United Utilities Group PLC
Full year results
Year ended 31 March 2011

CHIEF EXECUTIVE

Steve Mogford

Thank you John. Good morning and welcome ladies and gentlemen to our full year results presentation.

As John mentioned, I joined UU in January and this has given me the opportunity to get around the business before picking up from Philip when he stepped down at the end of March. I have spent time with many of our teams across the operation and their dedication and enthusiasm is impressive. I've also had the chance to understand how we manage our capital programmes and see progress on our key projects.

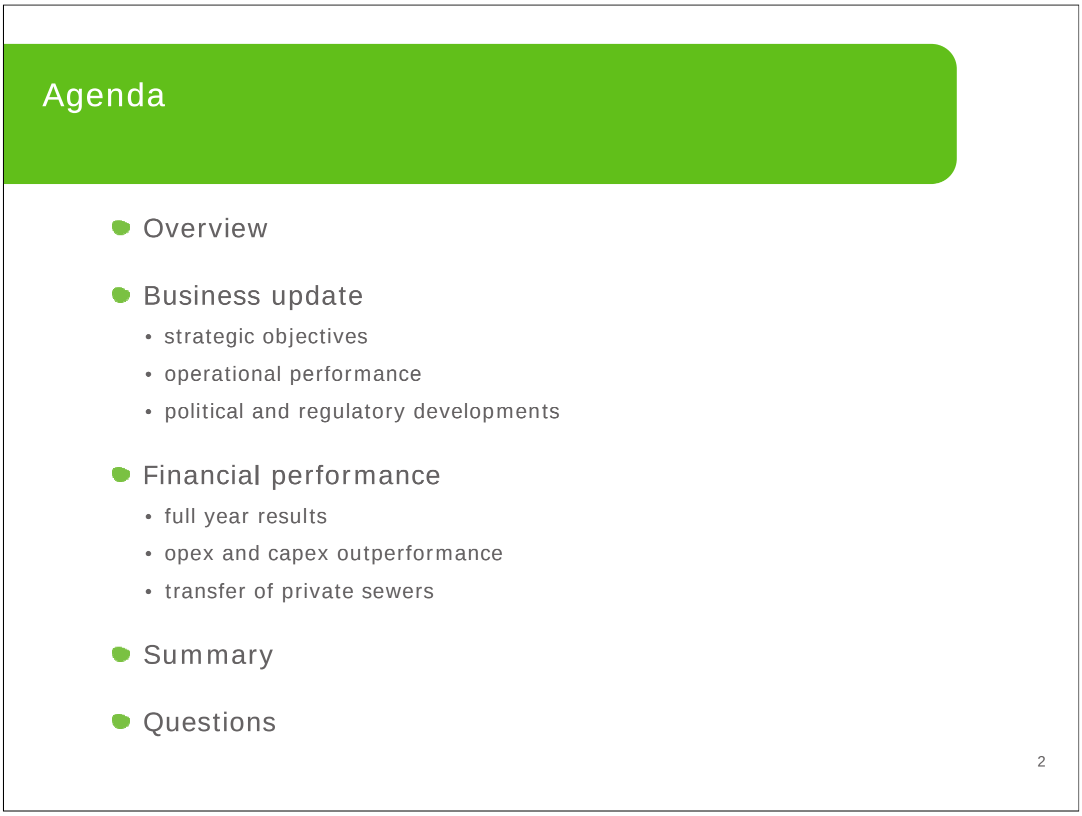
Before we go into the detail of the results presentation, I want to mention the three firm impressions that have emerged from my first five months in the business, and which will be central to our strategy over the current regulatory period and beyond.

First, for many years, UU has been run as a conglomerate, owning and operating businesses in many diverse sectors. Philip and his team did an excellent job in re-shaping the group's portfolio. Our focus now is on running UU as a water and waste water company, and being good at it.

Second, we are a service provider. We must ensure that the customer is at the core of our activity. The comparative competition that underpins regulation in our sector causes us to look to the other water and wastewater companies for our benchmarks. But our customers don't compare our service to that of other water companies. The competitors for our customers' hearts and minds are the other service providers operating alongside us in our region – other utilities, banks, retail outfits etc - and we need to raise our game to stand alongside the best.

Third, whilst UU is a fantastic fire-fighter when things go wrong, we need to shift from a reactive to a proactive mindset. We are not the trustees of wonderful Victorian museum pieces. We must innovate and use the technology available to us to proactively manage our network, learning from other sectors where necessary, to ensure our systems can provide the service needed and are resilient to the environmental challenges ahead.

My first few months has shown me that, despite the progress in recent years, there is still much to go at and that makes UU an exciting place to be.



Now, onto our results.

This is the agenda for this morning’s presentation.

I’ll provide an update on the business, before handing over to Russ who will take you through the numbers and provide some more detail on our outperformance targets and the transfer of private sewers.

I’ll then briefly summarise before we take questions.

Overview
Good early progress and outperformance secured

- Sound underlying financial performance
- Customer satisfaction improvements sustained
- Substantial financing outperformance already secured
- Targeting total opex outperformance of at least £50m or c2%
- Good early progress on capex programme: over £600m invested
- Significant capex efficiencies expected to mitigate COPI impact
- Actively engaged in political and regulatory developments
- Robust capital structure and sustainable dividend policy

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The headlines are:

The group has delivered a sound underlying financial performance for shareholders, and our customers and their communities have continued to benefit from lower bills and high levels of capital investment.

Overall customer satisfaction has improved markedly over the last few years and we are pleased to have sustained these improvements although, as I mentioned, there is much more to do.

As we explained in the half year results in November, we have already secured substantial financing outperformance for the 2010-15 regulatory period.

We have undertaken a detailed business plan review. With the programme of actions we are implementing, we are stretching the efficiency assumptions underpinning our regulatory contract with a target of delivering operating expenditure outperformance of at least £50 million, which is around two per cent of the regulatory allowance.

We have made good early progress on our capital programme, with investment of over £600 million in the year, over a third more than that achieved in the first year of the last regulatory period.

We are also delivering significant capital efficiencies, although we expect that these will be largely offset by the future regulatory adjustments relating to construction output price inflation (COPI). Nevertheless, to deliver our capital programme for a much reduced level of spend will represent a significant achievement given that our costs are more correlated with RPI inflation than COPI.

We are actively engaged in political and regulatory developments and have a proactive programme to present our views to the key stakeholders.

Our capital structure is robust, and our gearing is well within Ofwat's range. We recognise the importance to our investors of a sustainable dividend policy and believe that our current policy, with a growth target of two per cent per annum above RPI inflation, is sustainable.

Business update

- **Strategic objectives**
- Operational performance
- Political and regulatory developments

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So, looking at our strategic objectives.

Vision
To be the UK's leading water company

Deliver long-term shareholder value by providing:

- Best service to customers
- At the lowest sustainable cost
- In a responsible manner

Shareholder value driven by regulatory outperformance:

- Opex
- Capex
- Financing

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We aim to be the UK's leading water company. However, we recognise that we have a big gap to close. Our aim is to deliver long-term shareholder value by providing:

• The best service to customers

• At the lowest sustainable cost

• In a responsible manner

We are enhancing our focus on customer service.

We are clear on our obligations to our regulators and the environment.

We aim to drive shareholder value by delivering regulatory outperformance, measured through opex, capex and financing whilst still delivering our promises to our other stakeholders.

Business update

- Strategic objectives
- **Operational performance**
- Political and regulatory developments

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Moving onto operational performance.

Best service to customers

Good progress but scope for further improvement

- Overall customer satisfaction score improved to 83% for 2010/11
- 85% reduction in complaints assessed by CCW[1]
- Ofwat has introduced a new Service Incentive Mechanism[2] (SIM)
- Indicative start point places UU in 4th quartile on SIM
- Customer service a significant area of management focus
- Customer experience programme underway

[1] Consumer Council for Water

[2] SIM is currently being introduced by Ofwat, with 2011/12 expected to be the first year's performance assessment used at the next price review

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As I said earlier, overall customer satisfaction has improved significantly over the last few years.

