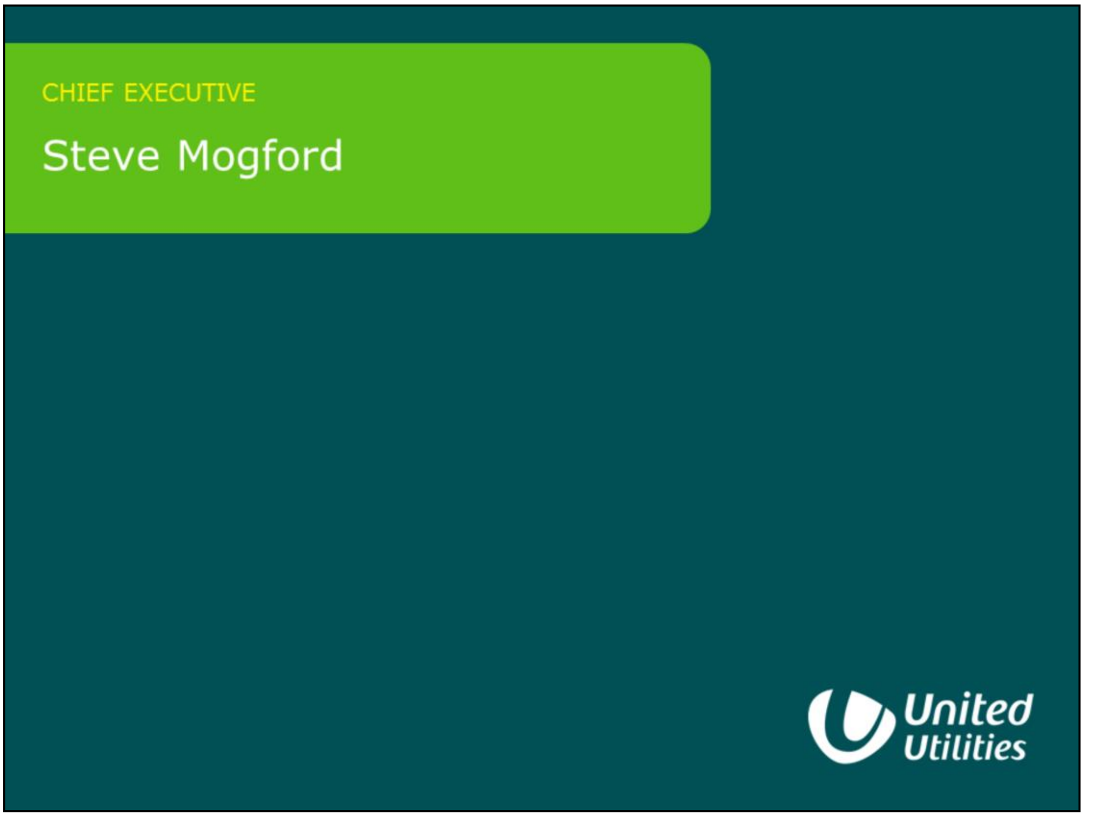
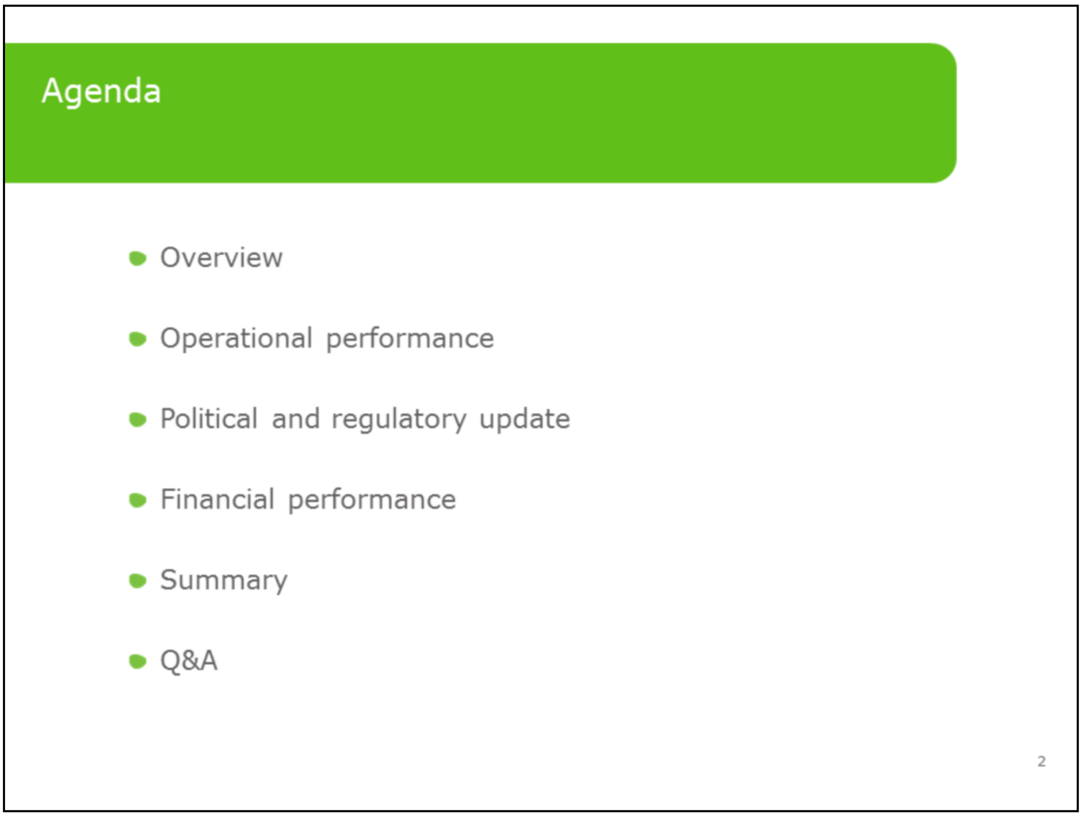

United Utilities Group PLC
Half year results
Six months ended 30 September 2011
United Utilities



Good morning and welcome ladies and gentlemen to our half year results presentation.

When I presented our results last May, I said that our focus is now on turning UU into one of the UK's leading water and wastewater service providers with the customer at the core of our activity.

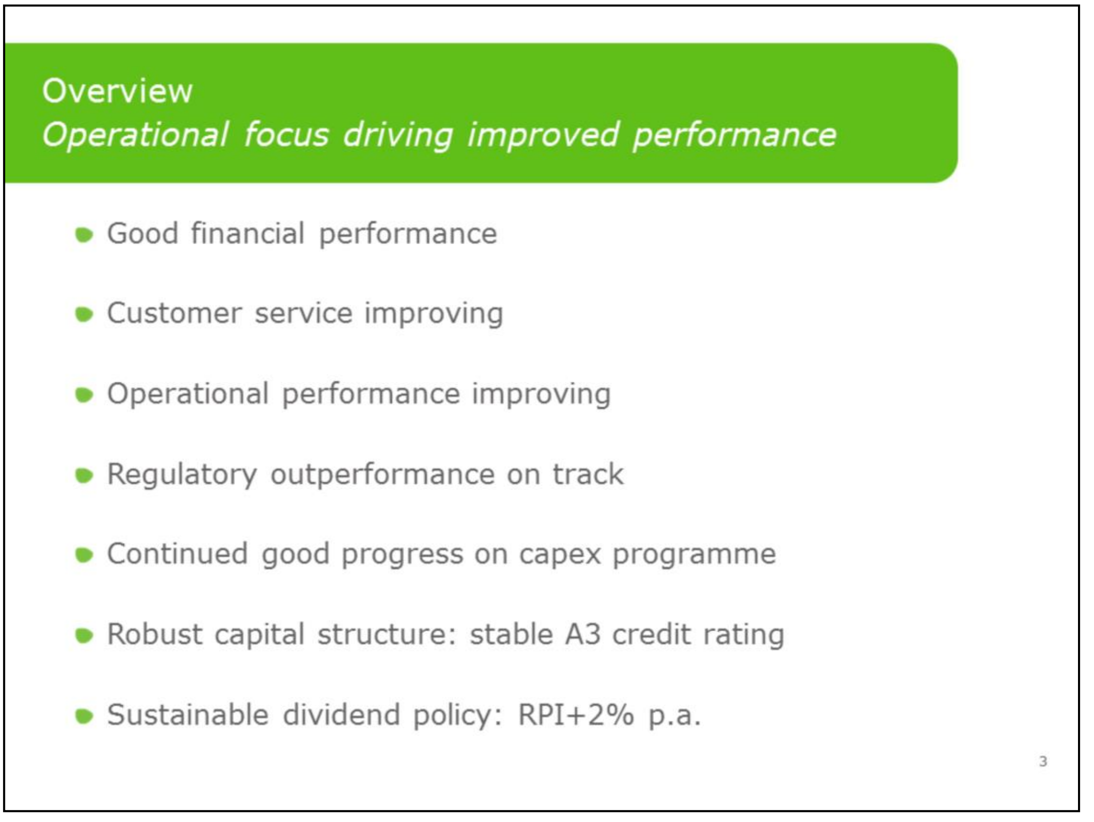
We have been busy over the last six months and I am pleased with the progress we are making in improving our performance across a broad front and this morning we will provide you with a snapshot of the results delivered so far.



