
United Utilities
helping life flow smoothly
United Utilities Group PLC
Full year results
Year ended 31 March 2017

Good morning ladies and gentlemen and welcome to our 2016/17 full year results presentation. Before we get into the detail I'd like to make a few comments about the year and our position in the sector.

We all know that customer satisfaction is important for any business and none more so than a monopoly utility. Our new customer facing team has done a fantastic job in delivering sector beating year on year improvement, ending the year in an upper quartile position amongst our peers.

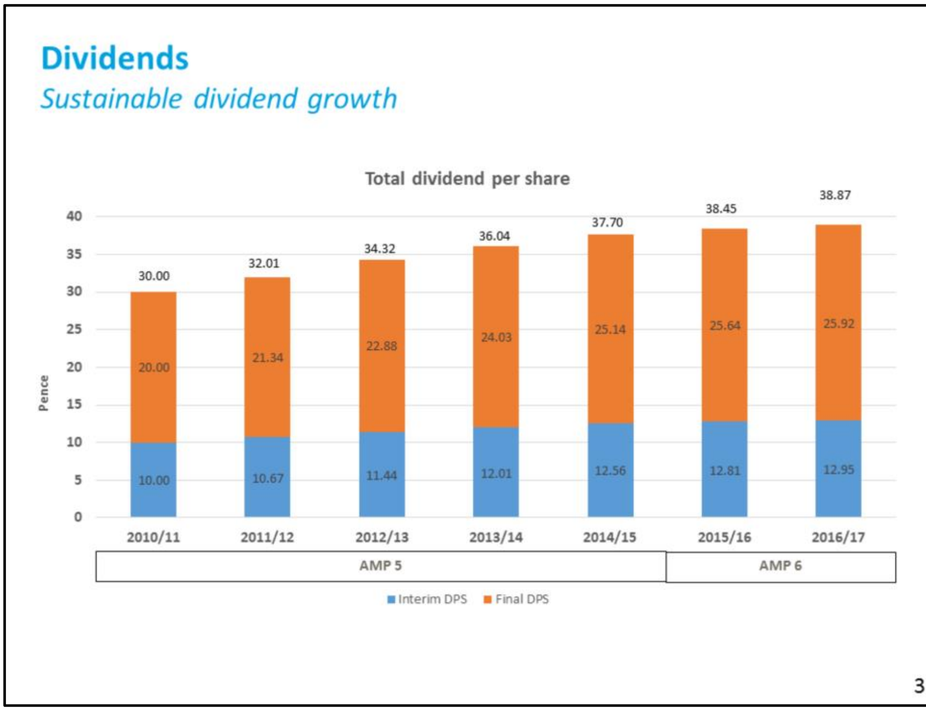
We decided at the beginning of this regulatory period to accelerate planned investment to achieve two things. First to deliver and secure the benefit of operational efficiencies as early in the regulatory period as we could to deliver over £400 million of efficiencies underpinning our business plan. Second, to mitigate the risks reflected in our outcome delivery incentives, or ODIs, that were heavily skewed towards the downside. We have been successful on both counts. Operational efficiencies are now secured, and a number of our ODIs have been de-risked earlier than would otherwise have been the case. As a consequence, I am pleased to report that we have achieved another positive net outcome against our ODIs.

Overall, our performance against our final determination means that today, we are announcing additional investment of around £100 million of our anticipated net outperformance over the course of the 2015-20 regulatory period in projects that will further improve services for customers.

I am pleased that the culture we have developed with regard to innovation means that we are very active in identifying and, more importantly, exploiting new technologies or processes that can deliver improved performance and/or efficiencies. Our novel Systems Thinking approach is unparalleled in the sector and is delivering a radically different way of managing our business. We targeted £100 million of savings in our business plan over this regulatory period from Systems Thinking and we are confident of delivering at least this amount.

You will see from the data that we are a leading player in the sector, consistently delivering customer, operational and environmental performance equal to, and in many cases better, than our peers. We are driving the business to be well placed for the future and with a good starting point with PR19 in mind.

All of this underpins sustainable dividend growth as can be seen on the next slide.



Our objective is to deliver great service to customers and sustainable dividend growth. Backed by a strong balance sheet, we have delivered sustainable dividend growth for shareholders for the last 7 years.

The final dividend of 25.92 pence per share takes the total dividend for 2016/17 to 38.87 pence per share, representing an increase of 1.1 per cent in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

Additional £100m investment

Sharing net outperformance

- Announcing additional investment of c£100m to be made available across the remainder AMP6
- Investing in resilience for the benefit of customers
- Additional investment funded through anticipated net outperformance
- £20m to be made available in 2017/18
- Similar to the approach we took in AMP5

Before getting into the detail, I will expand upon my comment about investing an additional £100 million across the remainder of AMP6 funded through our anticipated net outperformance against our regulatory contract.

We are targeting the investment on projects not covered by the PR14 settlement with the objective of improving future resilience for the benefit of customers, against a backdrop of climate change and a growth in our customer base.

The first £20 million will be made available in 2017/18 with the remaining investment to be phased over the final two years of this regulatory period.

We believe this is an appropriate approach for us, as a responsible company, investing some of our outperformance back into the business for the benefit of customers. You may recall that we took a similar approach to sharing outperformance between customers and shareholders in AMP5.

Agenda

Operational performance

Financial performance

PR19 key dates

Summary and outlook

Q&A

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Now, onto our agenda for this morning.

Under operational performance I will cover customer satisfaction and our investment programme.

Steve Fraser, Managing Director of our Wholesale business gave an overview of our ODI performance at our last full year results presentation and this was well received – so Steve will update you with this year's result.

Russ will then cover our financial performance before I finish with a look at some PR19 key dates and a summary and outlook for the group before we invite questions.

So, starting with customer satisfaction.

Over the last six years we have achieved a dramatic cultural shift, placing customers at the core of everything we do. This saw us become the most improved company under Ofwat's Service Incentive Mechanism, or SIM, over AMP5 and in 2016/17, our new customer facing management team delivered a further step change with the best year on year SIM improvement across the sector.

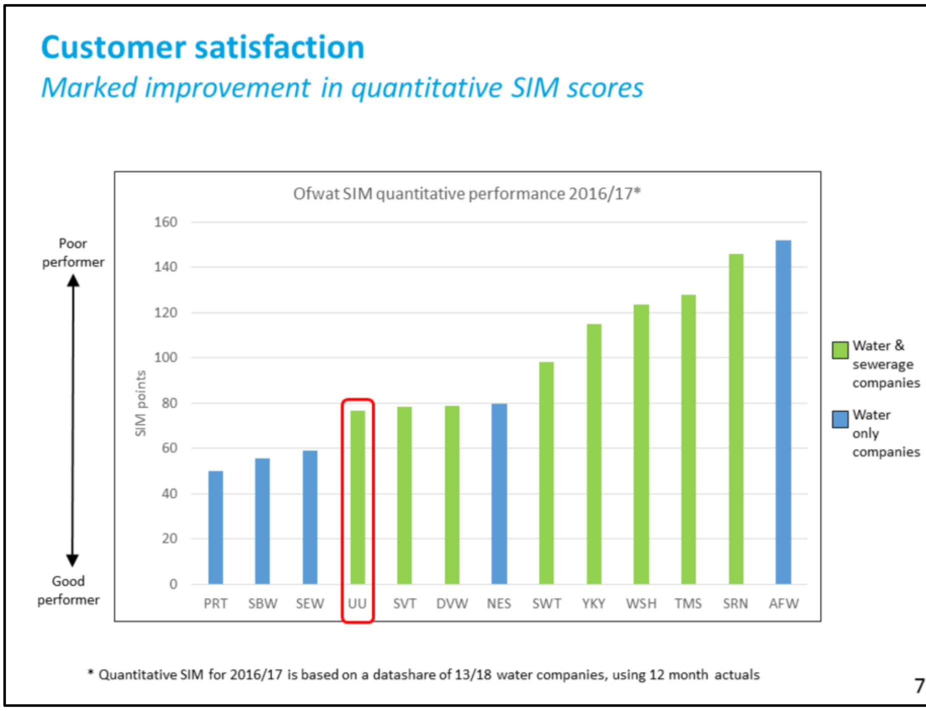
The chart shows our qualitative SIM score for wave 4 of 2016/17 where we were pleased to achieve our best-ever score positioning us as a leading company in the sector over the year as a whole. The qualitative SIM scores carry a 75 per cent weighting in the full SIM calculation and so this is a great place to be.

We are achieving this by investing in our capabilities, responding quicker and listening harder to customers in order to further improve our services. One of the most successful innovations is our Priority Services offering which provides dedicated support for those customers experiencing short or long-term difficulties. Since its launch in May 2016, more than 11,000 customers have registered for this service.

Recognising that our region suffers from high levels of income deprivation, bad debt and cash collection remain a priority for us. We have seen a significant uptake in the number of customers taking advantage of our financial assistance schemes with a consequent benefit on bad debt. The current trajectory indicates that we will exit this regulatory period with more than double the number on assistance schemes than was originally assumed in our final determination.

Underpinning this is our digital transformation, offering customers a 'channel of choice' for their interactions with us. We recently launched our new customer website and the industry's first fully interactive and real-time customer App. We are seeing a step change increase in the proportion of customers using self service channels - currently running at around 35 per cent.

Our progress is also evident in our quantitative SIM scores.

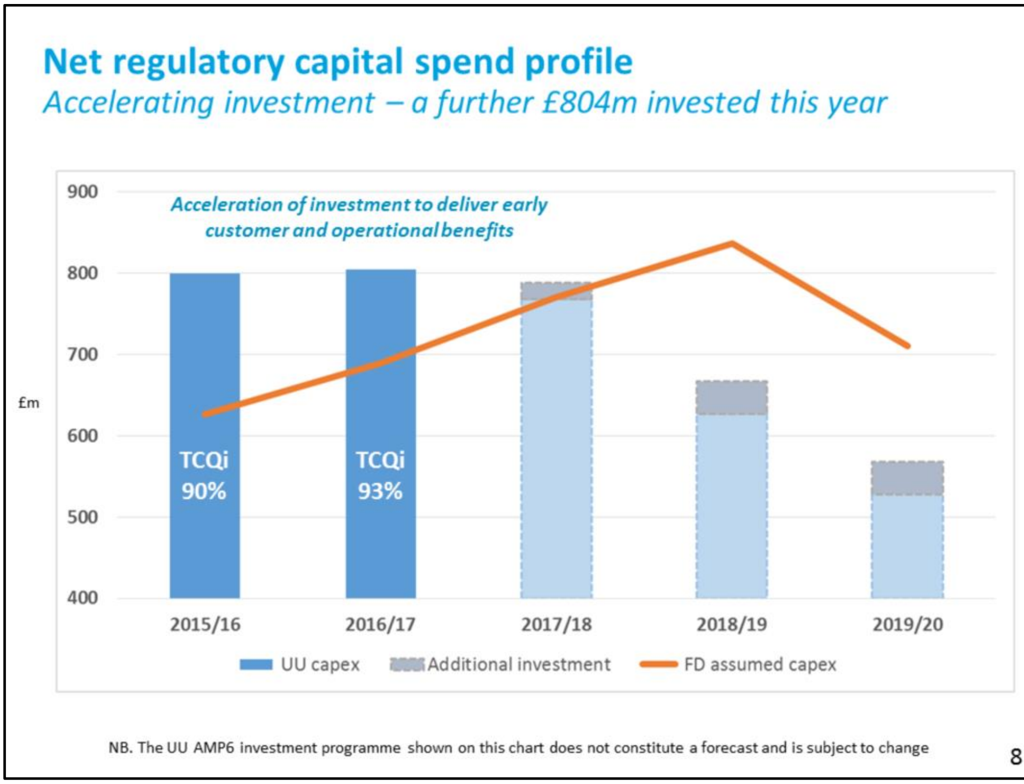


This chart shows the quantitative SIM results available so far, noting that five companies have opted not to voluntarily share data for quantitative performance and so the final picture for the year will change once their data is available.