Customer satisfaction, in response to enquiries, has improved from around 50 per cent in 2005 to 83 per cent for 2010/11. Customer complaints assessed by the Consumer Council for Water are down by 85 per cent, compared with the previous year.

Ofwat's new service incentive mechanism, SIM, is implemented from the start of this current financial year. SIM will use both quantitative and qualitative measures of our customers' satisfaction.

Although we have made good progress in the area of customer service, moving from outlier to one of the pack, our indicative assessment places us in the fourth quartile on SIM.

Clearly there is more to do and customer service remains a significant area of management focus. We must walk the talk when it comes to the customer and that means understanding our customers' needs and perceptions and deploying the right technology, processes and people to service those needs. The best are also superb at addressing service failure in a manner that retains customer confidence and support.

So, we're putting a lot of energy in getting to the heart of how we perform from our customers' perspective. This work is looking at our customer-facing processes to identify how we can offer better customer service. I expect this work to lead to us revising our processes, systems and skills but in the meantime we are continuously improving what we do and making progress.

And efficient customer service will cost us less in workarounds, administration and compensation. It raises employee morale and benefits our customers and shareholders.

Best service to customers - West East Link project
Improving resilience to climate change

- Pipeline connecting Merseyside and Greater Manchester
- 100+ megalitre capacity: equates to >50% of Liverpool's demand
- £120m+ capital investment project
- Benefits
  - sustain the supply/demand balance across region
  - address impact of climate change
  - facilitate maintenance of critical regional assets
- Opening ceremony summer 2011

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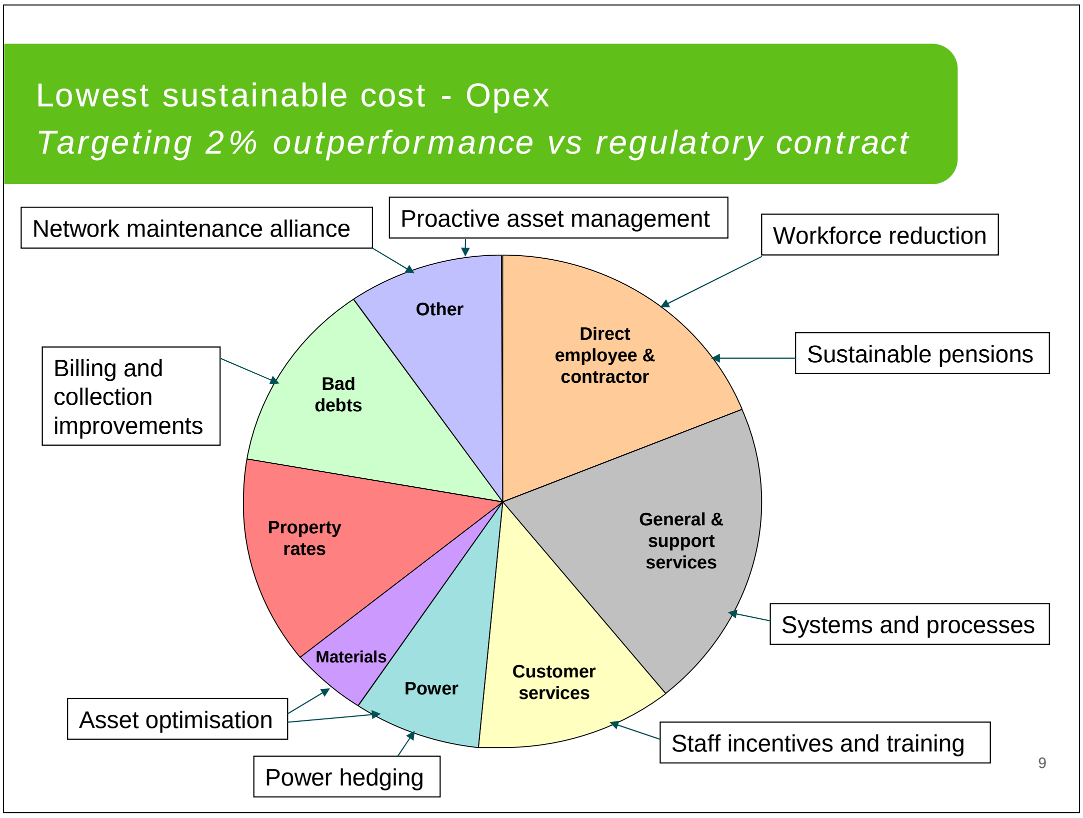
For most of our customers good service means water flowing when they turn on the tap, and that their waste disappears somewhere to be treated. It sounds simple but the last few months has opened my eyes to what achieving this involves. Continuity of supply depends upon networks being resilient, and the long-term implications of climate change will test many water companies in this respect.

A key contributor to enhancing the resilience of UU's network is our £120 million plus investment in the West East Link pipeline. This new 55 kilometre pipeline uses gravity to transport water from Greater Manchester to Merseyside. We can also pump water in the opposite direction.

The pipeline has a capacity of over 100 megalitres per day, which is enough to supply over half of Liverpool's average daily demand.

As well as improving the flexibility in how we can meet demand from these two great cities, it creates options for us in maintaining other critical assets, saving the cost of temporary mains pipes during routine maintenance and cleaning activities.

We're looking forward to July when Water Minister, Richard Benyon, is scheduled to officially open the new pipeline.



Now, on to our opex efficiency plans.

Under Ofwat's final determination for the current regulatory period we have accepted efficiency targets of approximately £150 million. These efficiencies, when delivered, are intended to significantly improve UU's rating in Ofwat's relative efficiency league table.

However, delivery of those efficiency targets alone will not be enough to become the best and we therefore have more to do. We have reviewed our plans and this early work has identified the potential to stretch our efficiency targets and we are now targeting opex outperformance of at least £50 million, across the five-year period, which is an additional two per cent of our regulatory allowance.

Our efficiency savings are coming from activity across a broad front. This pie chart shows our cost base split by broad category. There's a lot of information on this slide and I won't go through each segment, but I just want to give you a few examples of the activities we are undertaking, each of which is contributing to our targets.

Our asset optimisation programme is progressing well, providing more effective use of resources including power and chemical use. We are also continuing the use of combined heat and power assets to expand our energy self sufficiency. More on this later.

In the area of power, we are continuing our hedging programme and have secured unit power costs through to 11/12 that are 20 per cent lower than in 09/10. In addition, we have now fixed unit rates for the majority of our power requirements through to 14/15. Although these rates have been secured at higher levels than those for 11/12, this still delivers additional outperformance versus the regulatory contract.

We've made good early progress and are pleased to have already delivered £10 million of opex outperformance in 2010/11.

Lowest sustainable cost - Capex

Focus on effective execution

- £3.6bn[1] capital investment programme for 2010-15 period
- Better project disciplines and enhanced performance transparency
- Smoother capex profile to support efficient delivery and reduce risk
- Use of alliances - incentivised against business plan
- Year one spend of £608m vs £441m in year one of 2005-10 period
- Good progress in delivery of capital outputs in year one
- Anticipated capex efficiencies offset by assumed COPI impact

[1] 2007/08 prices

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I'd now like to talk about capital delivery.

We have learned from previous regulatory periods and now have good building blocks in place for the delivery of our capital investment programme.

We have introduced improved project management disciplines and phased our commitments to create a smoother investment profile. This rigorous approach supports a more efficient delivery of outputs, as well as reducing risk by addressing the boom and bust nature of construction work.

We use construction alliances, in addition to competitively tendered projects, as our experience has shown that this mix provides the most efficient delivery route. Many of our alliance partners are incentivised against the delivery of our business plan, ensuring contractor performance is aligned with our goals.

I can see opportunities to improve further but this will be the icing on what looks to be a well baked cake.