This is the agenda for this morning’s presentation.

I’ll provide an update on the business and touch on recent political and regulatory developments, before handing over to Russ who will take you through the numbers and outline some further changes we have made to reduce risks to our financial results.

I’ll then briefly summarise before we take questions.



The headlines are:

We have delivered a good underlying financial performance whilst continuing to invest in our assets, despite a tough economic climate.

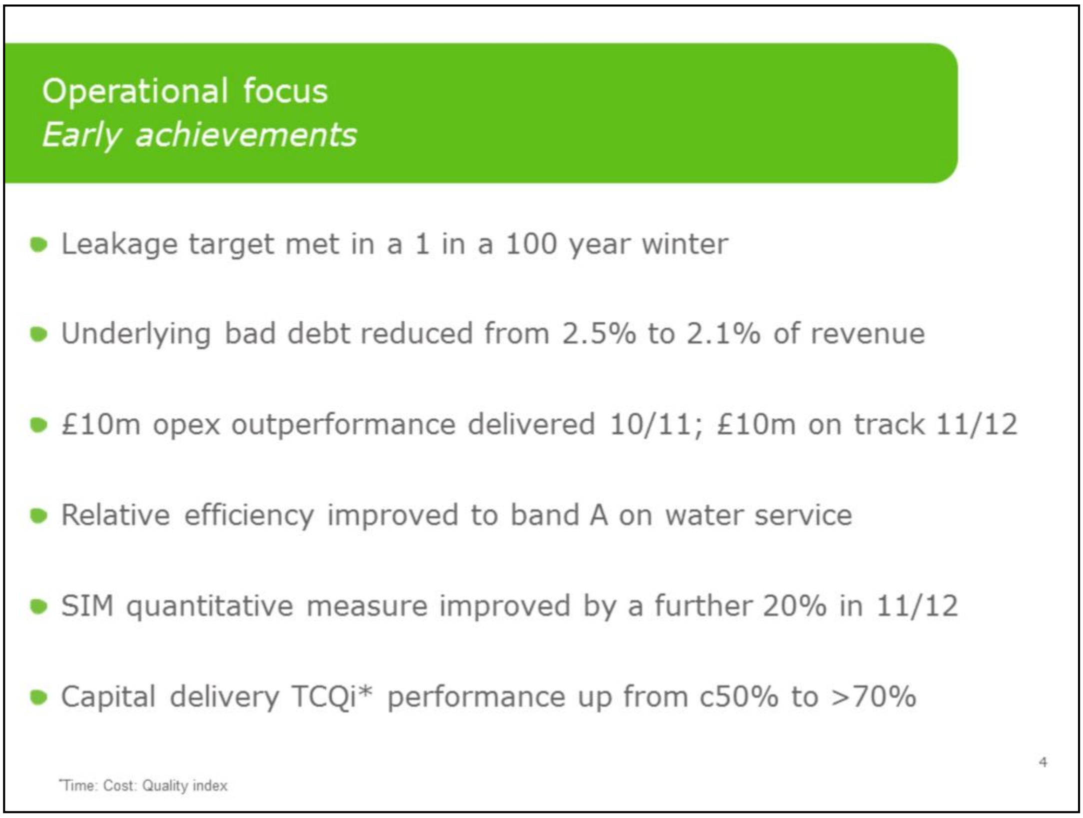
Our customer service and operational performance is improving.

We have improved our relative efficiency position and remain on track to deliver our regulatory outperformance targets.

We have made good early progress on our capital programme and remain on course to invest up to £700 million for the full year, supported by our revised approach to capex management which I'll discuss later.

Our capital structure remains robust and our gearing is well within Ofwat's range, supporting a solid investment grade credit rating.

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, to at least 2015, remains sustainable.



I'd like to highlight some of our early achievements.

We met our leakage target last year, despite extreme winter weather and we have continued with our rigorous year round attention to leakage. This, combined with healthy reservoir stocks, gives us a good start as we enter the winter period.

Notwithstanding the difficult economic environment, we have in the first half of this year sustained the improvement in underlying bad debt achieved last year.

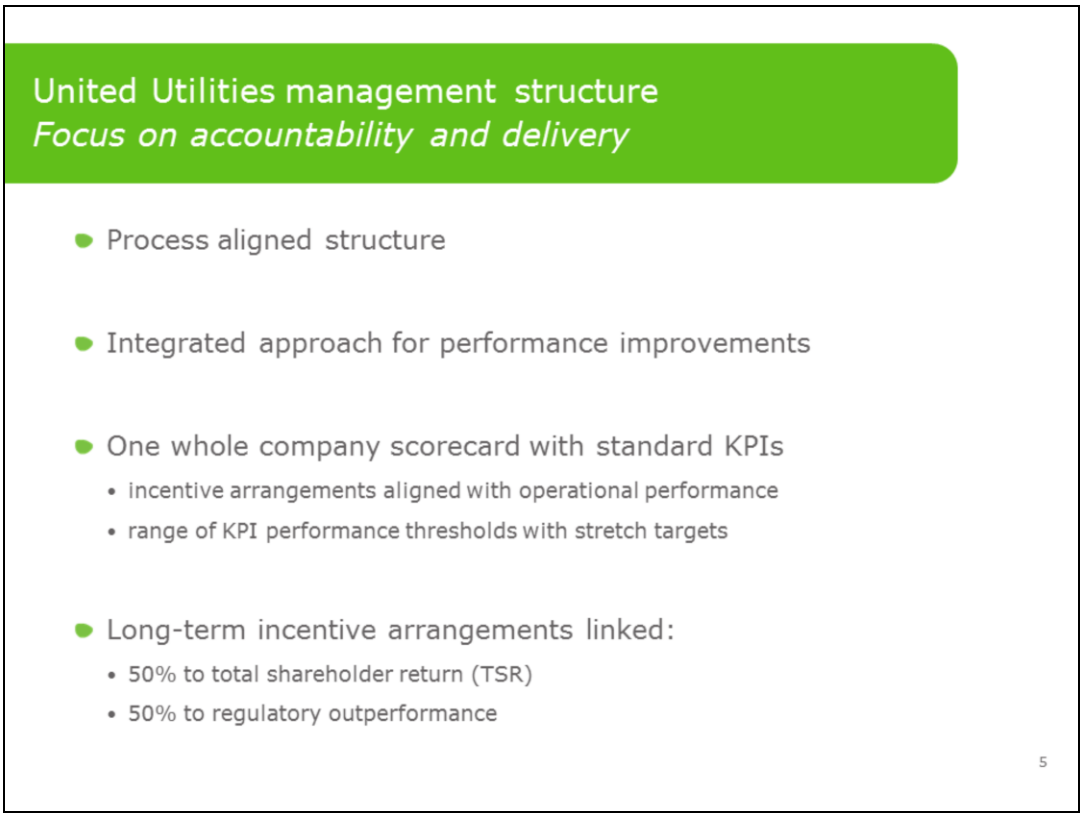
Against our target of £50 million of opex outperformance this AMP, we are on track to deliver a further £10 million in 2011/12 building upon the delivery of our first £10 million last year.

We have improved our relative efficiency position on both the water and wastewater service and are now in the first quartile for the water service.

We continue to improve our quantitative SIM score. This improvement was around 20 per cent in the first six months of 2011/12, building on last year's improvement of more than 40 per cent over the 2009/10 position.

In respect of capital delivery, our Time: Cost: Quality index (TCQi) performance has improved from around 50 per cent last year to over 70 per cent currently.

So, encouraging progress although we recognise there is more to do.



Whilst I recognise that talking about organisational structure can be tedious, we have made some important changes over recent months to align people with the key processes in our business. We have undertaken a rigorous process to select our best operational leaders whose job is to improve the performance of their assets, whilst meeting regulatory requirements.

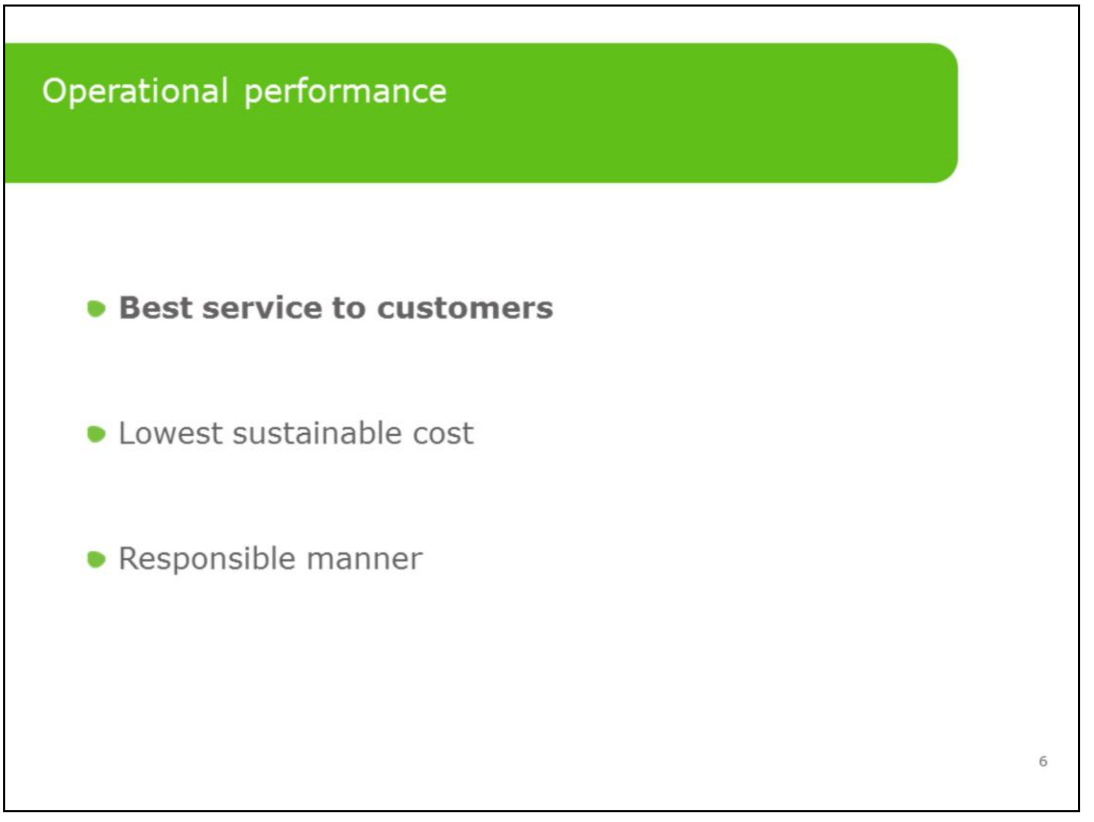
It is early days but I am delighted with the enthusiasm with which the team has grasped this challenging opportunity.