Ahead of the full data share, we are top among the water and sewerage companies and fourth in the sector. We have achieved this with a 27 per cent year on year reduction in complaints and a 55 per cent reduction in the circumstance where an issue is not resolved at first contact.

Overall, 2016/17 has been a tremendous year for improvement in customers' satisfaction with our services. We are delighted to end the year as one of the leading companies in our peer group and see opportunities for even further improvement.

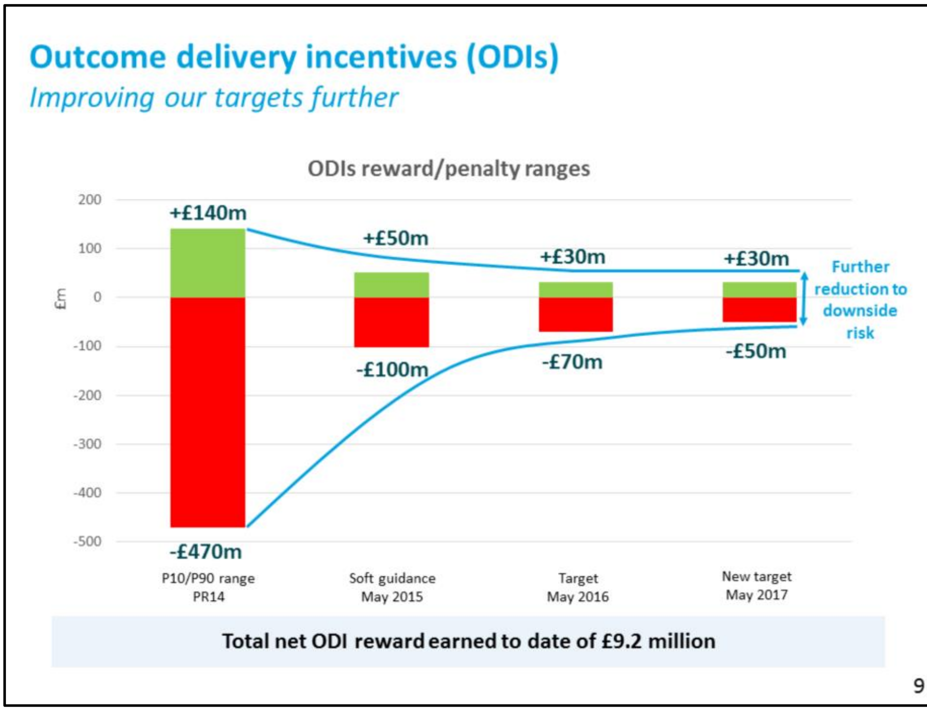
Now let's look at some operational metrics.



This is an update to the chart you saw last year, showing how we have accelerated capex investment in the first two years of the 2015-20 regulatory period compared to the assumptions contained in our final determination – which is represented by the orange line.

Our investment in 2016/17, of just over £800 million, again exceeded the in year investment assumed in our final determination delivering the benefits to which I referred to earlier. Our total capex for AMP6 is circa £3.6 billion including the additional £100 million investment of anticipated outperformance that we are announcing today. We have now invested around £1.6 billion of this total capex with a further £700 million committed to date.

The acceleration of our investment has been achieved with continued highly effective and efficient capital delivery across our large and diverse capital programme. This is reflected in our internal time, cost and quality index measure, or TCQi, which has improved to 93 per cent.

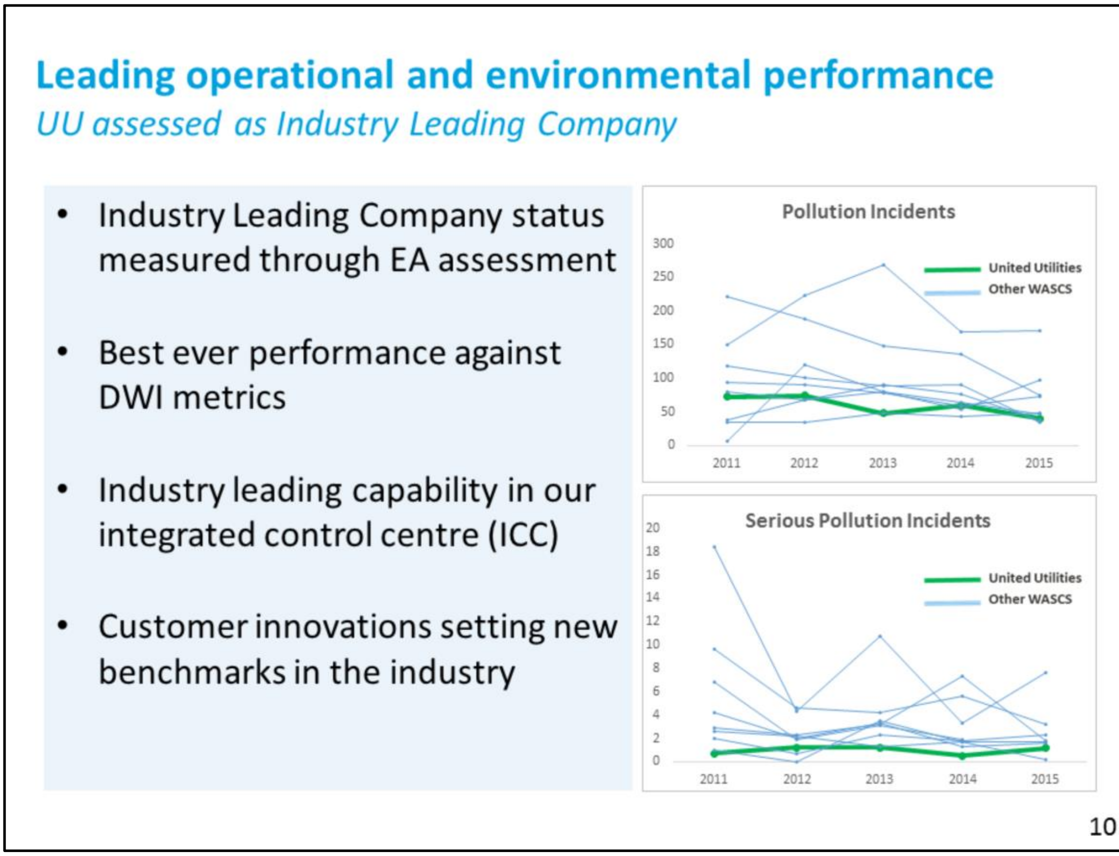


Moving on to ODIs, and you will no doubt be familiar with this chart which shows how our view has developed for our cumulative AMP6 ODI outcome.

Whilst a number of our ODI measures are still susceptible to one off events and, on the whole, our ODIs get tougher each year, we are pleased that we are able to reduce the downside risk in our target range for the five-year period whilst maintaining the potential upside at the same level. Our target range is now between a £30 million net reward and a £50 million net penalty.

The net reward achieved in 2016/17 of £6.7 million results in a cumulative net reward to date of £9.2 million for the AMP. This, together with anticipated benefits arising from our accelerated investment, supports the delivery of an outcome within our revised target range.

Steve will shortly provide some more detail on some of the ODIs that have had a significant impact on the overall performance for 2016/17 but before he does that, I would like to touch on other aspects of our operational performance.



Our continuous improvement in recent years has taken us to an industry leading position on many operational metrics.

In the Environment Agency's latest annual assessment of water and wastewater company performance, we were awarded Industry Leading Company status and expect to retain this status when the performance for 2016 is published in the summer. The two charts here show our performance on pollution and serious pollution incidents where we have set industry leading standards against this EA measure.

We have delivered our best ever performance against the Drinking Water Inspectorate metrics. This is particularly pleasing given the historical issues we have faced due to the legacy nature of our asset base.

You have already heard me refer to our Systems Thinking approach and integral to this, we are progressively moving greater capability into our Integrated Control Centre, or ICC, facilitating a more proactive and predictive approach to monitoring our assets and networks. This central control reduces the level of reactive work thereby improving performance and efficiency and helps minimise the customer impact of any incidents. We believe that this operational capability is at the leading edge across our industry.

Now over to Steve to take you through our ODI measures.

Thank you Steve and good morning everyone.

I will provide you with an overview of our ODI performance for 2016/17 and then talk through some of the individual ODIs that have had the most significant impact on our performance in the year.

Outcome delivery incentives (ODIs)

Another good performance in 2016/17

Wastewater ODIs	£m reward/ (penalty)
Private sewers service index	7.4
Wastewater category 3 pollution incidents	3.3
Sewer flooding index	(1.5)
Maintaining our wastewater treatment works	-
Other 6 wastewater ODIs	0.3
Wastewater net reward	**9.5**

Water ODIs	£m reward/ (penalty)
Reliable water service index	(8.0)
Water quality service index	(3.6)
Average minutes lost	-
Leakage	9.1
Other 5 water ODIs	(0.3)
Water net (penalty)	**(2.8)**
Total net reward	**6.7**

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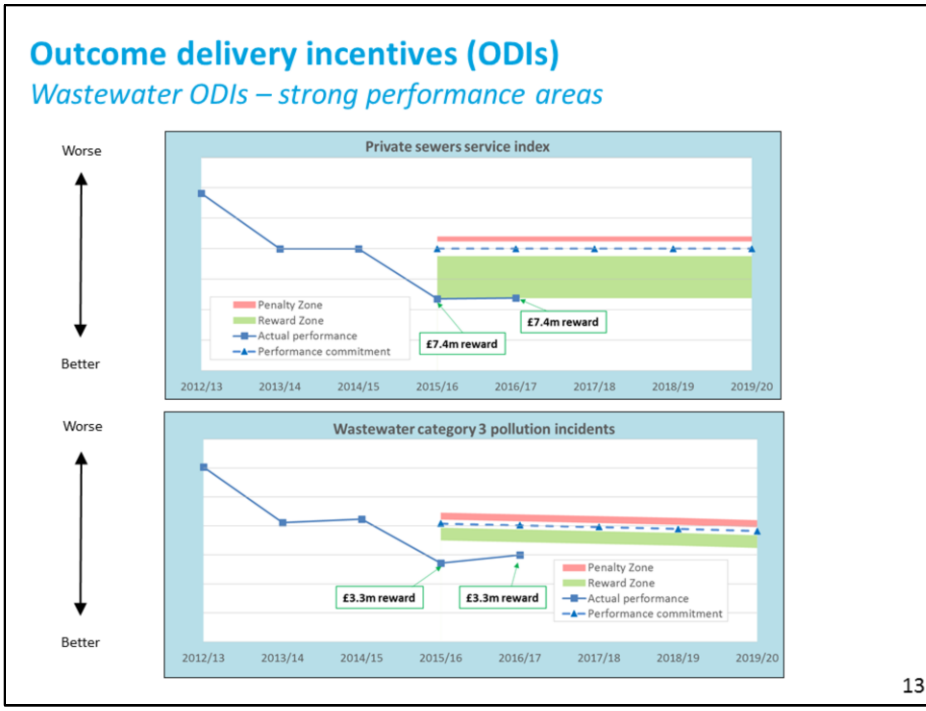
This slide summarises our ODI position for 2016/17. As a reminder, our ODIs are significantly skewed to the downside as this is what our customers were prepared to support at the last price review. Our job has been to mitigate this downside risk and we are pleased with the results to date. We have achieved a net reward of £6.7 million for the year which means that, together with the net reward of £2.5 million in 2015/16, our cumulative position for the 2015-20 regulatory period is well ahead of our initial expectations.