Regulatory capital investment in the year, including £130 million of infrastructure renewals expenditure, was £608 million, which compares with £441 million in the first year of the 2005-10 regulatory period. This level of spend is in line with our planned capital investment profile.

Our early planning has ensured we've made a good start in the delivery of outputs in the first year of the new regulatory period.

Although we are benefiting from our detailed advanced planning, we expect capital efficiencies to be offset by the regulatory impact of construction output prices, based on the assumptions that Russ will outline later.

Lowest sustainable cost - Sludge Balanced Asset Programme
Increasing renewable energy

- New c£100m sludge processing centre at Davyhulme, Manchester
- Sludge arrives from 7 feeder treatment works
- Uses advanced thermal hydrolysis technology
- Project benefits:
  - energy self-sufficiency for whole site
  - sludge disposal flexibility
  - wider choice of disposal to land
  - improved sludge condition for incineration
- Completion early 2013

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Our investment at Davyhulme in Manchester, one of our largest wastewater treatment works, is another example of our investing for efficiency.

The new £100 million sludge processing centre we are developing at Davyhulme receives sludge from seven feeder treatment works and this will be processed using advanced thermal hydrolysis technology.

It will be one of the biggest bio-processing combined heat and power or CHP plants in the country and will deliver:

• energy self-sufficiency for the whole site, generating additional net contribution of approximately £4 million per annum from renewable energy production;

• improved sludge quality for incineration; and

• expansion of the available land bank for sludge disposal.

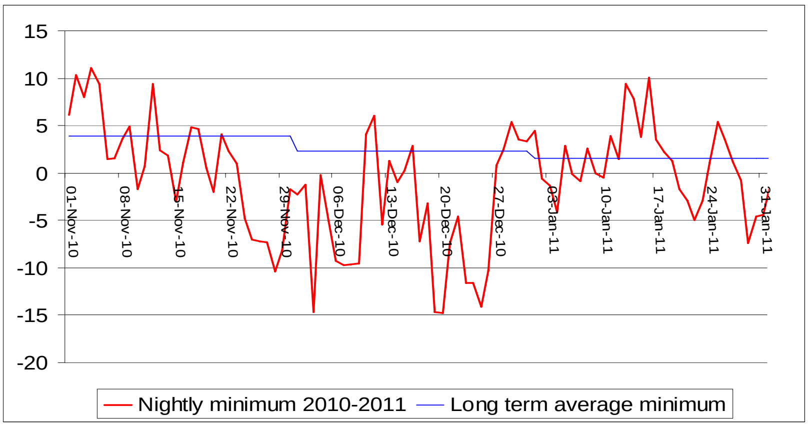
There will also be the option to pump the treated sludge to our Shell Green sludge processing centre in Widnes.

This project is well under way in construction and is scheduled to be completed in early 2013.

Lowest sustainable cost - Leakage 2010/11

Met regulatory target despite extreme winter weather

Winter 2010/11 night time temperatures (°C)



- Strong management focus & outstanding commitment from employees
- Minimal customer disruption

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As you probably recall, last winter was particularly harsh but I'm pleased to report that we met our 2010/11 regulatory leakage target of 464 megalitres per day.

This chart shows just how low temperatures were, well below the long-term average, and falling as low as minus 15 degrees Celsius on several occasions. It was the coldest December in the UK for over 100 years.

Meeting our target has been achieved through rigorous year round attention to leakage, providing greater resilience when exceptional events do occur. The events of this last year have been exceptional in many ways but the team's vigilance in this area has paid dividends and we are delighted to have come in on target – just.

Our people did a fantastic job, first over the Christmas period in dealing with an unprecedented number of customer calls for help and then finding and fixing leaks in the weeks and months that followed. I am extremely proud of them.

Responsible manner

Sustainability fundamental to the way we do business

- Carbon plan and renewable energy
- Generated 111 GWh renewable electricity = 14% of total usage
- Sustainable catchment management programme (SCaMP)
- Environmental performance a priority
- Retained Business in the Community Platinum Plus ranking
- UU rated World Class in Dow Jones Sustainability Index

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In our sector, more than many others, operating sustainably equals efficiency. Our business model helps support the UK Government's environmental agenda and commitments. Around one half of our capex relates to enhancement, improving quality for customers and benefiting the environment, with the balance relating to maintenance of our assets.

As a water company, operating in a responsible manner is fundamental to the way we do business and for many years the company has included corporate responsibility factors as a strategic consideration in its decision making.

For instance, our detailed carbon and renewable energy plan was put in place long before it became mainstream for many others. The plan contributes both to the sustainability of the UK and government targets, as well as helping us reduce our own costs. In 2010/11, we generated 111 GWh of renewable electricity – some 14 per cent of our total demand – mostly from sludge processing, and as I have just mentioned we are increasing this capacity at Davyhulme.

Scamp, our sustainable catchment management programme, is used as a best practice example by government and regulators as it helps to enhance biodiversity, as well as protecting and improving water quality and reducing our own processing costs.

Environmental performance is a high priority for us. We have more than halved the number of major pollution incidents over the last few years, completed the capex programme at our Fleetwood works to help improve compliance and are continuing to work on improving the performance at our Sandon Dock works in Liverpool. We have made good progress in moving up in the Environment Agency's composite ranking, from tenth out of ten water companies in 2009 to sixth position.

And we get external recognition for the way we do business. We are in the highest platinum plus ranking in the UK's Business in the Community Corporate Responsibility index and we are the only water company rated 'World Class' in the Dow Jones Sustainability Index.

Business update

- Strategic objectives
- Operational performance
- **Political and regulatory developments**

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Now, turning to the political and regulatory developments in the UK water sector.

Political and regulatory developments
Proactive engagement

- Water abstraction
- Water trading
- Private sewers
- Benchmark competition
- Less regulation
- More innovation
- Water White Paper now scheduled for late 2011

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Many of you will be aware that it has been a busy 12 months for water issues.

Against a backdrop of Defra's review of Ofwat, Ofwat's own reviews and consultation on price limits, as well as planned White Papers on the Natural Environment and on Water, UU has been closely engaged in developments.

We have actively engaged in this debate, focusing on areas such as how the sector can help address climate change and sustainability issues by reforming water abstraction and water trading arrangements. We have reminded politicians and regulators that the sector has a busy change agenda with the transfer of private sewers and that benchmark competition has already delivered significant environmental and customer service benefits.

We are encouraged that our calls for less regulation appear to be being heard and we are seeking incentives to encourage the industry to innovate - there is far more to do in this area.

The Water White Paper's publication is now scheduled for year end 2011 and we will be continuing to play a strong role in this area right up until then.

Now, over to Russ.