The Board has approved revised incentive arrangements for our people.

We have developed a company wide scorecard and linked delivery of these new KPIs to employee remuneration.

For senior management, we have revised both short and long-term incentives to be closely aligned with targeted operational performance.

Long-term incentives are aligned with shareholders' and customers' interests, being based 50 per cent on total shareholder return and 50 per cent on regulatory outperformance.

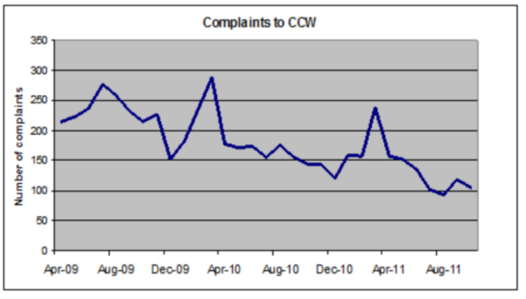


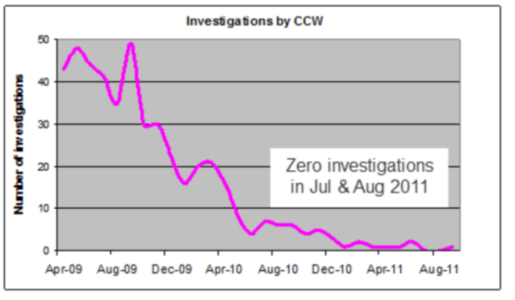
We aim to deliver long-term shareholder value by providing the best service to customers, at the lowest sustainable cost and in a responsible manner.

So, starting with customer performance.

Best service to customers
Reduction in customer complaints

- Substantial reduction in escalated complaints in 2010/11
- 20% reduction in total number of complaints in first half of 2011/12
- Significant further reduction in complaints assessed by CCW[1]





[1] Consumer Council for Water

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We have a customer experience programme that underpins our drive for improved customer service.

At our full year results presentation in May, I reported a substantial reduction in customer complaints over the previous year. I am pleased to report further progress.

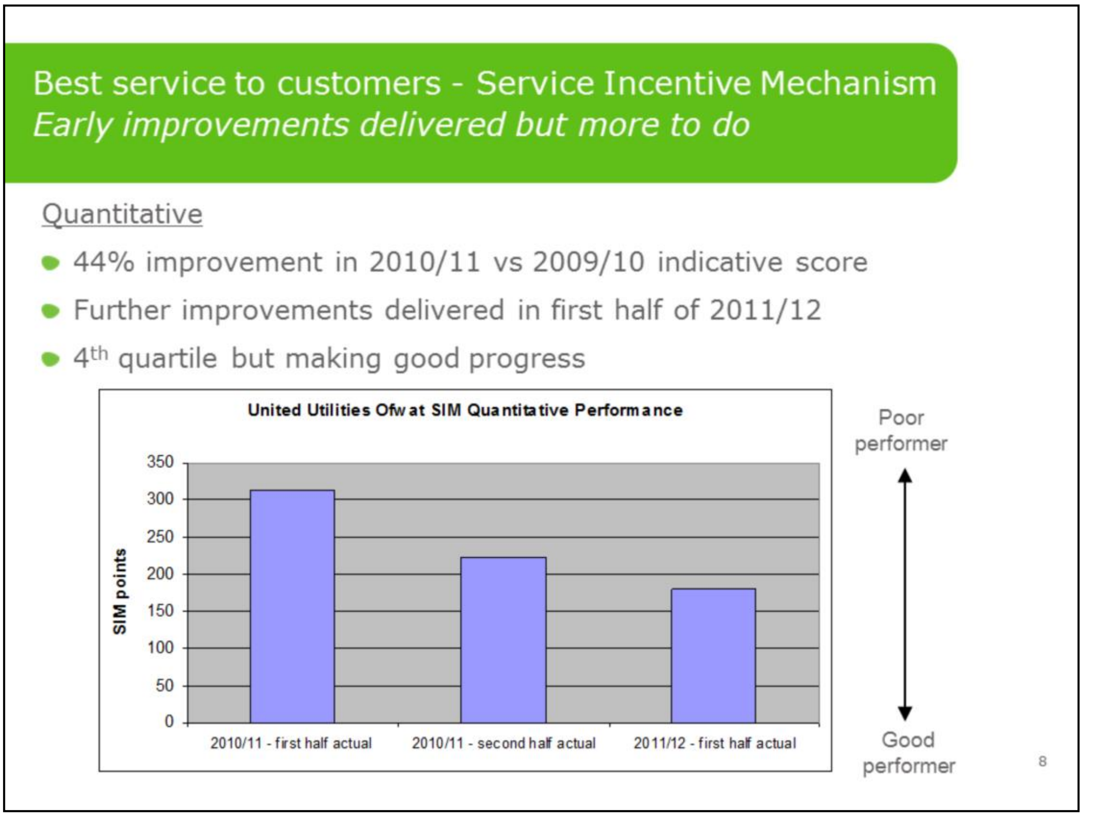
These charts show an important and improving trend in respect of escalated complaints over the last two and a half years. Escalated complaints score heavily under the new SIM framework, which came into effect this year.

The first chart shows the number of customer contacts the Consumer Council for Water (or CCW) has received regarding complaints about UU. Following a significant year-on-year improvement in 2010/11, the number of CCW complaint contacts has reduced by a further 20 per cent in the first half of this year.

The second chart shows the number of customer complaints then investigated by CCW for which you see a continuing reduction over the first half of this year, notably with our first zeroes in July and August.

These scores reflect the considerable effort we are making to provide first time resolution to customer issues.

Now, turning to our SIM score.



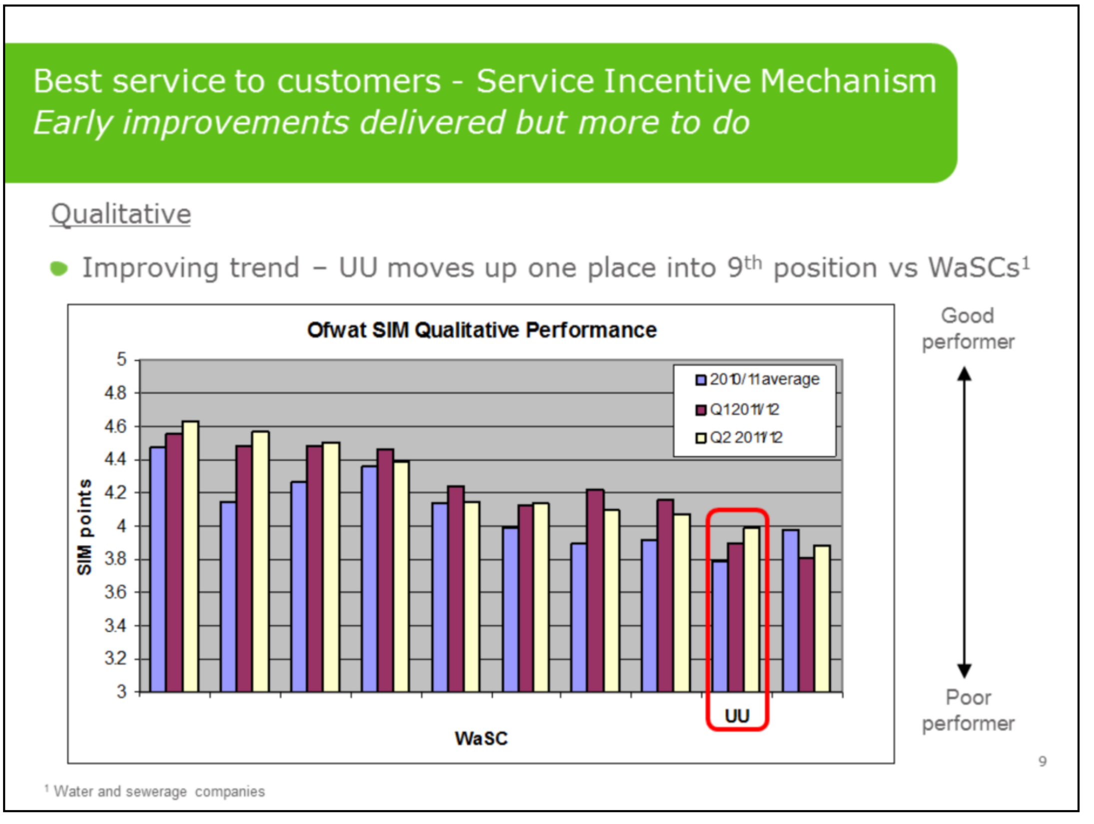
SIM is split into a quantitative assessment, based upon complaints and other customer contact measures, and a qualitative assessment, which seeks to measure our customers' perceptions of how we handle their enquiries.