Overall, performance was very good in our wastewater business achieving a net reward of £9.5 million reflecting another good performance on private sewers and pollution. Performance in our water business was a significant improvement on the prior year but remains a challenge and behind that of our wastewater performance. Our main penalty was on reliable water service and I will shortly discuss some of the things we are doing to address this. Our best ever performance on leakage helped to offset this.

We will continue to be mindful of the various trade-offs when prioritising operational investment to maximise the opportunity and balance performance for all of our stakeholders.

I will now take you through some of the measures in more detail starting with our wastewater performance.

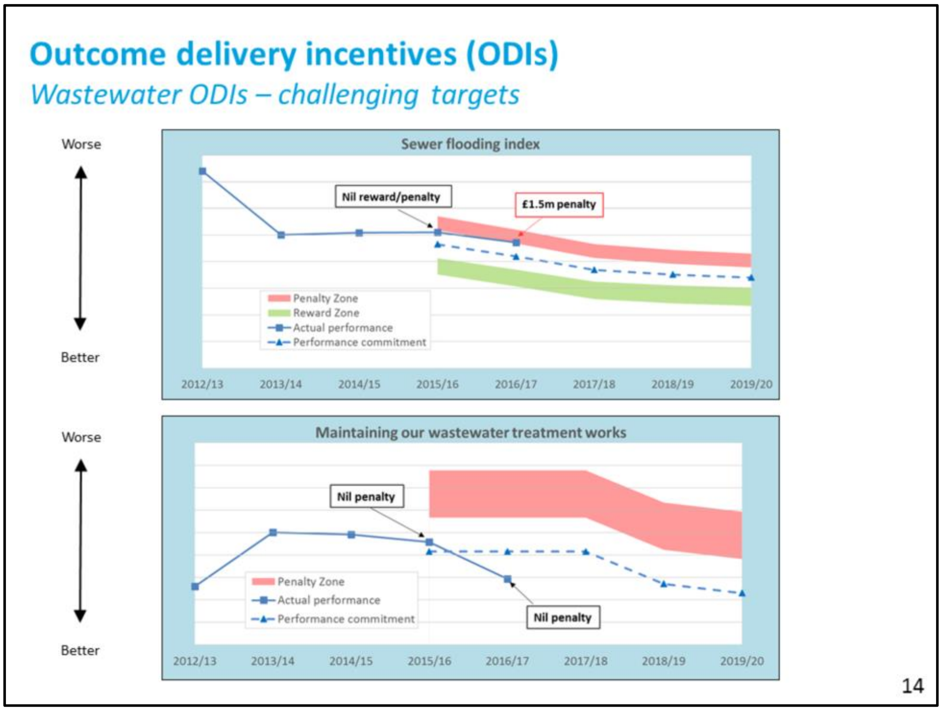


As the charts show, we had another year of strong performance against our private sewers and wastewater pollution ODIs.

The planned acceleration of our investment programme is benefitting our performance against our private sewers ODI and helped us achieve a reward in 2016/17 of £7.4 million, only marginally below the maximum available. This has put us in a strong position against this measure and although our investment profile will result in less capex in the later years, it gives us a sound foundation for continued performance.

The bottom chart shows performance against our wastewater pollution ODI. 2016/17 was another year where we are comfortably within positive territory, earning a maximum £3.3 million reward. This ODI is weather dependent and although weather conditions have been favourable, we have consistently been a good performer in this area relative to our peers.

So, 2016/17 showed another very good performance against these wastewater ODI measures.



At our last full year results presentation I highlighted some areas where the ODI measures get tougher in future years.

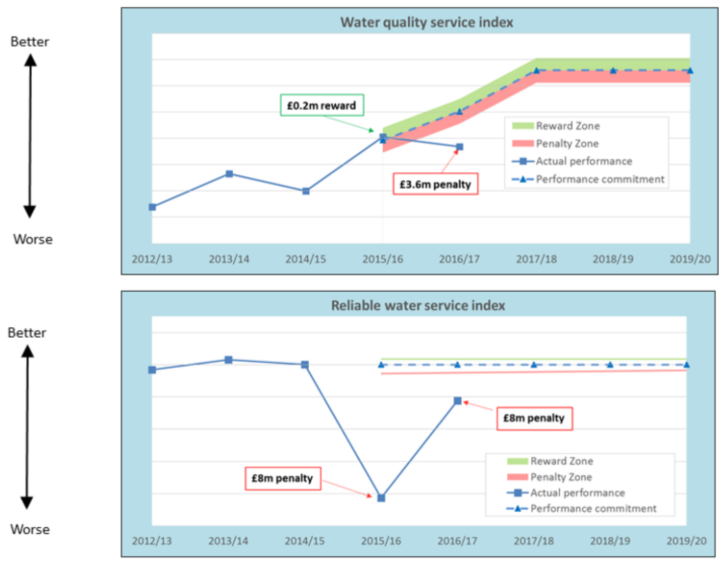
The top chart shows our performance against our sewer flooding ODI where, despite an improved performance in 2016/17, we took a £1.5 million penalty reflecting a tougher target. However, our improved performance against this metric mitigated a higher penalty of £14.4 million that we would have incurred had we performed at the same level as in the prior year. Here, the measures reflect stretching upper quartile targets for the period to 2020 and require us to achieve a step change in performance over the three remaining years to avoid further penalties. We are undertaking an extensive sewer cleaning programme along with a comprehensive drainage area programme to help us improve our performance. This measure can be significantly impacted by weather variability and so we have also employed widespread use of network modelling, allowing us to ramp up or down our pumping to give our network capacity a chance to deal with sudden downpours. The upper quartile target will continue to be a challenge given the level of rainfall in the North West and we will review operational decisions on a regular basis to help reach the optimal position overall against this measure.

The second chart shows an improvement in performance against our maintaining wastewater treatment works ODI. This measure is penalty only and can be very volatile based on single events at large, individual works. Here again, we are benefitting from the acceleration of our investment programme, particularly at our major treatment works, which gives us a high level of confidence that we will be able to meet much more stringent permit standards in future years. Steve will shortly provide more detail of a project at our largest treatment works where our targeted investment will help mitigate the risk of incurring a penalty against this ODI in the years to come.

Now, looking at our performance in the water business.

Outcome delivery incentives (ODIs)

Water ODIs – challenges in 2016/17



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These two charts show our water quality service and reliable water service ODIs and were two of the main contributors to our water ODI performance.

Whilst overall water quality continues to be good, our performance has slightly deteriorated from our good performance in the prior year, although it still remains above our historical average. This, coupled with a tougher target, has resulted in a £3.6 million penalty mainly due to discolouration events. Our target against this ODI becomes progressively tougher and we have plans in place to deliver improved performance, including a significant mains cleaning programme in the worst affected areas.

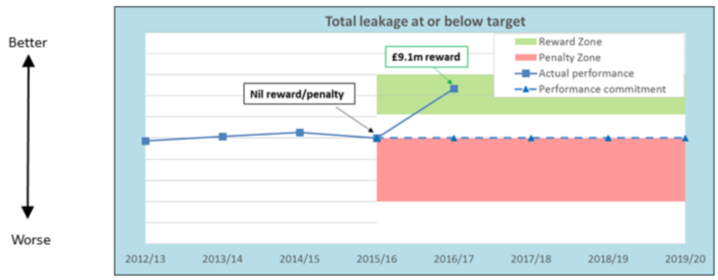
As you can see from the bottom chart, the penalty and reward band for the reliable water service index is very narrow and we are susceptible to one-off water no-supply incidents, particularly those where supply is off for over 12 hours. In 2016/17, one such event resulted in us taking a maximum penalty of £8 million. However, our performance in respect of minutes lost per customer is good so, whilst we are susceptible to significant one-off events, we are dealing well with other, more commonplace events.

Our Systems Thinking approach is a key enabler in helping us to avoid these significant one-off events and to respond when they do occur, helping to minimise the impact on customers and mitigate the risk of ODI penalty. For instance, we have invested significantly in our start up to waste project which provides local storage capacity at treatment works in the event of a failure therefore increasing flexibility and the ability to recover quickly. We plan to invest £75 million in start up to waste across this regulatory period providing us with the largest coverage in the sector.

We are working hard to get back on track against both of these measures and have plans in place to deliver the required changes.

Outcome delivery incentives (ODIs)

Water ODIs – best ever leakage performance



Best ever leakage performance

Significant focus on detection, repair times and pressure management

Self learning pressure management valves with new central control

Systems Thinking approach in action

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Our leakage performance has been relatively stable and broadly consistent with our performance commitment. For 2016/17 we are pleased to report our best ever leakage performance, earning a reward of £9.1 million. This is a direct result of significant operational focus on improving our ability to detect leaks and reducing repair times once those leaks are detected.

Our Systems Thinking operational approach has seen us install new, self learning pressure management valves which help reduce the daily volatility of pressure in our network and result in lower leakage levels. We have implemented a level of central control through our Integrated Control Centre which allows us to remotely monitor and manage the pressure in our network and detect and resolve any issues, increasingly before any customer impact has occurred.

We will roll out further applications of our Systems Thinking approach as we look to progressively improve our operational control across the whole business.

So overall, our ODI performance in 2016/17 has exceeded our initial expectations and the acceleration of our investment programme is helping to significantly mitigate the downside risk. We will continue to invest effectively to achieve an optimal ODI performance and, as you can see, we are implementing a range of initiatives to help achieve further performance improvements over the remainder of this regulatory period and beyond.

Thank you, and now back to Steve.