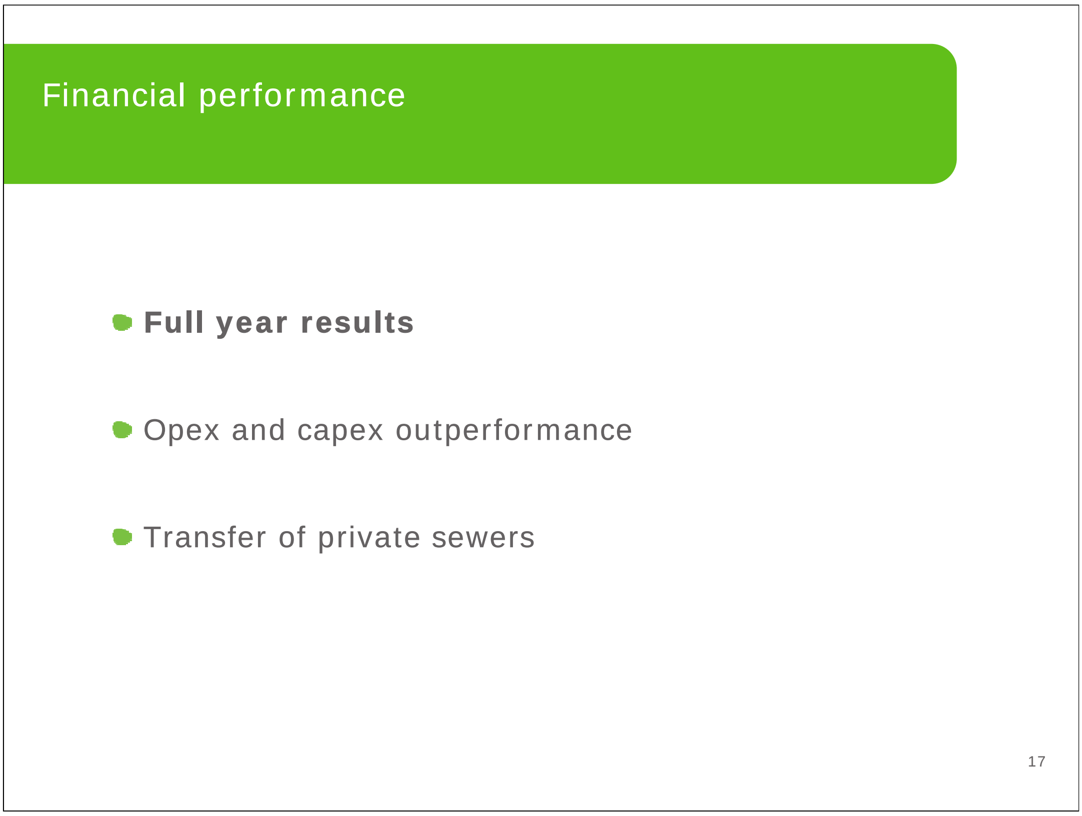
Thank you, Steve. Good morning.

This is my second results presentation and I am really enjoying driving operational performance with Steve and focusing on delivering regulatory outperformance.

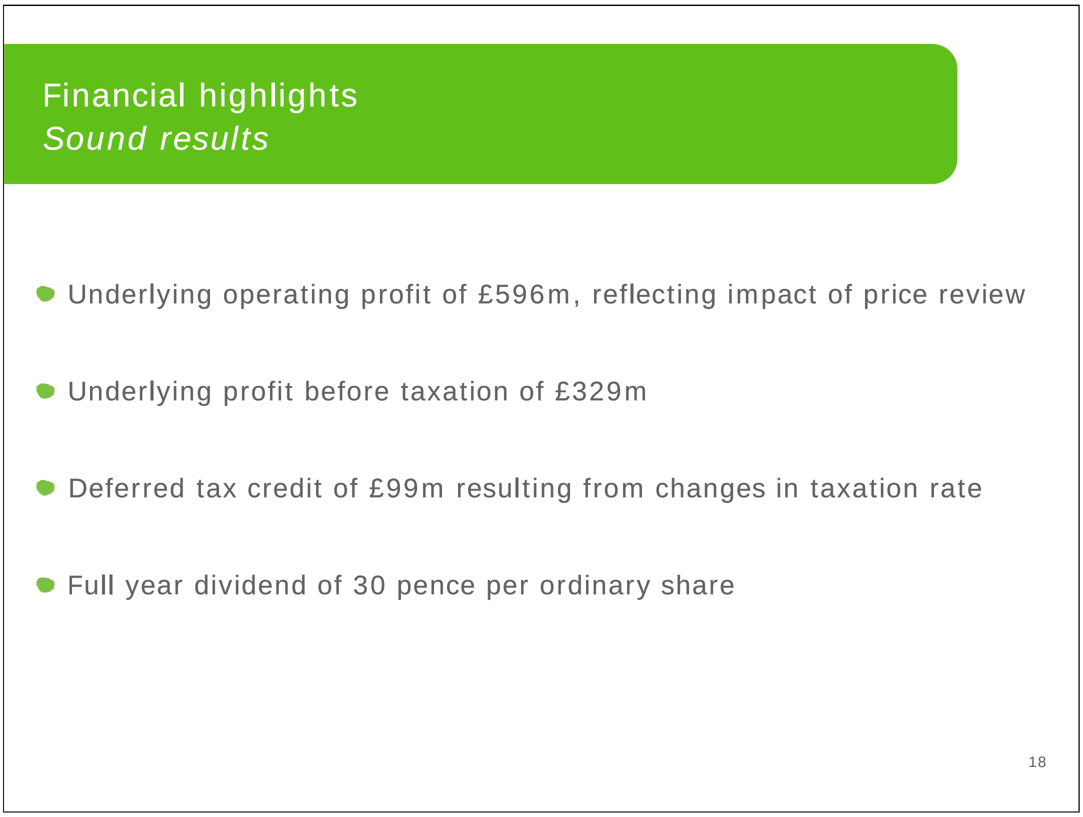
I would like to briefly remind you that this year's financial statements incorporate a few changes in presentation compared with last year.

We have presented all of the businesses sold in the period as discontinued operations, with our residual non-regulated activities included in "All other segments", we have applied IFRIC 18 ("Transfers of Assets from Customers") for the first time and we have refined our application of IAS 18 "Revenue".

And looking ahead, since our regulated water business now accounts for virtually all of the group's revenue and operating profit, for 2011/12 we will have a single segment and provide a reconciliation of UU Water regulatory operating profit to UU Group statutory operating profit for the full year.



I'll start with the full year financial results and then give the detail behind our outperformance targets, together with an initial view of the effects of the transfer of private sewers.



This slide shows the financial highlights for the year.

As in previous years, we have adjusted for one-off items and the volatility from IAS 39 fair value adjustments to provide a more meaningful comparison of underlying year on year performance.

Group underlying operating profit from continuing operations was £596 million, down 16 per cent, principally reflecting the impact of the new regulatory price limits.

Underlying profit before tax was £329 million, somewhat lower than last year. This reflects the impact of the price review, higher depreciation as expected and an increase in the underlying net finance expense, principally as a result of the impact of higher inflation on the group's index-linked debt.

It is worth highlighting the £99 million deferred tax credit, which reflects the enactment of changes to reduce the corporation tax rate from 28 per cent to 26 per cent from 1 April 2011. We have stripped this credit out of the underlying numbers.

In line with our policy, the board has proposed a final dividend for 2010/11 of 20 pence per share, producing a total dividend for the year of 30 pence.

Income statement – reported
Deferred tax credit enhances earnings

£m Year ended 31 March *Continuing operations*	2011	Restated 2010
REVENUE	1,513.3	1,573.1
Operating expenses	(642.6)	(525.2)
EBITDA	**870.7**	**1,047.9**
Depreciation & amortisation	(290.5)	(280.1)
OPERATING PROFIT	**580.2**	**767.8**
Investment income & finance expense	(253.1)	(359.1)
PROFIT BEFORE TAX	**327.1**	**408.7**
Taxation	27.4	(61.7)
PROFIT AFTER TAX	**354.5**	**347.0**
BASIC EARNINGS PER SHARE (pence)	**52.0**	**50.9**
TOTAL DIVIDEND PER ORDINARY SHARE (pence)	**30.0**	**34.3**

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This is a summary of the reported income statement.

However, the reported financials are somewhat distorted by one-off items, fair value gains and losses, and the deferred tax credit.

Income statement – underlying
Results reflect impact of price review

£m **Year ended 31 March** *Continuing operations*	2011	Restated 2010
REVENUE	1,513.3	1,573.1
Underlying operating expenses	(626.4)	(586.7)
UNDERLYING EBITDA	**886.9**	**986.4**
Depreciation & amortisation	(290.5)	(280.1)
UNDERLYING OPERATING PROFIT	**596.4**	**706.3**
Underlying net finance expense	(267.2)	(223.7)
UNDERLYING PROFIT BEFORE TAX	**329.2**	**482.6**
Underlying taxation	(90.0)	(136.1)
UNDERLYING PROFIT AFTER TAX	**239.2**	**346.5**
BASIC UNDERLYING EARNINGS PER SHARE (pence)	**35.1**	**50.8**
TOTAL DIVIDEND PER ORDINARY SHARE (pence)	**30.0**	**34.3**

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So, this is the underlying income statement, which strips out these items. This provides a more representative view of the year on year financial performance of the business.