This chart tabulates our continued improvement in quantitative SIM score.

We improved our quantitative score for 2010/11 by 44 per cent, compared with the indicative position for 2009/10. This closed the gap between UU and the rest of the pack by moving us from outlier to fourth quartile.

Our continued drive in this area has delivered further improvement in the first half of this year with a score of 181 points, some 42 per cent better than the first half of last year and almost 20 per cent better than the second half.

We are working to deliver further improvement in the next six months.



This chart demonstrates our progress in improving our qualitative measure.

Our quarter two score for this year has improved to 3.99 points, from 3.79 points for the 2010/11 financial year.

We are beginning to see first signs of improving customer perception.

This early result moves us from last place to 9th position out of the 10 water and sewerage companies – and two places, up to 19th position out of 21, when the water only companies are included.

Although we remain in the fourth quartile, this result is encouraging and we are determined to build on this early progress.

Customer service will continue to be a key theme for UU and, whilst we clearly still have significant scope for improvement, I am pleased that our focus in this area is delivering results.

Best service to customers - Ofwat's assessment
UU delivers first quartile performance

	Consumer experience				Reliability and availability			Environmental impact		
	Customer complaints and satisfaction	Supply interruptions	Drinking water compliance	Sewer flooding	Serviceability	Security of supply	Leakage	Measuring greenhouse gas emissions	Pollution incidents	Satisfactory disposal of wastewater
Water and sewerage companies										
A	✓	✓	✓	✓	X	✓	X	✓	✓	✓
B	✓	✓	✓	✓	✓	X	X	✓	X	✓
C	✓	✓	✓	✓	X	✓	X	✓	✓	✓
United Utilities	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
E	✓	✓	✓	✓	X	✓	X	✓	✓	✓
F	✓	X	✓	✓	X	X	X	✓	✓	✓
G	✓	✓	✓	✓	✓	✓	✓	✓	✓	X
H	✓	✓	✓	X	✓	✓	✓	✓	✓	✓
I	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
J	✓	✓	✓	✓	X	X	X	✓	✓	✓

- Only one area highlighted – serviceability: wastewater infrastructure
- Action plan being implemented to return to 'stable' serviceability

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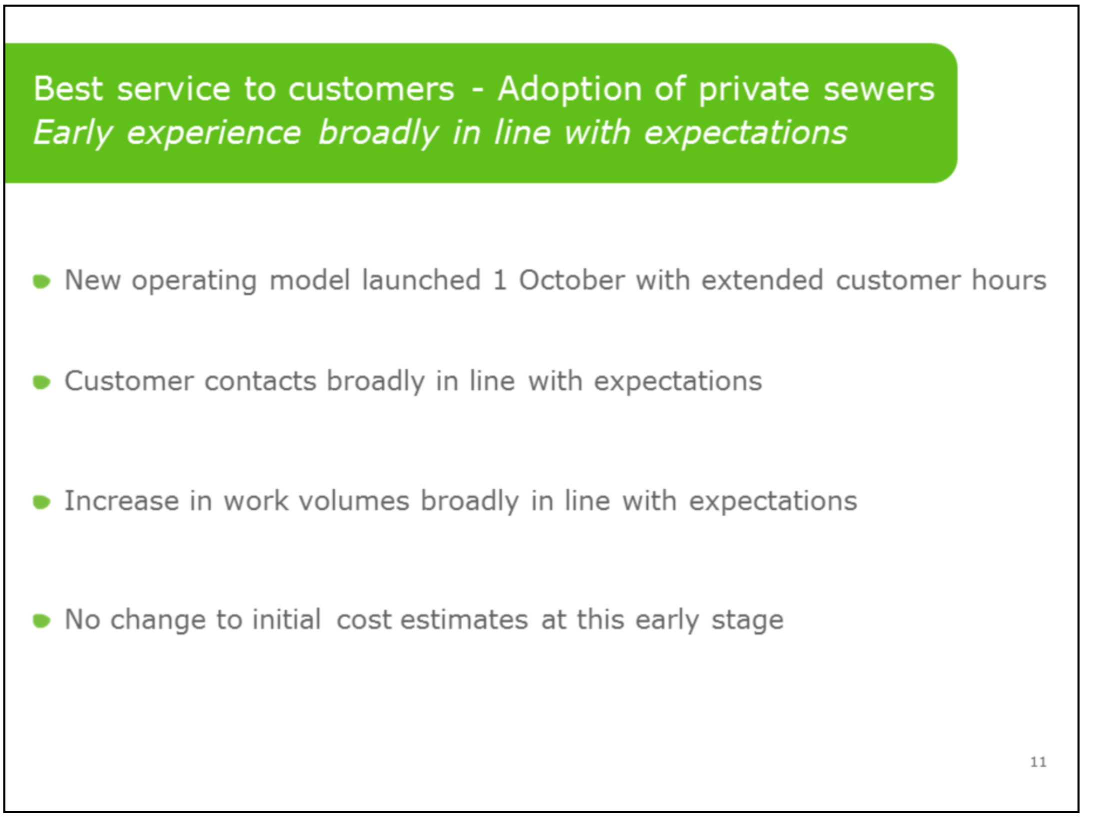
Ofwat recently issued an assessment of overall performance of the water companies in 2010/11, as shown in this chart.

The assessment took account of the formal return made in June this year by UU and its peers and identified where Ofwat has concerns with company performance across a basket of ten measures.

We are pleased to find ourselves in the first quartile of this assessment, with only one of our peers scoring better.

The area Ofwat identified for improvement is serviceability of our wastewater infrastructure, one of the four areas measured under this category. Ofwat considered three of our serviceability areas to be 'stable', with wastewater infrastructure judged to be 'marginal'.

We have an action plan in progress for this area and we are seeing improvement. Clearly our aim is to achieve a return to a 'stable' rating as soon as possible.



I'd now like to provide a brief update on private sewers.

As you'll be aware, ownership of and responsibility for private sewers was transferred to the wastewater companies in England and Wales from 1 October 2011. This will provide additional benefits for customers and the opportunity for additional growth in the regulatory capital value.

We have been preparing for this for some time to help ensure a smooth transfer and the level of customer contacts and the increase in work volumes, thus far, has been broadly in line with expectations.

At this early stage, there is no change to our initial cost estimates, as outlined last May, which were total opex of £55 million, IRE of £90 million and capex of £35 million, over the period to March 2015.

However, we will continue to assess and review these cost estimates in light of the levels of workload and activity experienced.

Operational performance

- Best service to customers
- **Lowest sustainable cost**
- Responsible manner

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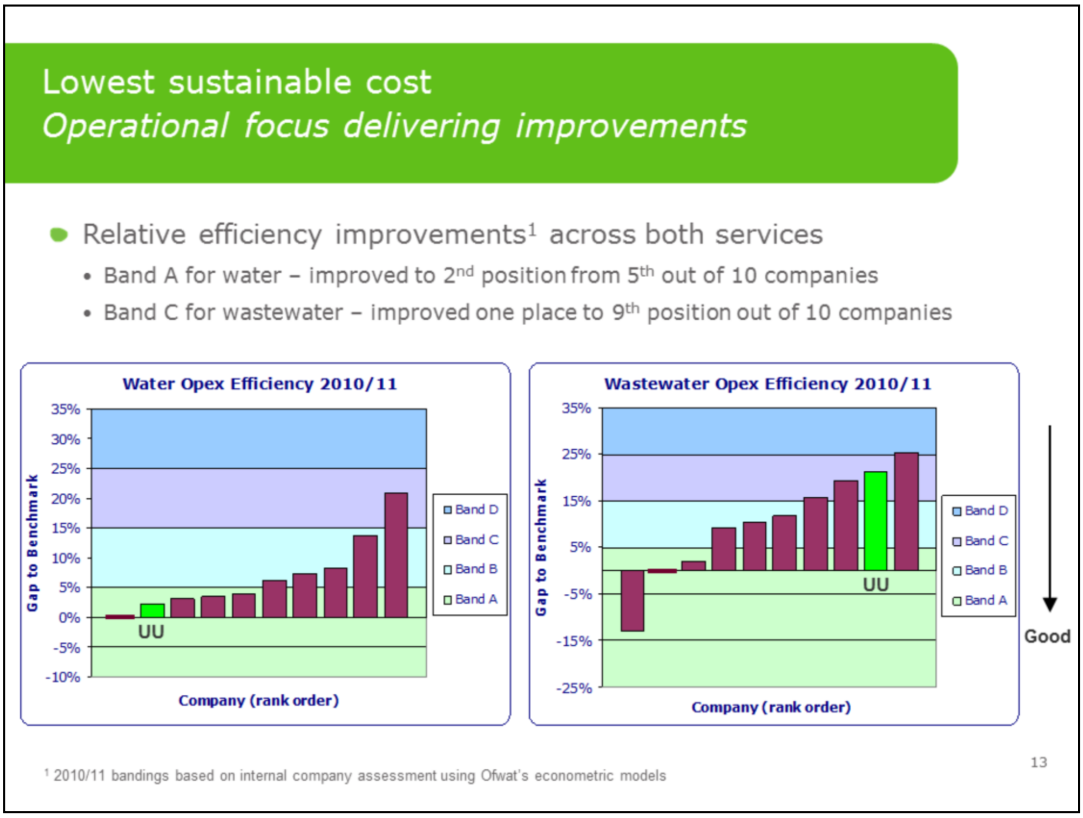
Moving on to efficiency.