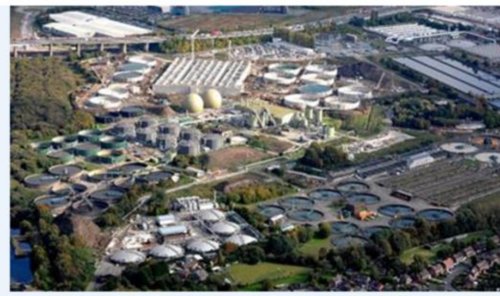
Thanks Steve.

I would now like to provide a bit more detail on where our investment has been focussed to date, contributing to the ODI outcomes Steve has just referred to.

Leading company in embracing innovation

Contributing to over £400m efficiencies

- Davyhulme modernisation project – c£200m in AMP6
- Design for manufacture and assembly (DfMA) – standardised design and cost efficiency



- Nereda process control technology – efficiency in wastewater process
- Real time production planning with network modelling
- Telemetry backbone connecting our sites and integrated control centre

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A culture of exploiting innovation runs right throughout our business and is contributing to the delivery of over £400 million of efficiencies to meet our totex allowance for the 2015-20 period.

Our Davyhulme wastewater treatment works in Manchester is one of our largest and where we are currently investing around £200 million to replace some of the older parts with modern, automated and efficient technology. This will enhance performance and allow us to adhere to tighter environmental permits, therefore significantly reducing the downside risk in our ODI outcome.

The Davyhulme investment makes extensive use of design for manufacture and assembly, or DfMA, involving the digital design and prefabrication of a significant proportion of the construction work off-site. We are targeting over 75 per cent of our projects in AMP6 to employ this approach, delivering improvements in safety, quality and maintainability and reducing build time on site, thereby lessening disruption to the local community and site operations. This innovative construction technique at Davyhulme alone is expected to deliver a 15 per cent saving in construction cost compared with traditional construction methods.

A new process technology innovation, Nereda, offers significant efficiency and cost saving benefits in wastewater treatment. During the year, we contracted for our first two Nereda plants, the first in the UK of significant size, and are targeting up to a 20 per cent through life cost reduction by using this technology. Other site applications will follow.

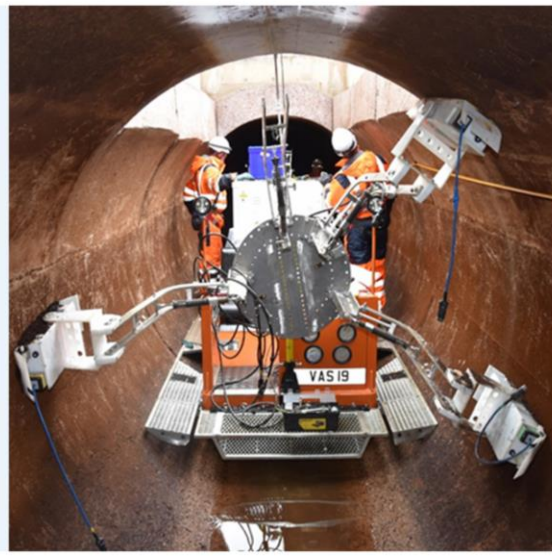
We have full regional production planning up and running for both water production and sludge processing. Primarily designed to optimise production cost and service performance, the production control system plays a critical role in our response to incidents. This is supplemented by network modelling – in our water network, this allows us to predict events in the network before they occur and in our wastewater network, we can flex the level of pumping to deal with sudden weather events. As Steve has already highlighted, this capability will be important for our ODI performance over the remainder of this AMP.

Underpinning this is our telemetry backbone providing enhanced and more reliable communications between our sites and the Integrated Control Centre, enabling enhanced monitoring and intervention.

Investing in resilience

Manchester resilience project

- Planned maintenance outage of Haweswater aqueduct
- Extensive use of innovative technology
- Underpinned by real-time production planning with central control
- Committed to further outage in AMP6 for additional work
- Longer term approach to be considered in the context of a wider Manchester resilience project



In our water business, we have been investing with significant focus on resilience.

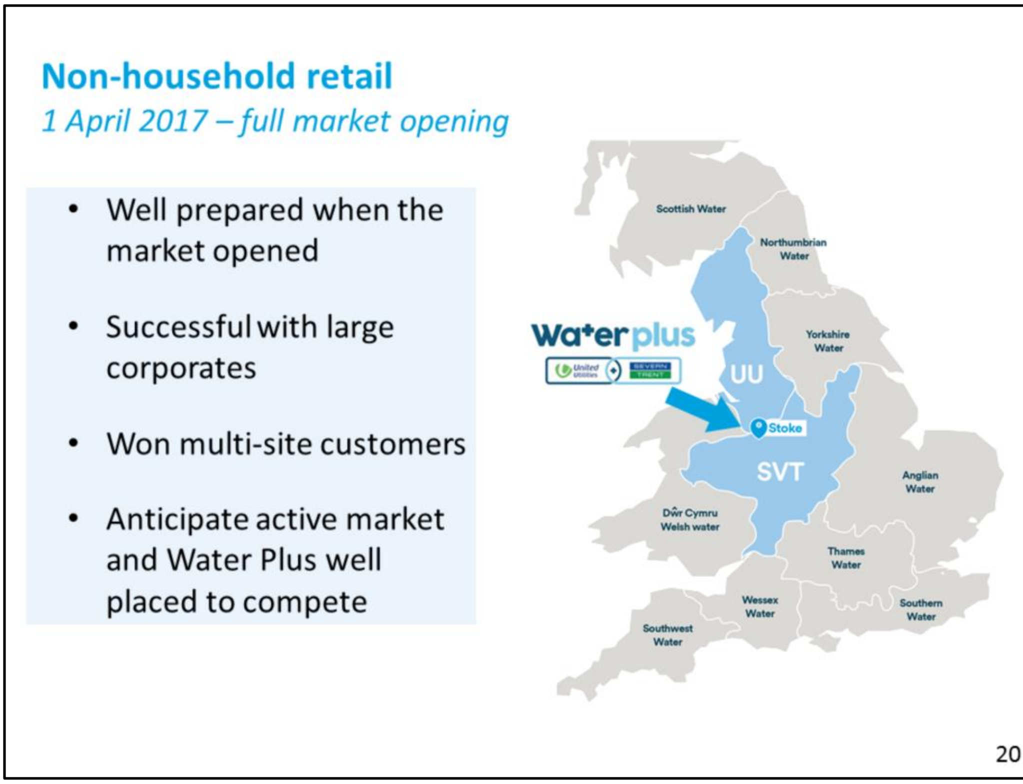
We took our largest aqueduct, Haweswater, out of supply for a month last October to enable us to carry out a detailed inspection and repairs. This aqueduct normally supplies water to around 2 million people in Central Lancashire and Manchester – up to 35 per cent of our daily regional supply. The outage was only the second time the aqueduct flow has been completely shut down since it was first commissioned in the 1950s. The ability do this was made possible following the completion of the West East Link Main project in 2013, allowing us greater flexibility to transfer flow around our region.

During the October outage, detailed engineering investigations were carried out along the aqueduct's length to determine its structural condition. Highly specialised and bespoke repairs included the successful installation of stainless steel supports in a section of tunnel 7.8 kilometres in, and 300 metres below ground level.

The investigation work used innovative technologies such as ground penetrating radar and laser scanning mounted on specifically designed vehicles. This allowed us to determine the condition of the aqueduct lining right through to the host bedrock and provide a more reliable indication of the condition of these tunnel sections than the data previously obtained during the visual inspections of 2013.

Our real-time production planning capability with central control played a key role in enabling us to take the aqueduct out of supply for such a significant period. It meant we were able to plan to meet the demand normally supplied by the aqueduct through alternative sources.

We are continuing to analyse the data we gathered, but already, we have committed to a further outage in this regulatory period to allow us to address those areas most in need of attention. As well as taking these actions in the short term, we are developing our analysis of the condition of the current structure so we can evaluate the potential impact on resilience for customers in Manchester and what the requirements will be in the longer term, for AMP7 and beyond.



Now turning our attention to the non-household retail market which fully opened to competition on 1 April 2017.

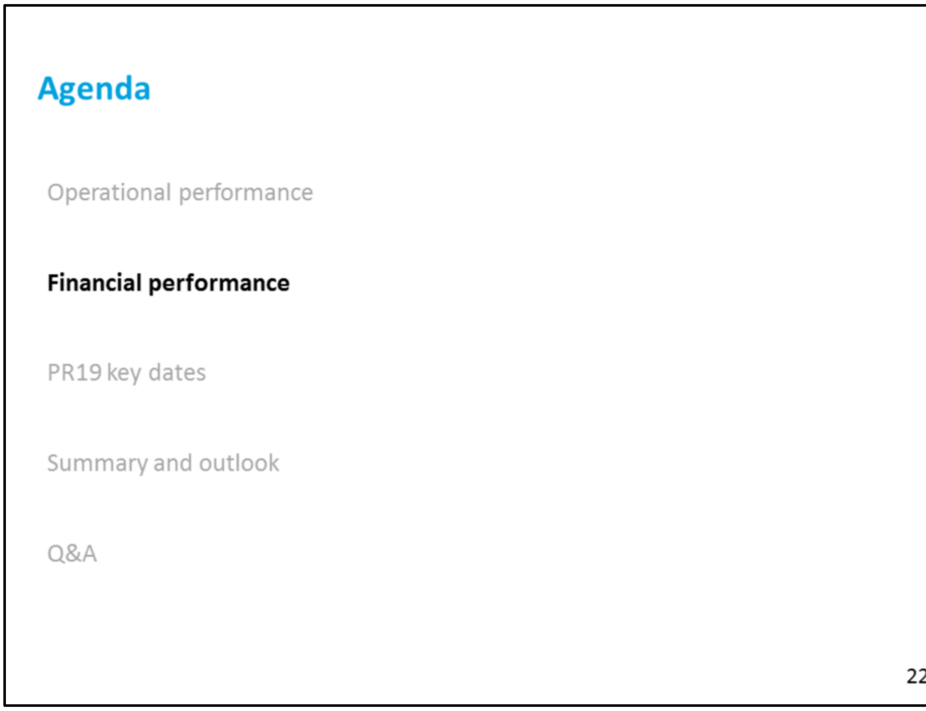
Both our United Utilities Wholesale business and our Water Plus joint venture with Severn Trent were well prepared for market opening and we were encouraged that no material issues were encountered in either the shadow operations period leading up to market opening or since 1 April.

Water Plus continues to provide customers with a very attractive choice of retail supplier and has been successful in securing switching, in particular in the large corporate space, including winning large multi-site customers such as David Lloyd Leisure and Kwik Fit.

The open market is still in its infancy, but this net gain indicates that the combined business is well placed to compete in what will continue to be an active market as the dynamics between incumbent retailers and new entrants evolve.

Now over to Russ, for the numbers.

Thank you Steve.



So moving on to our financial performance.