Revenue of £1.5 billion was 4 per cent lower than last year, largely due to the recent regulatory price review.

Underlying operating expenses of £626 million were up by 7 per cent, reflecting higher infrastructure renewals expenditure and additional costs relating to business rates, partly offset by a reduction in power costs.

Underlying EBITDA was down 10 per cent and underlying operating profit of £596 million was lower by 16 per cent, partly as a result of a higher depreciation charge reflecting an increase in the commissioned asset base.

Underlying profit before tax of £329 million was down 32 per cent on last year largely due to the impact of RPI inflation on our finance expense.

The underlying tax charge of £90 million, which has been adjusted for the deferred tax credit, was lower than last year mainly because of lower profit before tax.

Underlying EPS was 35 pence, a reduction on the previous year, as expected.

Regulated activities
Sound underlying performance

£m	2011	Restated 2010
Total revenue	**1,477.3**	**1,538.2**
Employee and contractor costs	(234.3)	(229.9)
Power	(48.3)	(61.5)
Property rates	(67.1)	(52.1)
Bad debts	(31.4)	(55.1)
Other expenses	(97.0)	(75.2)
	(478.1)	(473.8)
Infrastructure renewals expenditure (IRE)	(130.4)	(113.7)
Depreciation and amortisation	(288.7)	(249.9)
Total underlying operating expenses	**(897.2)**	**(837.4)**
Underlying operating profit	**580.1**	**700.8**
Adjustments:		
One-off costs[1]	(9.1)	(15.8)
One-off pensions credit	-	76.7
Reported operating profit	**571.0**	**761.7**

- Revenue and operating profit reduction reflects new price limits
- Power costs largely hedged through to 2012 securing outperformance
- Reduction in bad debts - change to application of revenue recognition

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[1] principally relates to restructuring within the business

Looking at our regulated segment in a bit more detail.

Revenue has decreased by four per cent, principally reflecting the four per cent nominal (4.3% real) reduction in allowed prices.

We have kept our employee and contractor cost increases well below RPI inflation and we have also reduced our unit power costs by over 20 per cent through forward contracts.

Property rates have increased by approximately 30 per cent, as expected and indicated previously. The property base is routinely reviewed at the start of each regulatory review period and the rateable value has increased.

The bad debt charge of £31 million is around two per cent of regulated revenue. This is down by £24 million, of which around £18 million is due to our revised application of IAS 18 and around £6 million reflects an underlying improvement. This is an encouraging performance given the tough economic climate.

Other expenses have increased by £22 million, reflecting increased legal provisions on existing claims and several non-recurring items, including last summer's drought, mains bursts and the extreme freeze-thaw weather conditions.

Infrastructure renewals expenditure was slightly higher than last year, reflecting the planned phasing of the new capital investment programme and the expected increase in spend in the second half of the year. Depreciation was higher, as expected, following recent high levels of capital expenditure and an increase in the commissioned asset base.

Adjusting for one-off costs of £9 million, which mainly relate to restructuring within the business, and the pensions credit last year, underlying operating profit was £580 million, a 17 per cent reduction on last year.

Finance expense
Underlying interest rate increases due to RPI

£m	2011	Restated 2010
Investment income	2.8	6.2
Finance expense	(255.9)	(365.3)
	(253.1)	**(359.1)**
Less net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value option	5.7	(22.2)
Adjustment for net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
Underlying net finance expense	**(267.2)**	**(223.7)**
Average net debt	**4,675**	**4,652**
Average underlying interest rate	**5.7%**	**4.8%**
Effective interest rate on index-linked debt	6.7%	3.3%
Effective interest rate on other debt	4.9%	5.9%

- Overall underlying interest rate increased reflecting RPI impact on index-linked debt
- Interest rate on other debt reduced due to locking in lower fixed rates for 2010-15 than 2005-10 and low interest rates on floating rate debt

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Now looking at the finance expense in more detail.

The group's finance expense, net of investment income, has reduced by £106 million. This includes fair value gains on debt and derivative instruments of £19 million, compared with losses of £136 million last year.

The underlying net finance expense has increased by £44 million, reflecting an increase in the average underlying interest rate from around 4.8 per cent to 5.7 per cent.

This is mainly as a result of a higher charge in respect of the group's index-linked debt, as a result of the increase in RPI inflation. As many of you will know, although it is not reflected in the financial statements, this is more than offset by an increase in the regulatory capital value.

However, the group has benefited from fixing the majority of its remaining debt for the 2010-15 period, with a net effective nominal interest rate of around five per cent, some one per cent lower than last year.

Profit before tax
Reflects inflationary impact on finance expense

£m	2011	Restated 2010
Operating profit	580.2	767.8
Investment income and finance expense	(253.1)	(359.1)
Profit before tax	**327.1**	**408.7**
Adjustments:		
One-off pensions credit	-	(87.3)
One-off items[1,2]	16.2	25.8
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Interest on swaps and debt under fair value option	5.7	(22.2)
Net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
Underlying profit before tax	**329.2**	**482.6**

[1] added to group operating profit to obtain group underlying operating profit (continuing operations)
[2] principally relates to restructuring within the business

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To get from profit before tax to underlying profit before tax, we have adjusted for the items outlined on this slide.

The resulting decrease in underlying profit before tax, from £483 million last year to £329 million this year, mainly reflects the lower underlying operating profit and the impact of a higher underlying net finance expense due to higher RPI inflation.

Financial position
Robust capital structure

£m	31 Mar 11	Restated 31 Mar 10
Non-current assets	8,376.1	8,434.9
Cash	255.2	301.5
Other current assets	344.4	525.8
Total derivative assets	365.3	396.8
Total assets	**9,341.0**	**9,659.0**
Gross borrowings	(5,313.3)	(5,476.2)
Other non-current liabilities	(1,747.2)	(1,817.9)
Other current liabilities	(518.0)	(728.9)
Total derivative liabilities	(85.0)	(128.1)
Total liabilities	**(7,663.5)**	**(8,151.1)**
TOTAL NET ASSETS	**1,677.5**	**1,507.9**
Share capital	499.8	499.8
Share premium	1.3	0.9
Retained earnings	691.0	492.7
Other reserves	485.4	514.5
SHAREHOLDERS' EQUITY	**1,677.5**	**1,507.9**
NET DEBT	**(4,777.8)**	**(4,906.0)**

