset of £477.4 million (2014: £409.8 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 2015.

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 2015. 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;
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the directors consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

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

Dr John McAdam

Steve Mogford
Dr Catherine Bell CB
Stephen A Carter (appointed 1 September 2014)
Mark Clare
Russ Houlden
Brian May
Sara Weller

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

………………………..	……………………….
Steve Mogford	Russ Houlden
20 May 2015	20 May 2015
Chief Executive Officer	Chief Financial Officer