Reported income statement

One-off tax credit and profit on disposal enhance earnings

£m Year ended 31 March	2017	2016
Revenue[1]	1,704.0	1,730.0
Operating expenses	(733.6)	(798.4)
EBITDA	**970.4**	**931.6**
Depreciation and amortisation	(364.9)	(363.7)
Operating profit	**605.5**	**567.9**
Investment income and finance expense	(189.0)	(219.4)
Profit on disposal of non-household retail business	22.1	-
Share of profits of joint ventures	3.8	5.0
Profit before tax	**442.4**	**353.5**
Tax	(8.5)	44.0
Profit after tax	**433.9**	**397.5**
Earnings per share (pence)	**63.6**	**58.3**
Total dividend per ordinary share (pence)	**38.87**	**38.45**

[1] UU Water appointed: £1,671m, UU Water non-appointed: £9m, Non UU Water: £24m (2016/17)

The group has delivered a good set of results for the 2016/17 financial year.

In line with the ESMA guidelines, I will start today with our IFRS reported numbers.

Reported operating profit of £606 million was up £38 million, mainly as a result of reduced profit in 2015/16 due to costs associated with the Franklaw water quality incident.

Reported profit before tax of £442 million was up £89 million, reflecting the increase in operating profit, fair value movements and the profit on disposal relating to the Water Plus JV.

Reported profit after tax of £434 million was up £36 million, as the increase in profit before tax was partially offset by a higher deferred tax credit in 2015/16 relating to the Government’s future planned tax rate changes.

Reported EPS was up 9 per cent for the same reasons that have moved profit after tax.

Underlying income statement

Good financial performance

£m Year ended 31 March	2017	2016
Revenue[1]	1,704.0	1,730.0
Operating expenses	(567.9)	(594.0)
Infrastructure renewals expenditure	(148.3)	(168.2)
EBITDA	**987.8**	**967.8**
Depreciation and amortisation	(364.9)	(363.7)
Operating profit	**622.9**	**604.1**
Net finance expense	(237.3)	(201.0)
Share of profits of joint ventures	3.8	5.0
Profit before tax	**389.4**	**408.1**
Tax	(76.0)	(82.8)
Profit after tax	**313.4**	**325.3**
Earnings per share (pence)	**46.0**	**47.7**
Total dividend per ordinary share (pence)	**38.87**	**38.45**

[1] UU Water appointed: £1,671m, UU Water non-appointed: £9m, Non UU Water: £24m (2016/17)

Now turning to the underlying income statement which we believe is more representative of underlying business performance. The detailed adjusting items are shown in the profit after tax reconciliation slide in the appendix to this presentation.

Revenue of around £1.7 billion was down £26 million, as expected, reflecting the accounting impact of our Water Plus JV, which completed on 1 June 2016, partly offset by our allowed regulatory revenue increases.

Underlying operating profit of £623 million was £19 million higher than in 2015/16. This reflects our allowed regulatory revenue changes, a reduction in infrastructure renewals expenditure and lower total costs, which I will discuss in more detail on the next slide, partly offset by the accounting treatment of Water Plus.

Underlying profit before tax of £389 million was £19 million lower than last year, as the increase in underlying operating profit was more than offset by a £36 million increase in the underlying net finance expense. This was due to higher RPI inflation which, as we have said previously, has a greater impact on financing costs than on revenue in the first year of an inflation increase.

Underlying profit after tax of £313 million was £12 million lower than last year reflecting the £19 million decrease in underlying profit before tax partly offset by lower underlying tax on the lower profits.

Underlying EPS was down by 1.7 pence, or 4 per cent, for the same reasons that moved underlying profit after tax.

Now on to our cost base.

Underlying operating costs

Movements

£m Year ended 31 March	2017	2016	Movement
Revenue	**1,704.0**	**1,730.0**	
Employee costs	(140.9)	(143.7)	2.8
Hired and contracted services	(93.4)	(96.8)	3.4
Property rates	(91.6)	(86.3)	(5.3)
Materials	(62.8)	(62.7)	(0.1)
Power	(68.7)	(65.0)	(3.7)
Bad debts	(29.9)	(39.2)	9.3
Regulatory fees	(26.8)	(24.9)	(1.9)
Third party wholesale charges	(3.0)	(15.1)	12.1
Cost of properties disposed	(8.6)	(10.5)	1.9
Other expenses	(42.2)	(49.8)	7.6
	(567.9)	**(594.0)**	**26.1**
Infrastructure renewals expenditure (IRE)	(148.3)	(168.2)	19.9
Depreciation and amortisation	(364.9)	(363.7)	(1.2)
Total underlying operating expenses	**(1,081.1)**	**(1,125.9)**	**44.8**
Underlying operating profit	**622.9**	**604.1**	
Adjustments:			
Water quality incident	-	(24.8)	
Flooding incidents (net of insurance proceeds)	(1.5)	0.6	
Business retail market reform[1]	(5.8)	(11.1)	
Restructuring costs	(10.1)	(0.9)	
Reported operating profit	**605.5**	**567.9**	

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the business retail market

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Underlying operating expenses reduced by £45 million compared with last year.

Of this, £20 million was simply the effect of the IRE phasing across the AMP, and £12 million was a reduction in third party wholesale charges which is an accounting effect of the transfer of our out-of-area non-household business to Water Plus. That leaves a net reduction of £13 million of which £9 million was an improvement in our bad debt charge.

Bad debt and cash collection

Sustainable improvement

- Household bad debt as a percentage of regulated revenue reduced to 2.5% in 2016/17 from 3.0% in 2015/16
- Reflects
  - Better cash collection in both 2015/16 and 2016/17
  - More help for customers struggling to pay
- Bad debt will continue to be one of our principal challenges because the North West is the most deprived region in England

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The excellent work undertaken by our customer facing team has contributed to a reduction in our household bad debt to its lowest ever level of 2.5 per cent of regulated revenue, from 3.0 per cent last year.

Our bad debt performance has benefitted from the improvement in our cash collection performance in 2015/16 which led to a cleaner debt book brought forward into 2016/17. This improved cash performance has been sustained, leading to additional reductions in the bad debt charge. In addition to this, further reductions have arisen from the positive impact of the introduction of billing and collections initiatives including the successful rollout of our Town Action Plan which engages with customers in our most deprived areas and has significantly increased the number of customers benefiting from our financial assistance schemes. This initiative recently resulted in us being awarded a ‘Credit Award for Excellence in Treating Customer Vulnerability’.

Our improved performance this year has been encouraging but bad debt will remain a challenge in our region of high deprivation and so will be an area of continued focus as we drive for further improvement.

Financial position

Robust capital structure

£m At 31 March	2017	2016
Property, plant and equipment	10,405.5	10,031.4
Retirement benefit surplus	247.5	275.2
Other non-current assets	384.2	208.7
Cash	247.8	213.6
Other current assets	333.4	412.3
Total derivative assets	807.7	765.6
Total assets	**12,426.1**	**11,906.8**
Gross borrowings	(7,384.5)	(6,978.0)
Other non-current liabilities	(1,620.8)	(1,592.5)
Other current liabilities	(349.5)	(369.1)
Total derivative liabilities	(249.7)	(261.7)
Total liabilities	**(9,604.5)**	**(9,201.3)**
TOTAL NET ASSETS	**2,821.6**	**2,705.5**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,991.2	1,878.8
Other reserves	327.7	324.0
SHAREHOLDERS' EQUITY	**2,821.6**	**2,705.5**
NET DEBT[1]	**(6,578.7)**	**(6,260.5)**

[1] Net debt includes cash, borrowings and derivatives (slide 44)

Turning now to the statement of financial position.

As expected, property, plant and equipment was up £374 million and net debt was up £318 million, reflecting expenditure on our large capital programme.

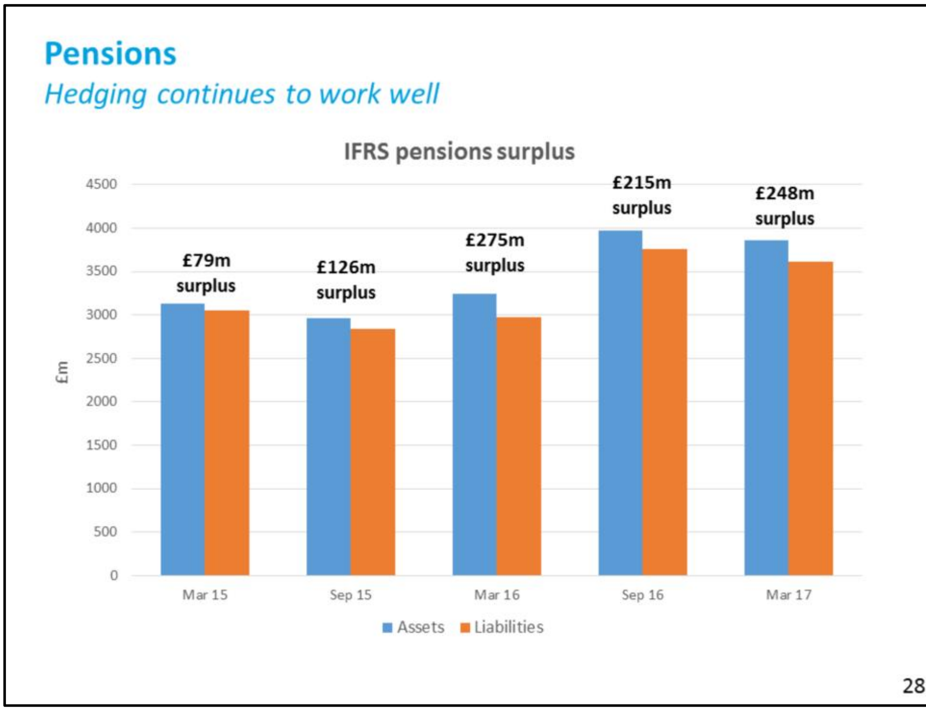
Other non-current assets have increased by £176 million and other current assets have decreased by £79 million largely because the former non-household debtors of United Utilities and Severn Trent are now in the Water Plus JV, which is financed 50/50 by the two parents.

We again have an IAS 19 retirement benefit surplus, which I will talk about on the next slide.

Derivative assets of £808 million were up £42 million, reflecting both a weakening of sterling and a decrease in market interest rates during the period. Derivative liabilities of £250 million were down £12 million, reflecting an increase in the market price for electricity in the period.

Gross borrowings of £7.4 billion were up £407 million, due to debt raised exceeding maturities, the inflation uplift on index-linked debt, a weakening of sterling and a fall in market interest rates.

Retained earnings of around £2 billion were up £112 million, largely reflecting retained profits of £434 million offset by dividends of £263 million and post-tax remeasurement gains on our defined benefit pension schemes of £59 million.



Looking now at our pensions position in a bit more detail, and as a reminder, we believe that sum of the parts valuations should use normalised IFRS as the best available method for cross-company comparisons.

We have a clear hedging policy in respect of our pensions schemes, adopting an asset / liability matching approach to avoid unnecessary volatility in the funding and accounting surplus or deficit. This policy is working well as you can see from the relative stability of the accounting surpluses we have reported in our last few years of results.