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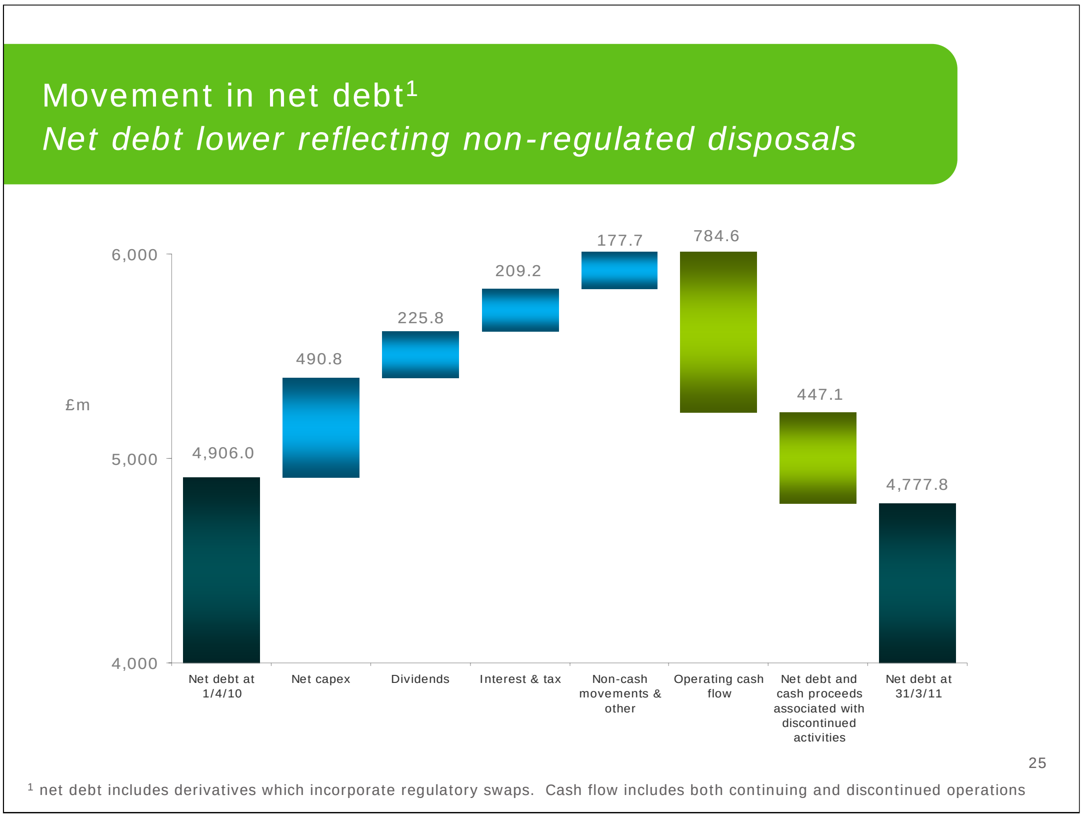
Now, looking at the statement of financial position.

The group has a robust capital structure, which is aligned with the regulatory model. Net debt is lower than last year end.

The cash position is slightly down at £255 million. This reflects spend on the capital investment programme, offset by proceeds from the non-regulated disposals.

We have raised a further £200 million via a loan from the European Investment Bank (EIB), of which £50 million was drawn down before the year end, and I will discuss this a little later.

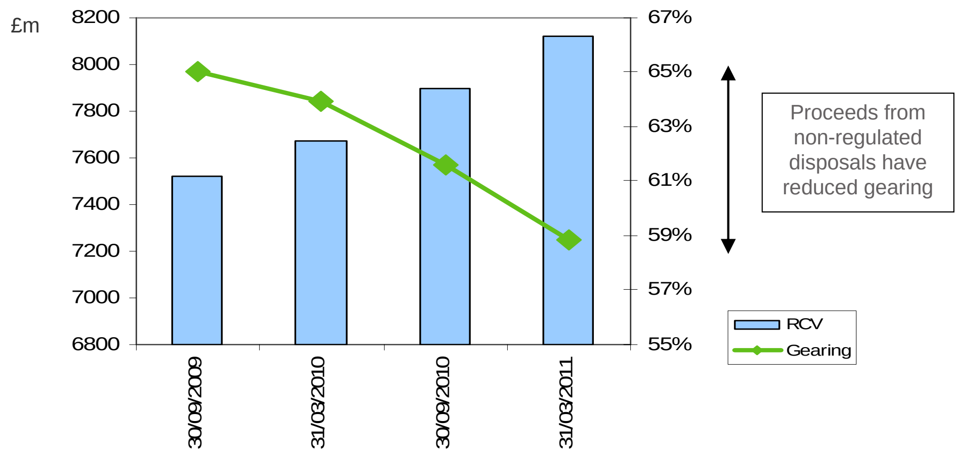
Retained earnings have increased by almost £200 million mainly as a result of profit on disposals and the impact of the deferred tax credit.



Net debt is over £100 million lower than at the start of the financial year, reflecting the proceeds from the non-regulated sales.

This has had a beneficial impact on gearing, which I'll now talk about in more detail.

RCV and gearing
Reduction in RCV gearing – impact of disposals



- Including pensions deficit, gearing would be c61%

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[1] RCV gearing calculated as group net debt / United Utilities Water's regulatory capital value in outturn prices

This chart shows the reduction in gearing over the last 18 months, from 65 per cent at 30 September 2009 to 59 per cent at 31 March 2011. This mainly reflects a reduction in group net debt, as a result of the disposals. There has also been a small gearing benefit from an increase in the regulatory capital value, as we have moved into a higher inflationary environment.

If we treat the £195 million pensions deficit as though it were debt, as the credit rating agencies tend to do, the RCV gearing would be approximately 61 per cent.

On either measure, our RCV gearing is well within Ofwat's assumed range of 55 to 65 per cent. This supports our solid investment grade credit ratings, providing efficient access to the debt capital markets.

Cash flow statement
Cash flow more than covers financing activities

£m Year ended 31 March	2011	Restated 2010
Net cash generated from operating activities	575.4	750.3
Net cash used in investing activities	(320.3)	(531.2)
Net cash used in financing activities	(219.3)	(315.6)
Net movement in cash (continuing operations)	**35.8**	**(96.5)**
Net movement in cash (discontinued operations)	(45.1)	141.1

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Now, moving on to cash flow.

Net cash generated from operating activities was £575 million, down by £175 million on last year. This mainly reflects the impact of the regulatory price review, a tax payment of £47 million this year, compared with a small net tax payment of £1 million last year, and the difference in working capital movements between the two years.

Cash used in investing activities remained at a high level, adjusting for the cash proceeds received from the non-regulated disposals. This reflects a smoother transition on capital investment between the previous regulatory period and this one.

Cash used in financing activities was lower than last year, as we repaid less borrowings. We also raised less finance this year, with the majority of the new EIB loan being drawn after 31 March.

EIB index-linked funding
£200m loan secures further financing outperformance

- Agreed terms in March on new £200m loan facility with EIB
- RPI index-linked loan with average real interest rate of 1.2%
  - lowest interest rate on index-linked debt to date
- Amortising loan with average term of c11 years
  - initial 4-year capital repayment holiday
  - semi-annual instalments
  - final maturity in 18 years time
- Extends financing headroom into 2013

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So, we agreed terms on a new £200 million index-linked debt facility with the EIB in March.

The loan has an average real interest rate of only 1.2 per cent. We have been able to benefit from working with the EIB to take advantage of current end investor demand for index-linked assets and have obtained our lowest ever rate for an index-linked loan.

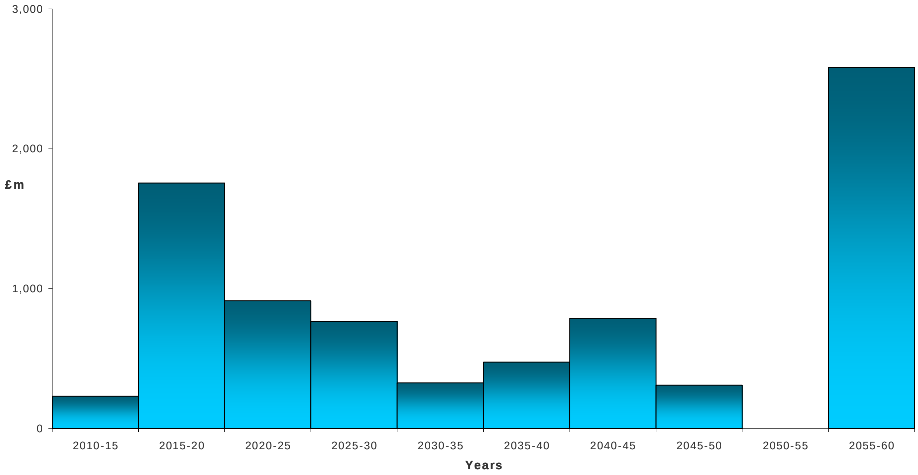
This is an amortising loan with an average term of approximately 11 years. There is an initial four year capital repayment holiday, followed by semi-annual instalments with a final maturity in 18 years.