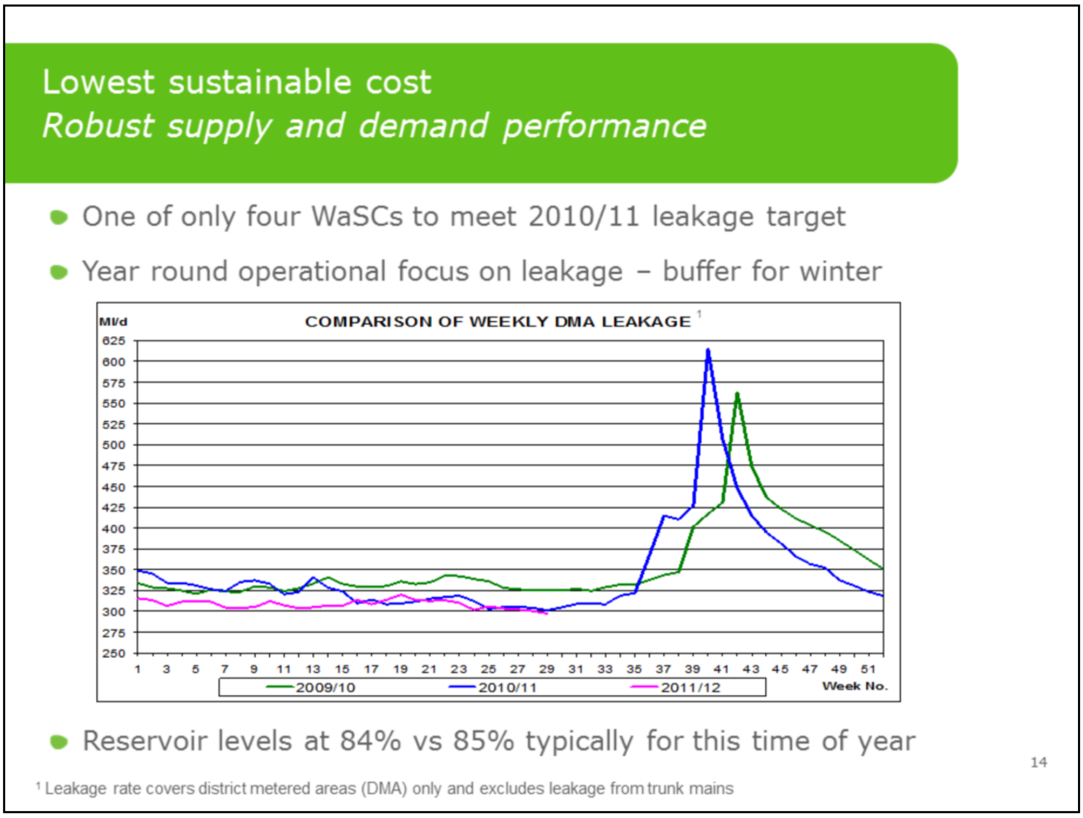
I'd like to provide an update on our relative efficiency performance.

We are pleased to have made improvements on both the water service and the wastewater service in 2010/11, as shown on these charts.

We have improved our relative efficiency banding to band A for water and are now in the first quartile for this service.

We remain in band C on wastewater service but have moved from last to 9th position.

Overall, this represents good progress in moving through the pack to a mid-rank position, although we are focused on delivering further improvements.



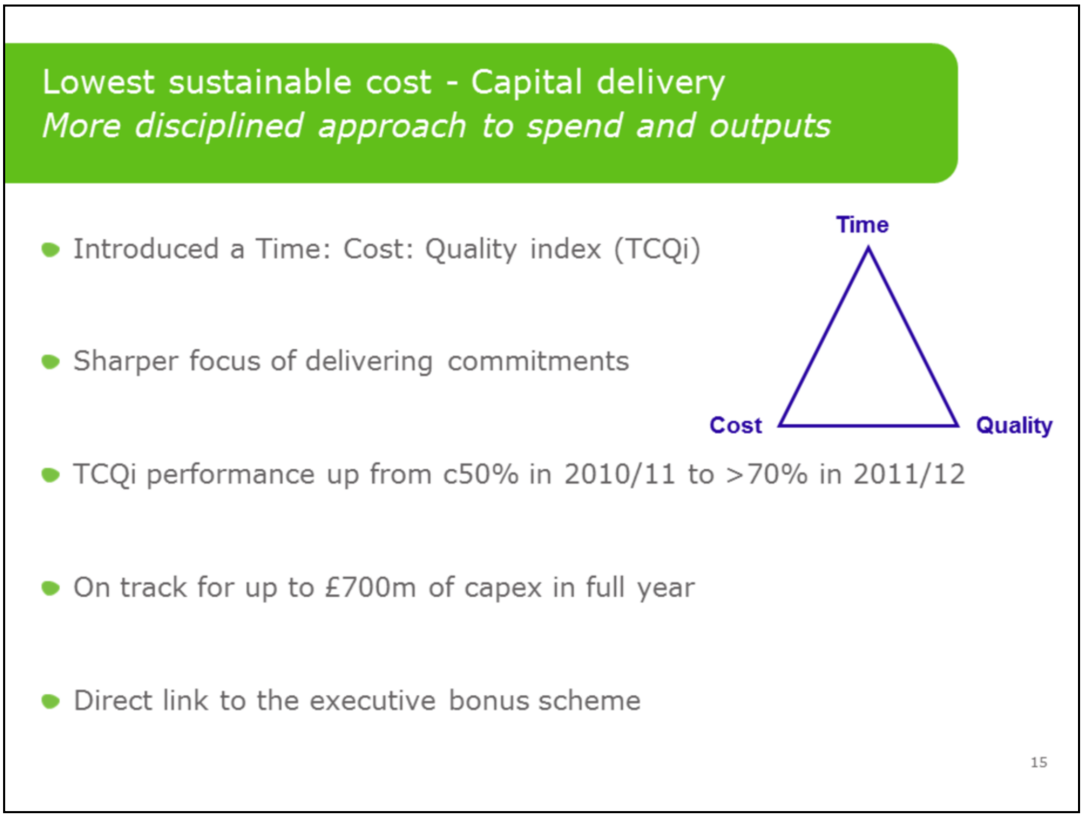
Turning to leakage.

The performance of the business in meeting its regulatory leakage target for 2010/11 was particularly good, given the extreme winter weather.

We were one of only four water and sewerage companies to meet our regulatory leakage target last year.

This reflected strong year round operational focus on leakage, an approach which the company has continued into 2011/12. The blue line on the chart represents the position in 2010/11. The pink line is our performance so far this year and you can see that this provides us with more headroom at this stage of the year. This places us in a strong position as we approach the winter period.

In addition, our supply and demand position is supported by our healthy reservoir levels, which are currently 84 per cent full and in line with typical levels for this time of year.



Now, on to capital delivery.

We have enhanced our capital investment governance process to provide a sharper focus on delivering our capital programmes on time, within budget and in line with the performance objectives of the project – simplified to ‘quality’.

We monitor a new performance index, which we refer to as TCQi, and this provides measurement of our achievement against the three key factors, time: cost: and quality.

Looking back to the 2010/11 financial year, our TCQi score was around 50 per cent. At this half year, our score now stands in excess of 70 per cent and we remain on track to deliver up to £700 million of capital investment in 2011/12. Our long-term goal is to achieve over 90 per cent.

We have also linked senior executive remuneration to achievement of TCQi targets.