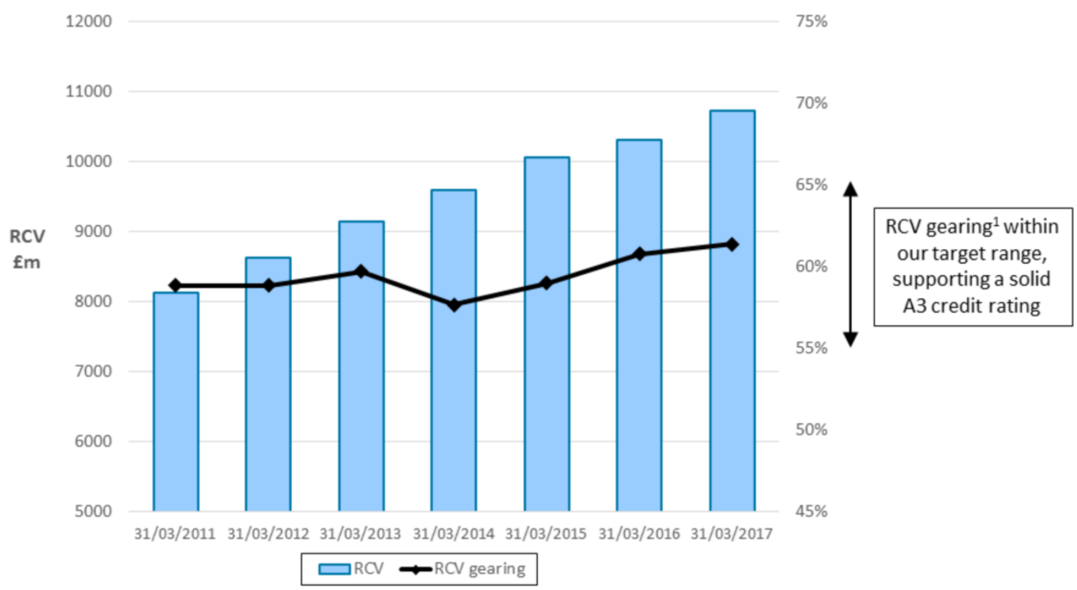
Our accounting surplus has increased by £33 million compared to the position as at September 2016 mainly reflecting a decrease in credit spreads.

Our pensions position remains strong with an IFRS surplus of £248 million as at 31 March 2017 putting us in a much better place relative to many other FTSE companies.

It is encouraging to see that the majority of analysts are now factoring pensions into their valuations and we expect more to follow. However, few analysts have yet attempted to normalise the IFRS numbers by adjusting for the differences in published assumptions. This is not difficult to do and gives much better comparability – we would be happy to help any analyst who wishes to consider this.

RCV and gearing

RCV gearing supports robust capital structure



[1] RCV gearing calculated as group net debt / United Utilities Water's regulatory capital value (based on shadow RCV for AMP6, adjusted for actual spend) and presented in outturn prices. RCV at 31/03/2017 = £10,719m

This chart shows our RCV and gearing level.

The blue bars show the growth in our RCV and, for this regulatory period, we have adjusted the RCV to reflect the acceleration of our investment programme, as suggested by a number of analysts.

The black line shows the movement in RCV gearing over the last few years. As you can see, for the period to March 2015, our gearing had remained relatively stable at around 60 per cent, with the growth in net debt largely offset by the commensurate growth in RCV. In the early part of the current regulatory period, our gearing has nudged up slightly reflecting the impact of the acceleration of our investment programme and lower inflationary growth in the RCV.

The acceleration of our investment programme has a short-term impact on our gearing and we would therefore expect our gearing to return closer to historical levels in the later years of the AMP as the investment programme reduces. Any future increases in RPI will positively impact the inflationary growth in the RCV and also contribute to a reduction in gearing.

As at 31 March 2017, our gearing was 61 per cent. This remains comfortably within our target range of 55 to 65 per cent and supports a solid A3 credit rating.

Cash flow statement

Cash from operations covers investing activities

£m Year ended 31 March	2017	2016
Net cash generated from operating activities	820.8	685.6
Net cash used in investing activities	(804.6)	(676.8)
Net cash generated from/(used in) financing activities	22.0	(46.4)
Net movement in cash	**38.2**	**(37.6)**

Now moving on to cash flow.

In the year, there has been a switch between cash generated from operating activities and cash used in investing activities due to the accounting treatment of our Water Plus JV. As a result, net cash generated from operating activities was £135 million higher than last year, at £821 million and there was a corresponding increase of £128 million in cash used in investing activities, up to £805 million.

Cash generated from financing activities was £22 million, reflecting net proceeds received from borrowings, compared with cash used in financing activities of £46 million last year, reflecting net repayment of borrowings.

Now onto financing.

Financing

Leading the way on CPI debt

- >£1.7bn of c£2.5bn 2015-20 financing requirements already raised

  CPI-linked – first CPI-linked debt issued by a UK utility
    - £40m raised from private placements in December 2016, with 15-year and 20-year maturities
    - £60m raised from private placement in February 2017, with a 20-year maturity

  RPI-linked
    - c£73m raised from private placements in December 2016, with 15-year and 20-year maturities
    - Total of £813m raised previously

  Nominal
    - Total of £736m raised previously

- £200m committed bank facilities agreed or renewed since September 2016
- Financing headroom into 2019

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Over the 2015-20 regulatory period, we have financing requirements totalling around £2.5 billion, of which we have now raised over £1.7 billion.

In December 2016, we were pleased to issue the first ever CPI-linked notes by a UK utility and to date, we are still the only UK water company to have tested this market. The two private placements totalling £40 million were issued whilst simultaneously issuing RPI-linked notes of the same maturities and therefore allowing us to observe an RPI / CPI spread of 80 basis points which is better than the estimated long-run average of between 100 and 130 basis points. We were able to follow this up with a further issuance of £60 million CPI-linked notes in February 2017 with an estimated spread of 80-90 basis points.

Whilst we believe that our CPI-linked issuance to date puts us in a sector leading position in response to Ofwat's decision to transition away from RPI, we have achieved this through tapping in to some small, but attractively priced demand and we do not therefore believe that this constitutes a deep, CPI-linked debt market.

Since September 2016, we have agreed or renewed £200 million of committed bank facilities, bringing the total under our rolling bilateral revolving credit facilities programme to £750 million.

As a result, we have financing headroom to cover our projected financing needs into 2019.

Hedging

Clearly articulated financial risk management

- Debt portion of RCV remains largely hedged for inflation
  - Index-linked debt portfolio now c£3.6bn with an average cost of 1.3% real
  - Around half of pension liabilities hedge a substantial proportion of the remaining debt portion of RCV
- Nominal debt portfolio fixed for 2015-20 at average rate of c3.6%[1]
- Possible hedging response to Ofwat's proposed CPI transition and approach to setting the cost of debt currently being considered

[1] Interest rate is inclusive of credit spreads

And finally, a reminder of our approach to hedging.

Our hedging policy for business exposures is to leave the equity portion of the RCV exposed to RPI inflation by largely hedging the debt portion of the RCV for inflation through index-linked debt and the effect of our pension scheme liabilities.

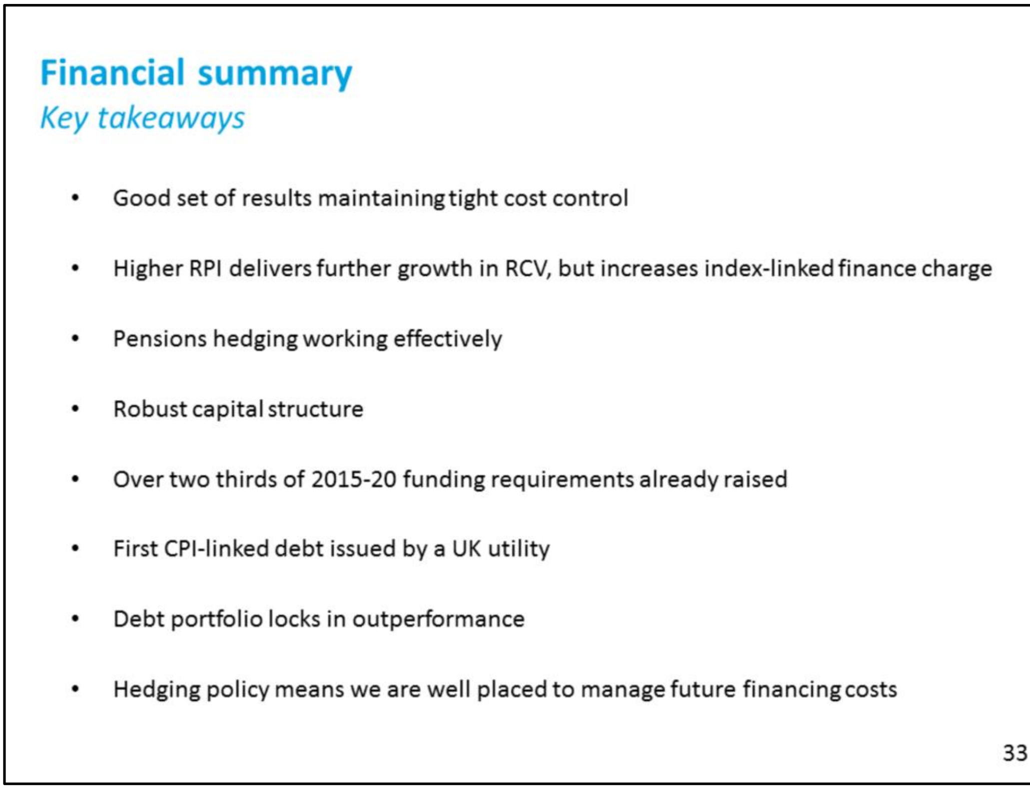
During 2016/17 the group's defined benefit pension schemes implemented a market hedge for approximately 50 per cent of inflation exposure on the liabilities and this will be reflected in a corresponding reduction in the pensions inflation funding mechanism.

The average cost of our £3.6 billion, long-term, index-linked debt portfolio is 1.3 per cent real, with the most recent issuance at much more attractive rates.

In respect of our nominal debt, this is virtually all fixed for the 2015-20 period at an average interest rate of around 3.6 per cent.

The low cost of debt that we have locked-in places us in a strong position to deliver financing outperformance up to 2020.

As already mentioned, and although we have already issued CPI-linked debt, we will need to know the final form of Ofwat's proposed transition away from RPI before we judge the best overall hedging response. We will also be revising our interest rate hedging policy once Ofwat confirms its approach to setting the cost of debt for PR19.