This secures further financing outperformance of approximately £20 million through to 2015, when compared with Ofwat's cost of debt allowance of 3.6 per cent real.

The loan extends the group's financing headroom into 2013, providing us with good flexibility in terms of when and how we raise further debt finance.

Term debt maturity profile[1]

Average term to maturity over 25 years



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[1] future repayments of index-linked debt include inflation based on an average annual RPI rate of 2.75%

And this chart shows the maturity profile of our long-term debt. The average term to maturity is over 25 years, providing a robust debt profile.

As you can see, we have little need for refinancing in the current five-year regulatory period.

Of course, we would expect to raise new finance to help fund our capital investment programme, but this is well within our treasury capability, and at the same time we would expect our RCV to grow to reflect the investment.

Our refinancing task for 2015-20 is significantly larger, with a maturity of £425 million in 2015 alone. It does not make economic sense to address this now, but we may choose to be proactive in addressing it before the start of the next regulatory period.

Financial performance

- Full year results
- **Opex and capex outperformance**
- Transfer of private sewers

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Turning now to our outperformance targets that Steve talked about earlier.

As you may remember, I discussed financing outperformance at the half year results in November and so today I will focus on operating and capital outperformance.

For completeness, our position on financing outperformance, along with some sensitivity analysis, is provided in the appendix to this pack.

Opex outperformance
Targeting at least £50m outperformance over 2010-15

- UU not materially outperformed on opex since 2000
- Total final determination (FD) opex allowance of £2.5bn (2007/08 prices)
- FD opex allowance of £2.9bn (outturn prices)
- Base opex efficiency targets already included in FD total c£150m
- Targeting opex outperformance of at least £50m (2%) vs FD allowance[1]
- Achieved £10m opex outperformance in 2010/11
- UU RPI assumptions based on external forecasts[2]:

Year average	2008/09 (actual)	2009/10 (actual)	2010/11 (actual)	2011/12	2012/13	2013/14	2014/15
RPI assumption	3.0%	0.5%	5.0%	4.25%	3.0%	3.0%	3.25%

[1] Outperformance target excludes the potential impact of the transfer of private sewers as this was not included in Ofwat's final determination

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[2] Based on forecasts from a selection of relationship banks until December 2012 and November 2010 HM Treasury independent forecasts thereafter

Starting with opex outperformance.

To provide some context, it is worth noting that UU has not materially outperformed on opex over the last two regulatory periods. It is also important to remind you that, since UU was assessed as below average by Ofwat on relative efficiency, the base opex efficiency targets built into our final determination are tougher than average. Therefore, delivering <u>any</u> opex outperformance in this period will represent a significant achievement and be a turning point for UU in an operational sense.

Our regulatory contract contains a total opex allowance of approximately £2.5 billion for the 2010-15 period (in 2007/08 prices). When inflating using the RPI assumptions on this slide, this increases the total opex allowance to approximately £2.9 billion (in outturn prices).

The business is implementing a range of detailed efficiency plans, explained earlier by Steve, and as a result we aim to deliver total opex outperformance of at least £50 million or two per cent against this allowance. This is over and above the base opex efficiency targets already built into our regulatory allowances, which total around £150 million and are designed to move the company 60 per cent of the way towards the efficiency frontier.

To be clear on our opex outperformance methodology, we exclude the impact of the transfer of private sewers since this was not included in the final determination.

We have made a good start and have delivered opex outperformance in 2010/11 of approximately £10 million, which puts us on track to meet our target for the five-year period.

Capex outperformance

Broadly in line with regulatory allowance after COPI

- Total capex allowance in FD of £3.6bn (2007/08 prices)
- Significant efficiencies being delivered
- Ofwat adjusts for COPI at next price review
- UU COPI assumptions based on external forecasts:

Year average	2008/09 (actual)	2009/10 (actual)	2010/11	2011/12	2012/13	2013/14	2014/15
COPI assumption[1]	(0.5)%	(6.0)%	(2.7)%	1.4%	3.0%	4.0%	4.0%

- Adjusting for COPI, revised regulatory allowance = £3.4bn (outturn prices)
- UU expects to broadly meet revised allowance[2]
- Indicative CIS[3] impact means around 1/3rd of any outperformance retained

[1] Construction output price index (COPI) assumptions informed by independent forecasts
[2] Outperformance target excludes the potential impact of private sewers since this was not included in Ofwat's final determination
[3] Ofwat's capital expenditure incentive scheme (CIS)

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Now, moving on to capex outperformance.

The regulatory contract contained a total capex allowance, including infrastructure renewals expenditure, of approximately £3.6 billion (in 2007/08 prices).

UU has a range of capex initiatives and is delivering significant efficiencies, as outlined by Steve earlier. These efficiencies are likely to be offset by the regulatory impact of lower construction output prices.

Under the regulatory methodology, Ofwat adjusts for COPI at the next price review and amends the capex allowance to reflect this.

Based on the inflation assumptions set out on this slide, the revised regulatory allowance would be approximately £3.4 billion in outturn prices and UU expects to broadly meet this revised allowance. This will be a significant achievement, given that our actual spend is more directly driven by RPI than by COPI.

If capex outperformance were to be delivered, under Ofwat's capital expenditure incentive scheme, or CIS, only around one third of this would be retained.

Financial performance

- Full year results
- Opex and capex outperformance
- **Transfer of private sewers**

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Looking now at the transfer of private sewers.

Impact of private sewers adoption
Significant sewer network extension

- Expect private sewers to transfer to UU on 1 October 2011
- Following the transfer:
  - sewer network expected to increase by c80% or >30,000km
  - additional operational workload
  - increase in customer contacts
- Mobilisation activities already underway to ensure smooth transfer
- Estimated costs:
  - total additional opex of c£55m during the 2011-15 period
  - total additional capex of c£125m during the 2011-15 period (of which c£90m IRE)
- Private pumping stations expected to be transferred by 1 October 2016
  - sample of pumping stations expected to be taken on earlier
- Opportunity for further long-term growth in RCV

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The UK Government has now confirmed that the ownership of and responsibility for private sewers will be transferred to the sewerage companies from 1 October this year.

This is an important development as it did not form part of the 2009 price review.

We expect to inherit a significant asset base and estimate that the transfer will increase our sewer network by around eighty per cent or over 30,000 kilometres.

This should provide long-term benefits for both customers and the industry, although it will inevitably result in additional operational workload and an increase in customer contacts. We have been preparing for this for some time and mobilisation activities are underway to help ensure a smooth transfer.

Whilst final details of the transfer are still to be determined, we currently estimate that we will incur additional opex totalling around £55 million over the remainder of the 2010-15 period. Capex is estimated to be approximately £125 million across the same period, of which around £90 million is expected to be infrastructure renewals expenditure (IRE) and the balance enhancement expenditure. These are very much early cost estimates at this stage and we would expect to provide an update in a year or two when we have more experience and therefore more accurate information.

For private sewers expenditure in 2011-15, under Ofwat's regulatory framework, we expect, as a minimum, that shareholders will receive appropriate returns on the enhancement capital expenditure (subject to Ofwat's assessment of efficiency) and IRE (subject to Ofwat's application of the capital expenditure incentive scheme). In addition, we will review regularly whether an enhanced outcome for shareholders can be achieved through the submission of a request for an Interim Determination of K. For expenditure beyond 2015, we expect shareholders to receive appropriate returns on all private sewers expenditure provided that the money is efficiently spent.

The same regulations will provide for the transfer of private pumping stations. We expect to take on a sample of these in this regulatory period, with the majority expected to be adopted in the first year of the subsequent regulatory period.

Although the assets are expected to be transferred at zero value, future enhancement capital expenditure should provide the opportunity for further growth in the RCV.

Now back to Steve for a summary.

Thank you, Russ.