Operational performance

- Best service to customers
- Lowest sustainable cost
- **Responsible manner**

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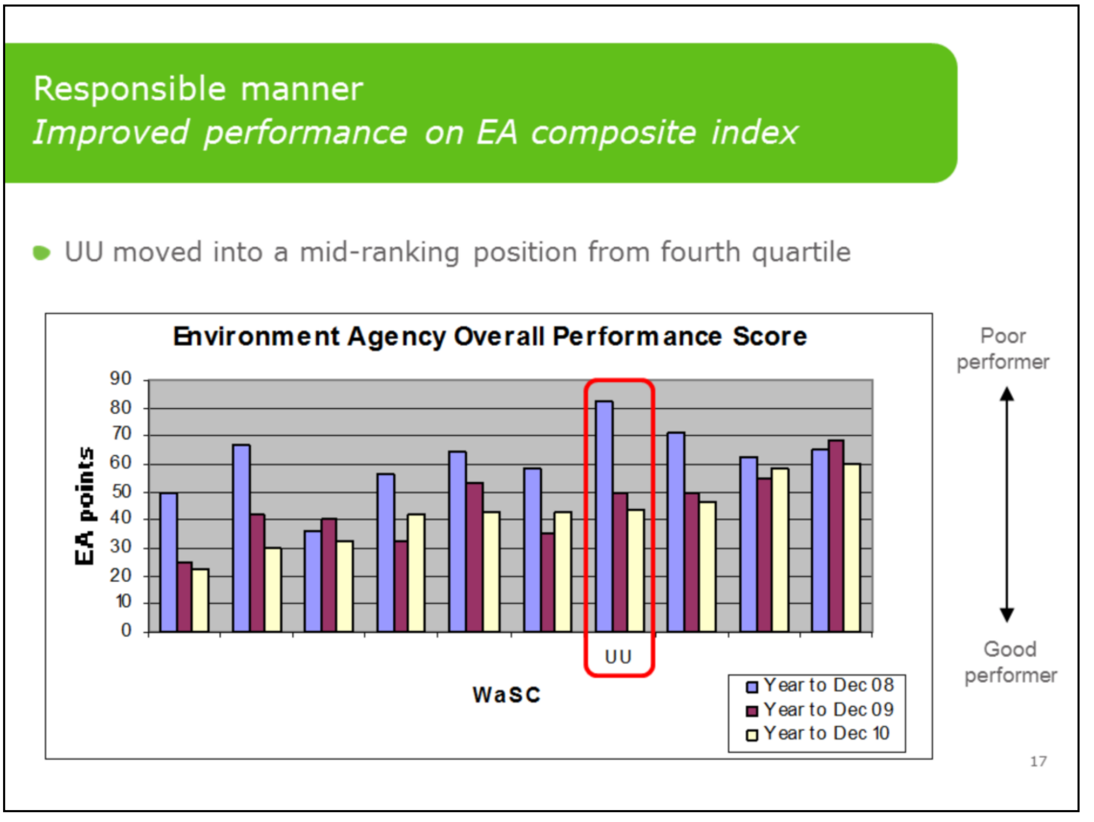
Sustainability is fundamental to the way we do business.



Environmental performance is a high priority for us.

We have more than halved the number of major pollution incidents over the last few years and wastewater treatment works compliance remains high at over 98 per cent, a slight improvement on last year.

We are working more closely with the Environment Agency (EA) to help minimise the occurrence and impact of pollution incidents, as we aim to continue our improving trend in the area of environmental performance.

This chart outlines industry performance, as measured by the EA's composite index. It shows that UU has moved from bottom to a mid-ranking position.

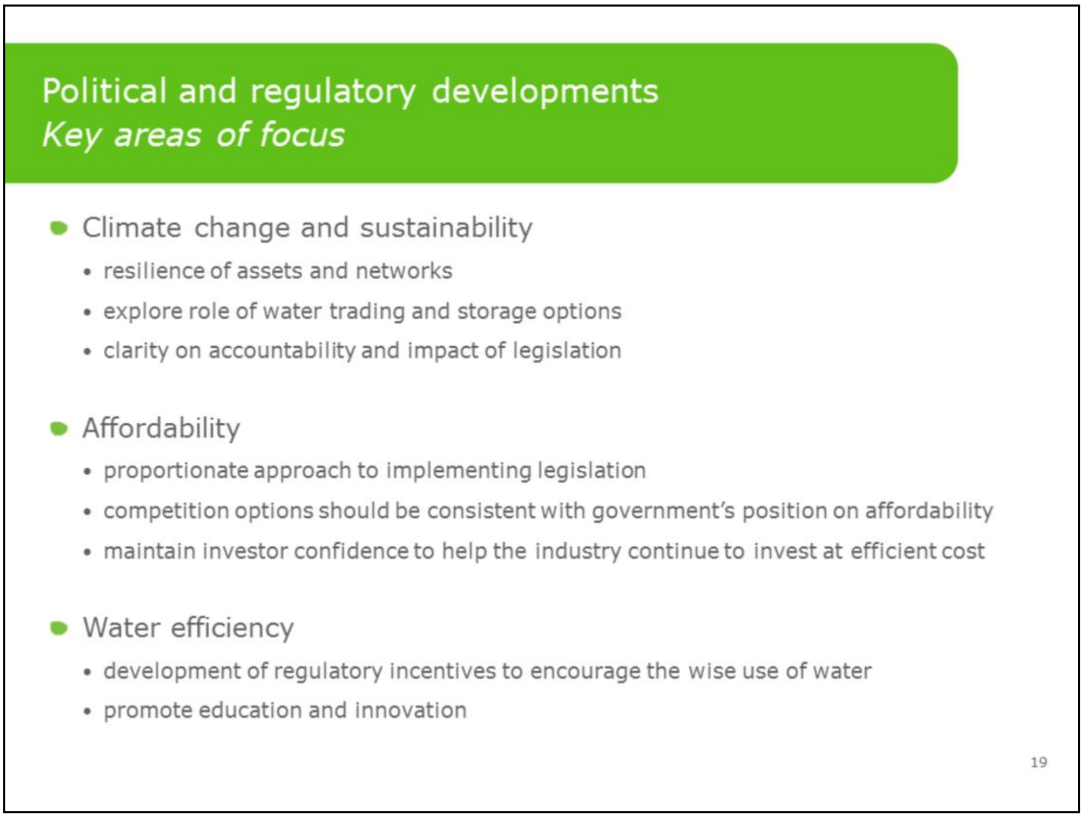
Our performance so far this year has been encouraging.

UU has for many years included corporate responsibility factors as a strategic consideration in its decision making and we get external recognition for the way we do business.

We are pleased to lead our sector in retaining the highest platinum plus ranking, since its inception in 2008, in the UK's Business in the Community Corporate Responsibility index.

We are the only water company rated 'World Class' in the Dow Jones Sustainability Index.

And we are one of only six FTSE 100 companies to hold both of these top tier ratings.



I'd now like to touch on regulatory and political developments.

We have been closely engaged in recent developments and have sought to focus the debate onto three broad areas where the sector can help address climate change and sustainability, affordability, and, water efficiency.

In addressing the key challenges of climate change and sustainability, we support exploring the role of water trading in ensuring that water is allocated where it is valued most. We also believe that innovation and investment, to enable reductions in abstraction or provide additional storage, should be encouraged. We feel it would be beneficial to establish stronger national coordination to ensure inter-region cooperation to support resilience in response to climate change.

On affordability, we do recognise the challenge of keeping bills at a reasonable level for all customers. Our region suffers from significant social deprivation and helping customers back into regular payment is a priority for us. Environmental legislation is a significant cost driver for our sector and the adoption of a proportionate approach to implementing new environmental regulation will contribute to keeping bills affordable. We are keen to see that any expansion of retail competition does not put further cost pressure on hard pressed domestic customers.

Critical to affordability is the retention of debt and equity investor confidence. The sector model has worked well in supporting the delivery of dramatic water quality and environmental benefits and is eyed favourably by other sectors demanding significant capital investment to deliver national infrastructure improvements.

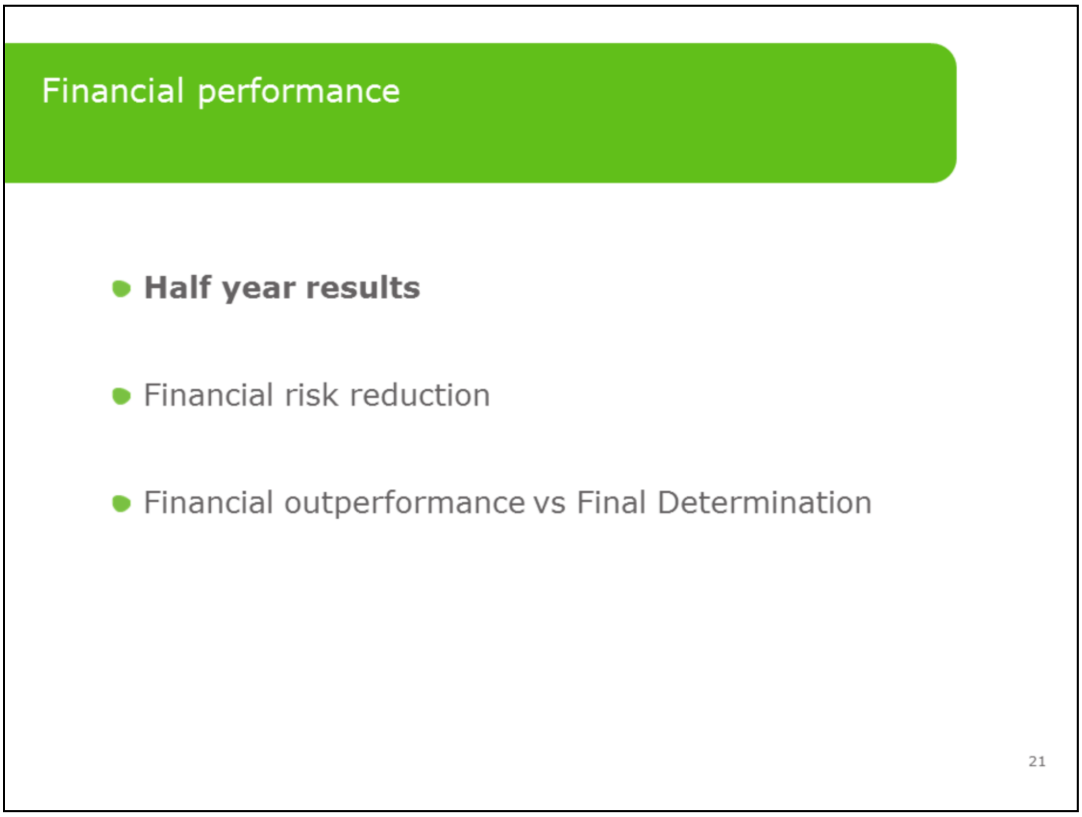
And on the third area, we believe that more can be done to promote water efficiency. Water companies are in a unique position to help facilitate the use of scarce water resources by customers. We support the refinement of the regulatory framework to provide companies with incentives to encourage the prudent use of water. We also support the promotion of education and innovation in the area of water efficiency.