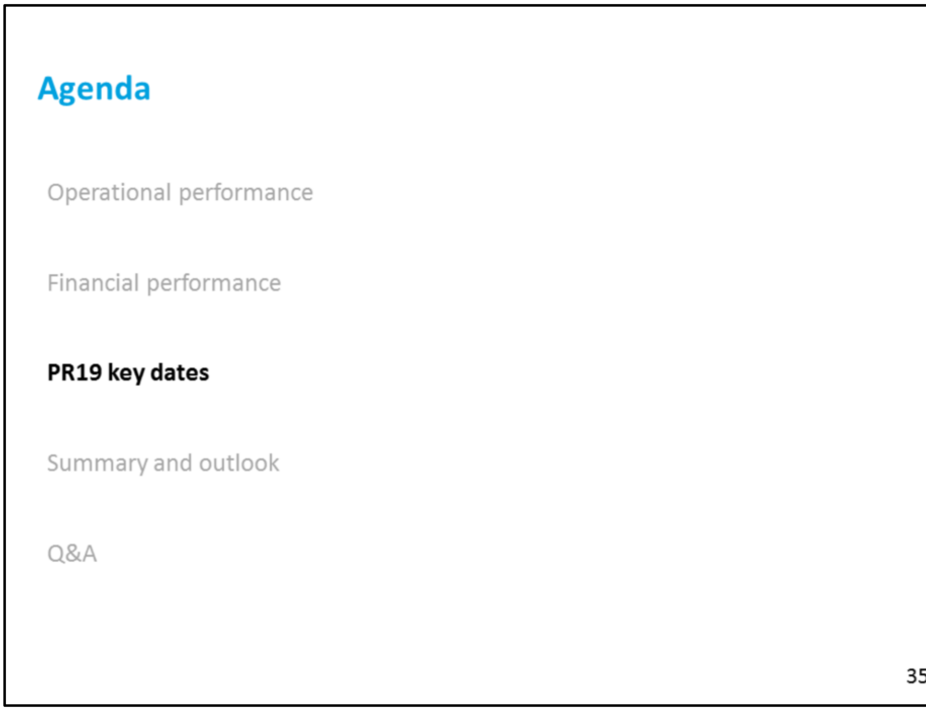


So, in summary:

- this is a good set of results and we have continued to maintain tight cost control;
- we have seen higher RPI inflation deliver further growth in our RCV, although this has also increased our index-linked financing charge for the year;
- our asset / liability matching approach to pension risk is working well and places us in a strong position compared with many companies in the FTSE;
- we continue to maintain a strong balance sheet and solid credit ratings;
- we have already raised over two thirds of our £2.5 billion financing requirements for the five-year regulatory period;
- as part of this, we were the first UK utility company to issue CPI-linked debt in response to Ofwat’s proposed transition away from RPI;
- we have locked in a low cost of debt for the 2015-20 period, with an appropriate mix of index-linked and nominal debt which is delivering outperformance; and
- our hedging policy means that we are well placed to manage future financing costs.

Now, back to Steve.

Thank you, Russ.



I thought it would be useful highlighting some key dates that are coming up in the ongoing price review process, or PR19, for the 2020-25 regulatory period.

PR19 – key dates

Engaging with Ofwat on price review process

Date	Event
11 July 2017	Ofwat publish methodology consultation
25 August 2017	Companies to respond to Ofwat's methodology consultation
29 September 2017	Companies to submit Bioresources RCV allocation
December 2017	Ofwat publish final methodology and risk based review
January 2018	Companies to submit Water Resources RCV allocation
March 2018	Companies submit special factor claims
3 September 2018	Companies to submit business plans
July 2019*	Draft determination
December 2019*	Final determination

* Current view with further clarification expected in the July methodology consultation

As you can see, there is a lot coming up and this is the calendar of anticipated events.

We are engaged with customers, Ofwat and other stakeholders ahead of the next regulatory review period which will set our price and service package for the five year period to April 2025. We look forward to the publication of Ofwat's draft methodology for PR19 in July and final methodology in December this year which will represent a further evolution of the framework adopted at PR14.

We have been actively engaged in the development of this approach, contributing across the full range of working groups and providing detailed proposals in key areas - such as the development of access pricing arrangements for water resources which will result in better outcomes for customers and the approach to allocating RCV across more disaggregated price controls. We support Ofwat in developing a progressive framework of regulation in the sector whilst also recognising the importance of key pillars of the historic approach such as maintaining protection of historic regulatory capital values.

We believe that our strong track record of operational performance and service delivery, leading environmental performance, innovative approaches to customer service and recognised strengths in transparency and reporting should provide a strong underpin for our business plan. We are also the first - and so far only - UK water company to issue CPI linked debt instruments in anticipation of the transition of price controls away from the RPI measure of inflation.

Before finalising our business plan, it is anticipated that we will make a number of additional submissions reflecting company specific factors. These will include our approach to RCV allocations for bioresources and water resources, in September 2017 and January 2018 respectively, where Ofwat will consider company led proposals for the appropriate split. We also expect to provide early evidence on company specific factors affecting our wholesale and household retail operations in the North West ahead of business plan submission, subject to confirmation of this approach in Ofwat's methodology. Submission of the main business plan is expected to be in September 2018.

Summary and outlook

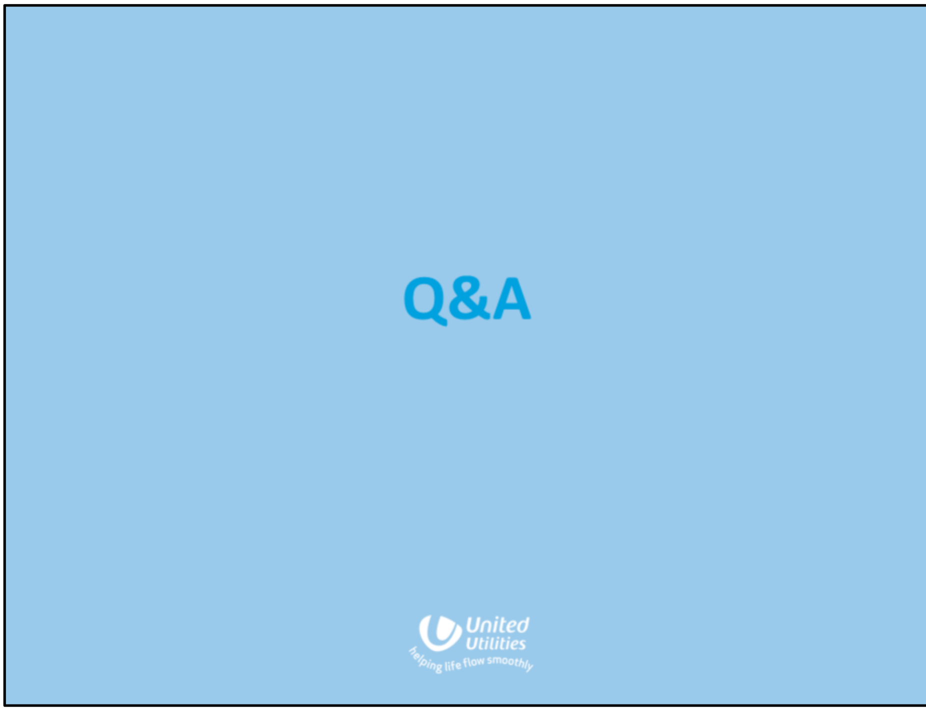
Well placed to deliver further value

- Leading company for customer satisfaction
- Acceleration of investment delivering operational efficiencies early and de-risking ODI outcome
- Additional £100m of new investment to improve resilience for customers
- Systems Thinking on track to deliver £100m of efficiency savings
- Industry leading position and well placed for the future
- Sustainable dividend growth since 2010 in line with policy

In summary, it has been a year of strong performance that places us well to deliver further value.

- We have seen a step change in customer service, delivering our best ever customer satisfaction scores and ending the year as one of the leading companies in our peer group.
- The acceleration of our capital investment programme is delivering the benefits of operational efficiencies early and this is being reflected in our ODI performance where we have achieved another positive net outcome for the year.
- Our overall performance against our regulatory contract gives us confidence to invest an additional £100 million over the remainder of the AMP, supporting resilience projects for the benefit of customers.
- Our Systems Thinking approach is unparalleled in the sector and on track to deliver £100 million of savings across the 2015-20 regulatory period, underpinning our business plan.
- Our performance in the early part of this regulatory period puts us in an industry leading position and demonstrates that we are well placed to deliver further value for customers, shareholders and the environment.

All of this supports a sustainable dividend growth since 2010, in line with our policy of an annual growth target of at least RPI inflation up to 2020.



That concludes our presentation.

Thank you for listening.

We would now like to take questions.

Supporting information

- Profit before tax reconciliation
- Profit after tax reconciliation
- Finance expense
- Derivative analysis
- Movement in net debt
- Financing and liquidity
- Term debt maturity profile
- EIB funding maturity profile
- Debt structure

Profit before tax reconciliation

£m Year ended 31 march	2017	2016
Operating profit	605.5	567.9
Investment income and finance expense	(189.0)	(219.4)
Profit on disposal on non-household retail business	22.1	-
Share of profits of joint ventures	3.8	5.0
Reported profit before tax	**442.4**	**353.5**
Adjustments:		
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	1.4	(0.6)
Non-household retail market reform[1]	5.8	11.1
Restructuring costs	10.1	0.9
Profit on disposal on non-household retail business	(22.1)	-
Net fair value losses/(gains) on debt and derivative instruments	(24.3)	26.3
Interest on swaps and debt under fair value option	15.4	16.5
Net pension interest income	(10.2)	(3.1)
Capitalised borrowing costs	(29.1)	(21.3)
Underlying profit before tax	**389.3**	**408.1**

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the non-household retail market

Profit after tax reconciliation

£m Year ended 31 March	2017	2016
Reported profit after tax	**433.9**	**397.5**
Adjustments:		
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	1.4	(0.6)
Non-household retail market reform[1]	5.8	11.1
Restructuring costs	10.1	0.9
Profit on disposal of non-household retail business	(22.1)	-
Net fair value losses/(gains) on debt and derivative instruments	(24.3)	26.3
Interest on swaps and debt under fair value option	15.4	16.5
Net pension interest income	(10.2)	(3.1)
Capitalised borrowing costs	(29.2)	(21.3)
Deferred tax credit - change in tax rate	(58.2)	(112.5)
Agreement of prior years' tax matters	(15.5)	(3.4)
Tax in respect of adjustments to underlying profit before tax	6.2	(10.9)
Underlying profit after tax	**313.3**	**325.3**
Basic earnings per share (pence)	**63.6**	**58.3**
Underlying earnings per share (pence)	**45.9**	**47.7**

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the non-household retail market

Finance expense

Underlying interest charge lower

£m Year ended 31 March	2017	2016
Investment income	13.7	5.0
Finance expense	(202.7)	(224.4)
	(189.0)	**(219.4)**
Less net fair value (gains)/losses on debt and derivative instruments	(24.3)	26.3
Adjustment for interest on swaps and debt under fair value option	15.4	16.5
Adjustment for net pension interest income	(10.2)	(3.1)
Adjustment for capitalised borrowing costs	(29.2)	(21.3)
Underlying net finance expense	**(237.3)**	**(201.0)**
Average notional net debt	**6,232**	**5,853**
Average underlying interest rate	**3.8%**	**3.4%**
Effective interest rate on index-linked debt	3.7%	2.8%
Effective interest rate on other debt	3.9%	4.2%