Summary
Good early progress in new regulatory period

- Back to our roots as a UK water and wastewater company
- Clear focus on operational performance
- Sound underlying financial performance
- Positive start to capital investment programme
- Innovation and technology to drive further improvements
- Programme of actions to deliver outperformance during 2010-15
- Robust capital structure and sustainable dividend policy

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So, in summary, we are now back to our roots as a UK water and wastewater company with a clear focus on operational performance.

We have made good early progress in the first year of the new regulatory period and delivered a sound financial performance.

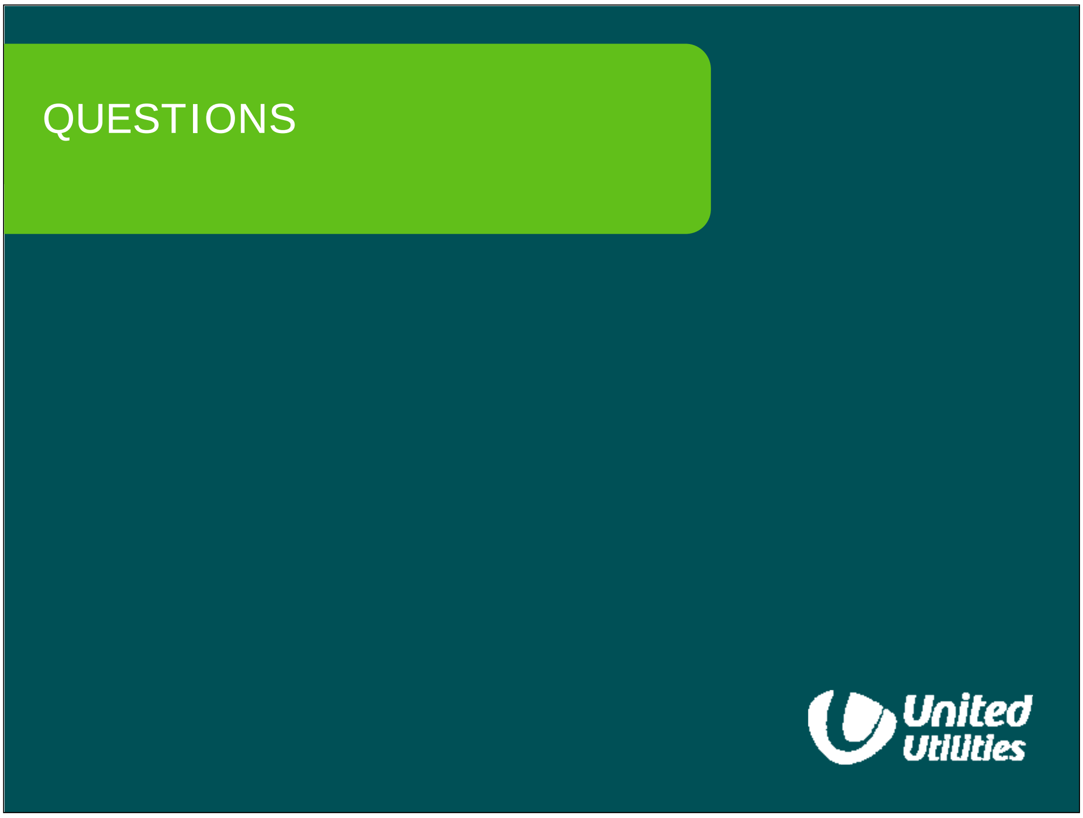
We have made a positive start to our capital investment programme, with over £600 million invested in the year.

As you know, this is a very long term business and we intend to develop a more proactive approach to asset and network management, with greater focus on innovation and technology, with the aim of delivering improvements not only in this regulatory period but beyond. This work will, from an operational perspective, support our drive to be amongst the best service providers in our region.

We have taken a first view of our business plans and are confident that our approach will deliver enhanced shareholder value.

We are implementing a programme of actions to deliver outperformance over the 2010-15 regulatory period, with substantial financing outperformance secured, and we have now outlined our opex outperformance target which stretches the efficiency levels set by Ofwat.

This is all underpinned by a robust capital structure and a sustainable dividend policy.



That concludes our results presentation.

Thank you for listening.

We'll now be pleased to take questions.

Supporting information

Financing outperformance

Finance expense: index-linked debt

Financing and liquidity

Debt structure

Financing outperformance
Sensitivity analysis

- c£300m financing outperformance over 2010-15 based on 2.5% p.a. RPI
- HM Treasury 5-year RPI forecasts[1] c1% p.a. higher on average
- 1% p.a. increase in RPI would have the following effects over 2010-15
  - RCV increase of c£400m
  - c£100m increase in principal of index-linked debt
  - reduction in RCV gearing of >1.5%
  - £100m+ of additional financing outperformance
  - total revenue increase of >£200m largely offset by finance expense & other cost pressures
- Plus scope for further outperformance on new incremental debt
  - EIB loan facility signed in March 2011 provides c£20m additional outperformance

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[1] compilation of independent forecasts published in November 2010

Finance expense: index-linked debt
Cash benefit for the group

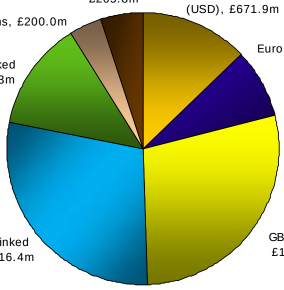
£m	2011	Restated 2010
Cash interest on index-linked debt	(39.4)	(37.1)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(62.5)	(42.8)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(40.1)	12.2
Finance expense on index-linked debt	**(142.0)**	**(67.7)**
Interest on other debt (including fair value option debt and swaps)	(125.2)	(156.0)
Underlying net finance expense	**(267.2)**	**(223.7)**

- Cash interest payment of less than £40m on c£2bn of debt
- Increase in finance expense due to higher RPI
- RPI benefit on RCV exceeds RPI impact on debt principal

[1] affected by movement in RPI between January 2010 and January 2011
[2] affected by movement in RPI between July 2009 and July 2010

Financing & liquidity as at 31 March 2011

Gross debt = £5,313.3m



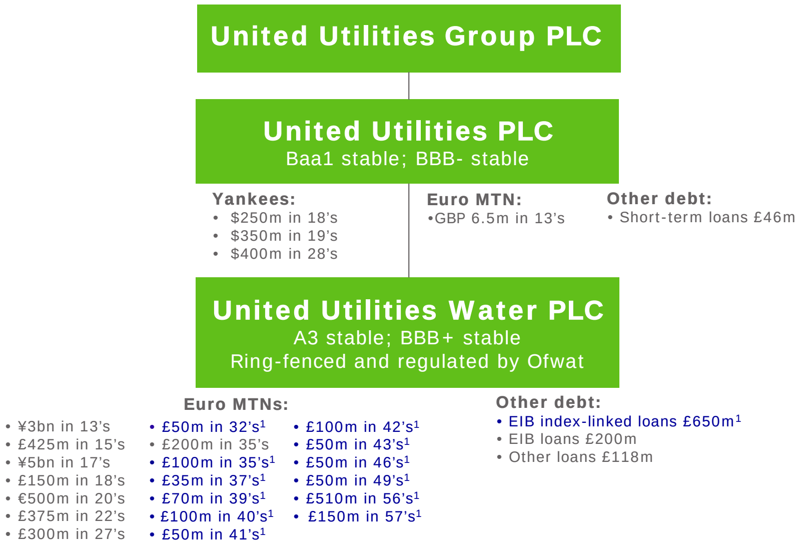
Headroom / prefunding = £699.9m

	£m
Cash and short-term deposits	255.2
Medium-term committed bank facilities[2]	554.4
Short-term debt	(57.1)
Term debt maturing within one year[3]	(52.6)
Total headroom / prefunding	**699.9**

[1] includes amounts relating to joint ventures of £30.1m
[3] includes amounts relating to joint ventures of £2.4m

[2] excludes £375.0m facilities maturing within one year

Debt structure at 31 March 2011



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[1] index-linked finance

Cautionary statement

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

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