We look forward to the publication of the forthcoming Water White Paper and will continue to work with all key parties to help achieve the optimal outcome for all our stakeholders.

Now, over to Russ.

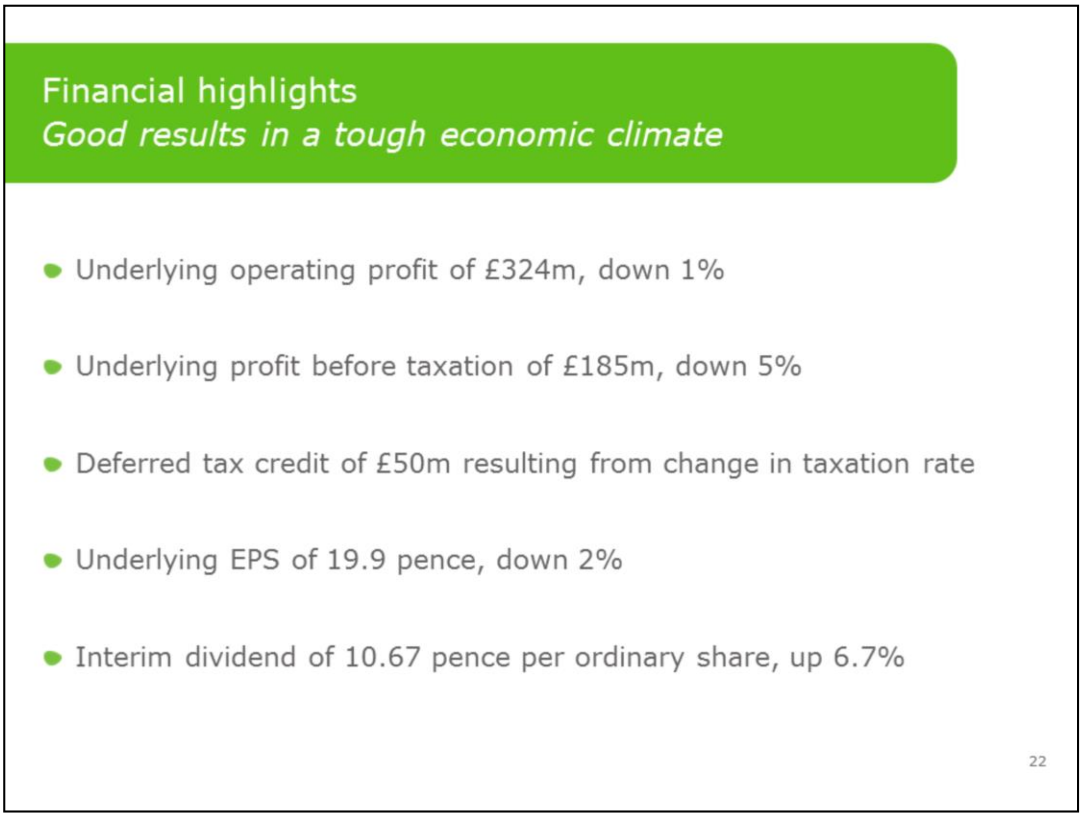
Thank you, Steve. Good morning.

Before I start, I'd just like to remind you that, since our regulated water business accounts for virtually all of the group's revenue and operating profit, we have now adopted a single segment for financial reporting purposes.



I'll begin with the half year financial results and then talk about a few changes we have made to reduce risk in the areas of power costs, financing costs and pensions.

I'll then provide a brief update on our regulatory outperformance, before handing back to Steve.



This slide shows the financial highlights for the half year, a good set of results in a tough economic climate.

Underlying operating profit was £324 million, down by just one per cent.

Underlying profit before tax was £185 million, five per cent lower than the same period last year.

It is worth highlighting the £50 million deferred tax credit, which reflects the enactment of changes to reduce the corporation tax rate from 26 per cent to 25 per cent from 1 April 2012. We have again stripped this credit out of the underlying numbers.

Underlying earnings per share was 19.9 pence, down two per cent.

And, we have declared an interim dividend for 2011/12 up 6.7 per cent. This increase comprises RPI inflation of 4.7 per cent from November 2009 to November 2010, which is the rate included within our price limit for this year, plus two per cent in line with our stated dividend policy.

Income statement – underlying
Good financial performance

£m Six months ended 30 September *Continuing operations*	2011	2010
REVENUE	792.7	762.4
Underlying operating expenses	(321.9)	(293.0)
UNDERLYING EBITDA	**470.8**	**469.4**
Depreciation and amortisation	(146.6)	(141.7)
UNDERLYING OPERATING PROFIT	**324.2**	**327.7**
Underlying net finance expense[1]	(139.3)	(132.3)
UNDERLYING PROFIT BEFORE TAX[1]	**184.9**	**195.4**
Underlying taxation[1]	(49.0)	(56.7)
UNDERLYING PROFIT AFTER TAX[1]	**135.9**	**138.7**
BASIC UNDERLYING EARNINGS PER SHARE (pence)	**19.9**	**20.4**
INTERIM DIVIDEND PER ORDINARY SHARE (pence)	**10.67**	**10.00**

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[1] Re-presented to include capitalised borrowing costs of £0.8m in the comparative period

This is a summary of the underlying income statement, which strips out one-off items, fair value gains and losses, and the deferred tax credits.

Revenue of £793 million was up £30 million, principally as a result of the impact of the regulated price increase for 2011/12 of 4.5 per cent nominal (0.2% real price decrease plus 4.7% RPI inflation).

Underlying EBITDA was up marginally at £471 million and underlying operating profit was £3 million lower at £324 million.

Underlying profit before tax of £185 million was down £10 million on the first half of last year largely due to the impact of RPI inflation on our finance expense, as expected.

The underlying tax charge of £49 million, which has been adjusted for the deferred tax credit, was lower than the same period last year mainly because of lower profit before tax and the one per cent reduction in the mainstream rate of corporation tax.

Underlying EPS was 19.9 pence, a 0.5 pence reduction on the first half of last year.

Operating costs

IRE up as planned; controllable costs on track

£m	2011	2010
Revenue	**792.7**	**762.4**
Employee costs	(66.0)	(67.9)
Power	(24.4)	(24.7)
Property rates	(37.6)	(33.7)
Bad debts[1]	(18.0)	(17.8)
Other expenses	(109.5)	(100.9)
	(255.5)	(245.0)
Infrastructure renewals expenditure (IRE)	(66.4)	(48.0)
Depreciation and amortisation	(146.6)	(141.7)
Total underlying operating expenses	**(468.5)**	**(434.7)**
Underlying operating profit	**324.2**	**327.7**
Adjustments:		
One-off costs[2]	(1.6)	(16.2)
Reported operating profit	**322.6**	**311.5**

- Increase in IRE reflects good progress on capex programme

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[1] Includes bad debts relating to non-regulated businesses
[2] Principally relates to restructuring and other reorganisation costs within the business

Looking at our costs in a bit more detail.

Reflecting good progress on the capital investment programme, infrastructure renewals expenditure was up £18 million, in line with the planned phasing of the programme. Depreciation was higher, as expected, as a result of an increase in the commissioned asset base.

In the area of controllable costs, we have reduced our employee costs and broadly maintained our power costs through forward contracts, securing outperformance. We have also sustained the improvements made last year on bad debts and I will talk about this in more detail shortly.

Property rates have increased by £4 million, as expected, reflecting an increase in rateable value and a loss of transitional relief.

Other expenses have increased by £9 million, principally reflecting inflationary cost pressures and the new carbon reduction commitment charge.

Adjusting for one-off costs of £2 million, which mainly relate to restructuring within the business, underlying operating profit was £324 million, a one per cent reduction on the first half of last year.

Bad debts and cash collection
Improvements sustained

£m	2009/10	2010/11	2011/12 H1
Regulated revenue[1]	1,521	1,477	774
Regulated bad debt expense[1]	38	31	16
Bad debt / regulated revenue	2.5%	2.1%	2.1%

- Cash collection initiative – 10 point plan progressing well
- Underlying improvement of £6m+ in bad debt charge in 2010/11
- Improvement in bad debt charge sustained in H1 2011/12

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[1] Revised application of revenue recognition approach under IAS18 to better align with other water companies (2009/10 restated)

So, now turning to our bad debt performance.