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

£m Year ended 31 March	2017	2016
Cash interest on index-linked debt	(48.2)	(51.2)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(65.6)	(27.7)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(15.1)	(10.2)
Finance expense on index-linked debt	**(128.9)**	**(89.1)**
Interest on other debt (including fair value option debt and swaps)	(108.4)	(111.9)
Underlying net finance expense	**(237.3)**	**(201.0)**

- Cash interest payment of £48m on c£3.6bn of index-linked debt
- Increase in indexation charge mainly due to higher RPI on 3 month lagged debt
- RPI impact on RCV exceeds RPI impact on debt principal

[1] Affected by movement in RPI between January 2016 and January 2017
[2] Affected by movement in RPI between July 2015 and July 2016

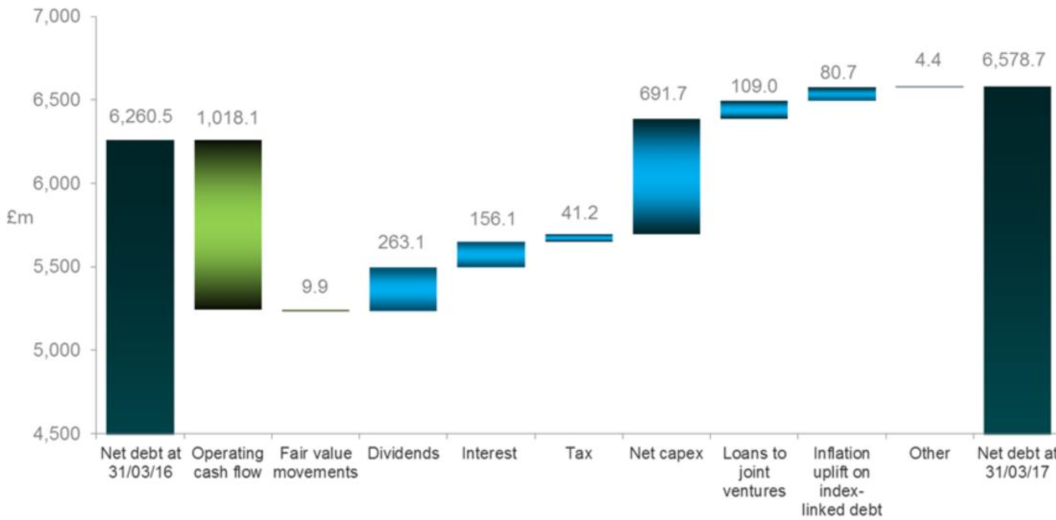
Derivative analysis

Derivatives intrinsically linked to debt

£m At 31 March	2017	2016
Derivatives hedging debt	810.0	764.5
Derivatives hedging interest rates beyond 2015	(243.0)	(242.1)
Derivatives hedging commodity prices	(9.0)	(18.5)
Total derivatives assets and liabilities (slide 27)	**558.0**	**503.9**

- Derivatives hedging debt; hedge our non index-linked debt into sterling, floating interest rate debt. Typically these are designated in fair value hedge accounting relationships
- Derivatives hedging interest rates beyond 2015; fix our sterling interest rate exposure beyond 2015. This is in line with our strategy of fixing interest on a 10 year rolling average basis. This is supplemented by fixing substantially all remaining floating exposure across the future regulatory period around the time of the price control determination
- Derivatives hedging commodity prices; fix a proportion of our future electricity prices in line with our policy
- Derivatives are included within net debt to eliminate, to a certain extent, the fair value recognised in borrowings and thereby present a more representative net debt figure
- Further details of our group hedging strategy can be found in the Group financial statements

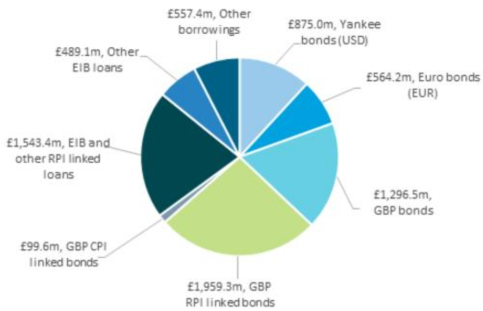
Movement in net debt*
Moderate increase in line with expectations



* Net debt includes derivatives which incorporate regulatory swaps

Financing and liquidity at 31 March 2017

Gross debt = £7,384.5m



Headroom / prefunding = £698.9m

	£m
Cash and short-term deposits	247.8
Medium-term committed bank facilities[1]	600.0
Undrawn EIB term loan facilities	175.0
Short-term debt	(229.4)
Term debt maturing within one year	(94.5)
Total headroom / prefunding	**698.9**

[1] Excludes £150m facilities maturing within one year

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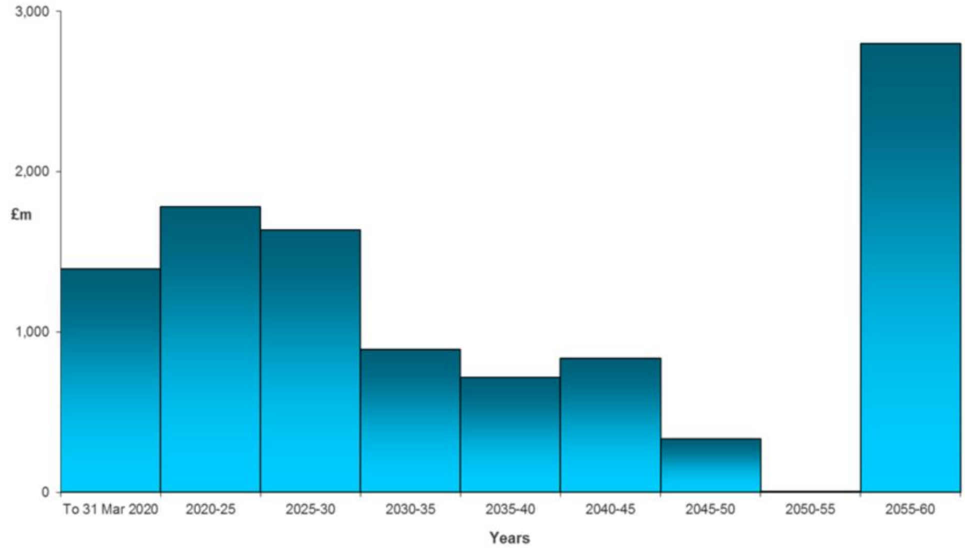
Term debt maturity profile as at 31 March 2017[1]

Average term to maturity of around 20 years



[1] Future repayments of index-linked debt include inflation based on an average annual RPI rate of 3% and an average annual CPI rate of 2%

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Debt structure at 31 March 2017

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- positive

Yankees:
- $250m in 18s
- $350m in 19s
- $400m in 28s

Other debt:
- Short-term loans £135m

United Utilities Water Limited
A3 stable; BBB+ positive
Ring-fenced and regulated by Ofwat

Euro MTNs:
- ¥5bn in 17s
- £150m in 18s
- €500m in 20s
- £375m in 22s
- £300m in 27s
- £50m in 32s[1]
- £200m in 35s
- £100m in 35s[1]
- £35m in 37s[1]
- £70m in 39s[1]
- £100m in 40s[1]
- £50m in 41s[1]
- £100m in 42s[1]
- £50m in 43s[1]
- £50m in 46s[1]
- £50m in 49s[1]
- £510m in 56s[1]
- £150m in 57s[1]

Other debt:
- EIB index-linked loans £1,088m[1]
- Other index-linked loans £300m[1]
- Other EIB loans £489m
- Short-term loans £67m
- ¥10bn dual currency loan
- Other sterling loans £128m

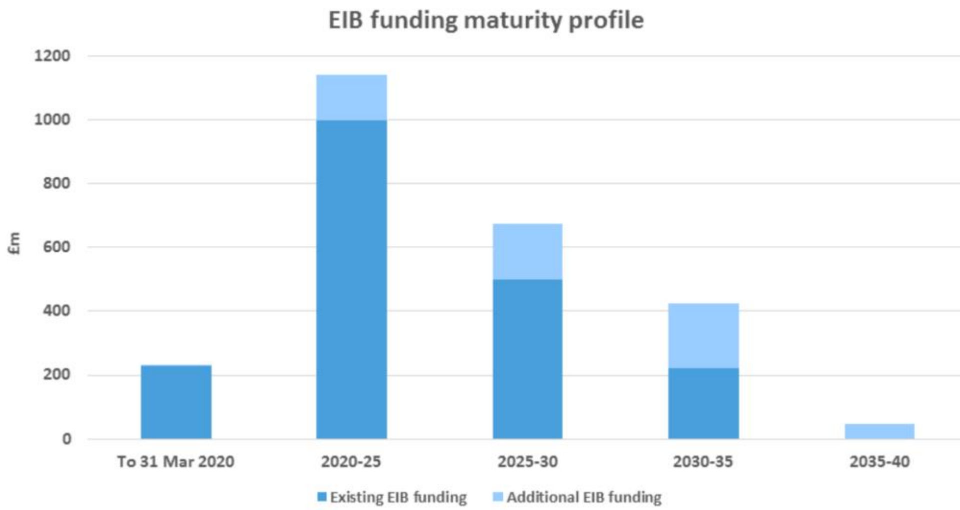
United Utilities Water Finance PLC[3]
Guaranteed by United Utilities Water Ltd

Euro MTNs:
- £25m in 25s[1]
- €52m in 27s
- £20m in 28s[1]
- £35m in 30s[1]
- €30m in 30s
- €30m in 31s
- HK$600m in 31s
- £38m in 31s[1]
- £20m in 31s[2]
- £27m in 36s[1]
- £29m in 36s[1]
- £20m in 36s[2]
- £60m in 37s[2]

[1] RPI linked finance
[2] CPI linked finance
[3] United Utilities Water Finance PLC (UUWF) is a financing subsidiary of United Utilities Water Limited (UUW) established to issue new listed debt on behalf of UUW. Notes issued by UUWF are unconditionally and irrevocably guaranteed by UUW and are rated in line with UUW's credit ratings.

European Investment Bank funding maturity profile

Medium to long-term maturity profile



Notes

Future repayments of EIB RPI linked debt include inflation based on an average annual RPI rate of 3%.

Dark blue areas represent EIB loans currently drawn and outstanding.

Light blue areas include the remaining £175m of £250m AMP6 loan signed April 2016 (assumes drawn in 2017), and assumes a further £250m AMP6 is signed and drawn in 2018 (this being the second tranche of a £500m AMP6 funding package approved by EIB in 2016). It is assumed that these loans are drawn down in index-linked form on an amortising repayment basis with an average loan life of approximately 10-years.

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.

This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016 and for UK Regulatory purposes the person responsible for making the announcement is Simon Gardiner, Company Secretary.

United Utilities

helping life flow smoothly