We are adopting a more proactive approach to debt collection and our detailed action plan, which I outlined to you this time last year, is progressing well.

Last year, we reduced our underlying bad debt expense by more than £6 million, to 2.1 per cent of regulated revenue.

We have sustained this level during the first half of this year, which is an encouraging performance given the tough economic climate.

Financial position
Robust capital structure

£m	30 Sep 11	31 Mar 11
Non-current assets	8,484.3	8,376.1
Retirement benefit surplus	27.9	-
Cash	325.2	255.2
Other current assets	389.4	344.4
Total derivative assets	650.2	365.3
Total assets	**9,877.0**	**9,341.0**
Gross borrowings	(5,833.1)	(5,313.3)
Other non-current liabilities	(1,573.5)	(1,552.2)
Retirement benefit obligations	-	(195.0)
Other current liabilities	(561.2)	(518.0)
Total derivative liabilities	(152.6)	(85.0)
Total liabilities	**(8,120.4)**	**(7,663.5)**
TOTAL NET ASSETS	**1,756.6**	**1,677.5**
Share capital	499.8	499.8
Share premium	2.3	1.3
Retained earnings	770.2	691.0
Other reserves	484.3	485.4
SHAREHOLDERS' EQUITY	**1,756.6**	**1,677.5**
NET DEBT	**(5,010.3)**	**(4,777.8)**

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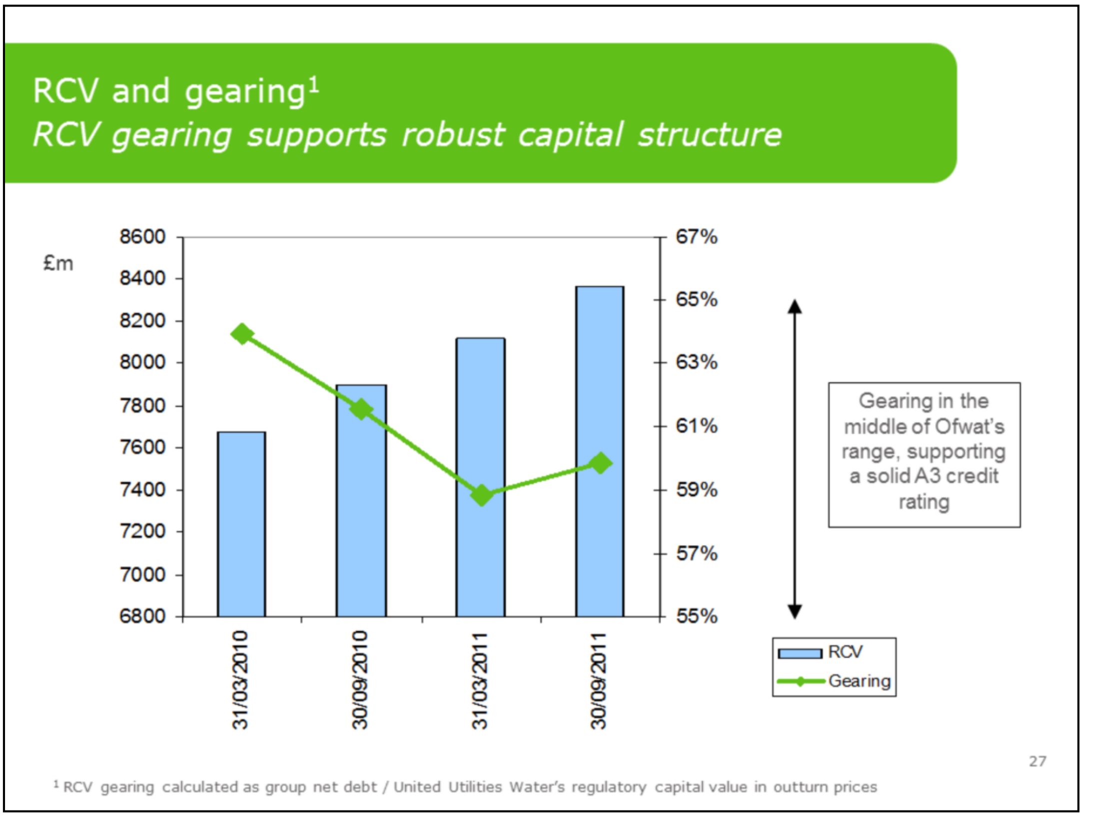
Now, looking at the statement of financial position.

The group has a robust capital structure, which is aligned with the regulatory model. Net debt is higher than last year end, as expected, reflecting additional borrowing to fund the capital investment programme and the accelerated payment of approximately £100 million in respect of previously agreed pension deficit repair contributions.

The group's pension position under IAS 19 has switched from a liability of £195 million, at 31 March 2011, to an asset of £28 million at 30 September 2011. This £223 million positive movement principally reflects payment of the £100 million accelerated deficit repair contribution and investment returns exceeding expectations, as a result of the effect of falling interest rates on the interest rate hedge we have put in place.

The cash position is up by £70 million at £325 million. This increase is mainly as a result of the posting of collateral from counterparty banks in relation to cross currency and interest rate swaps.

Retained earnings have increased by almost £80 million, largely as a result of the impact of the deferred tax credit.



The green line on this chart shows the movement in gearing over the last 18 months.

The reduction between March 2010 and March 2011 mainly reflects a reduction in group net debt as a result of the non-regulated disposals.

RCV gearing has increased from March 2011 to September 2011 by one per cent to 60 per cent. This is largely a result of the £100 million accelerated pension deficit repair payment.

This places our gearing in the middle of Ofwat's assumed range, of 55 per cent to 65 per cent, and supports a solid A3 credit rating, providing efficient access to the debt capital markets.

Cash flow statement
Cash flow broadly covers investing activities

£m Six months ended 30 September	2011	2010
Net cash generated from operating activities	218.2	330.5
Net cash used in investing activities	(225.1)	(230.3)
Net cash generated from/(used in) financing activities[1]	80.4	(187.5)
Net movement in cash (continuing operations)	**73.5**	**(87.3)**

[1] Includes £0.2m of FX movements in 2011/12

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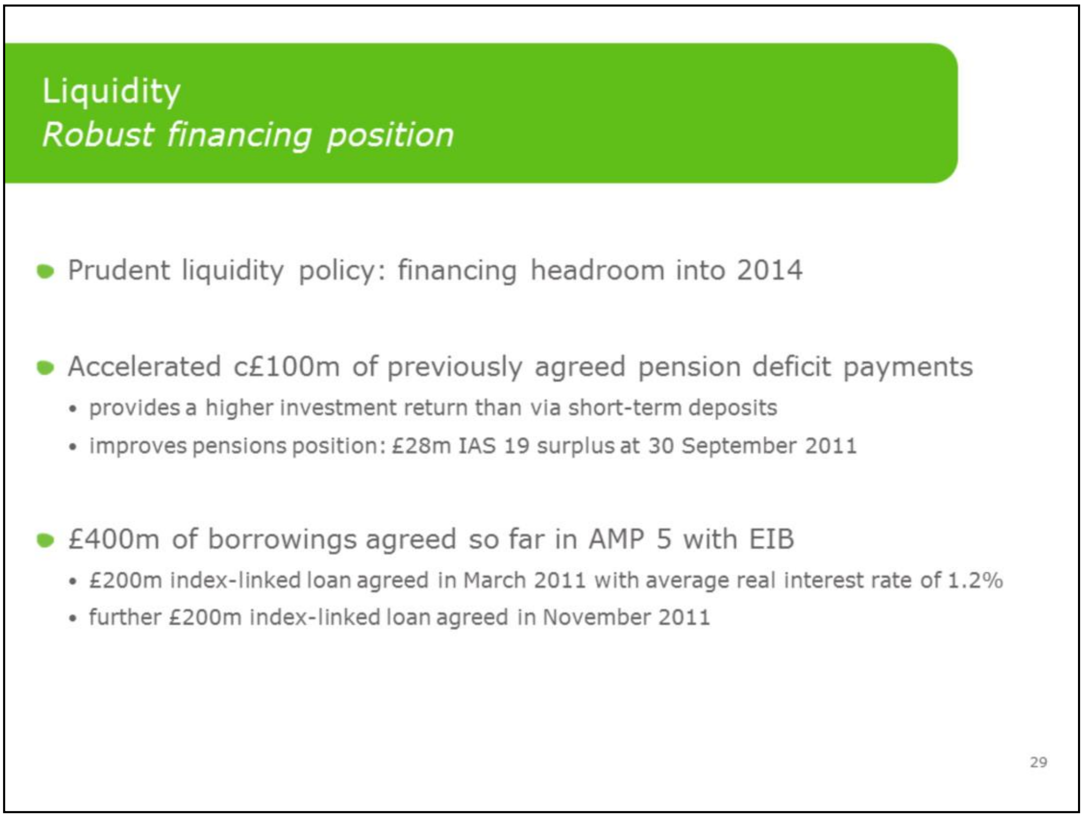
Moving on to cash flow.

Net cash generated from operating activities was £218 million, down by £112 million on the first half of last year, largely as a result of the £100 million accelerated pensions deficit repair payment.

Cash used in investing activities remained at a high level, as we continued to make good progress on our capital investment programme.

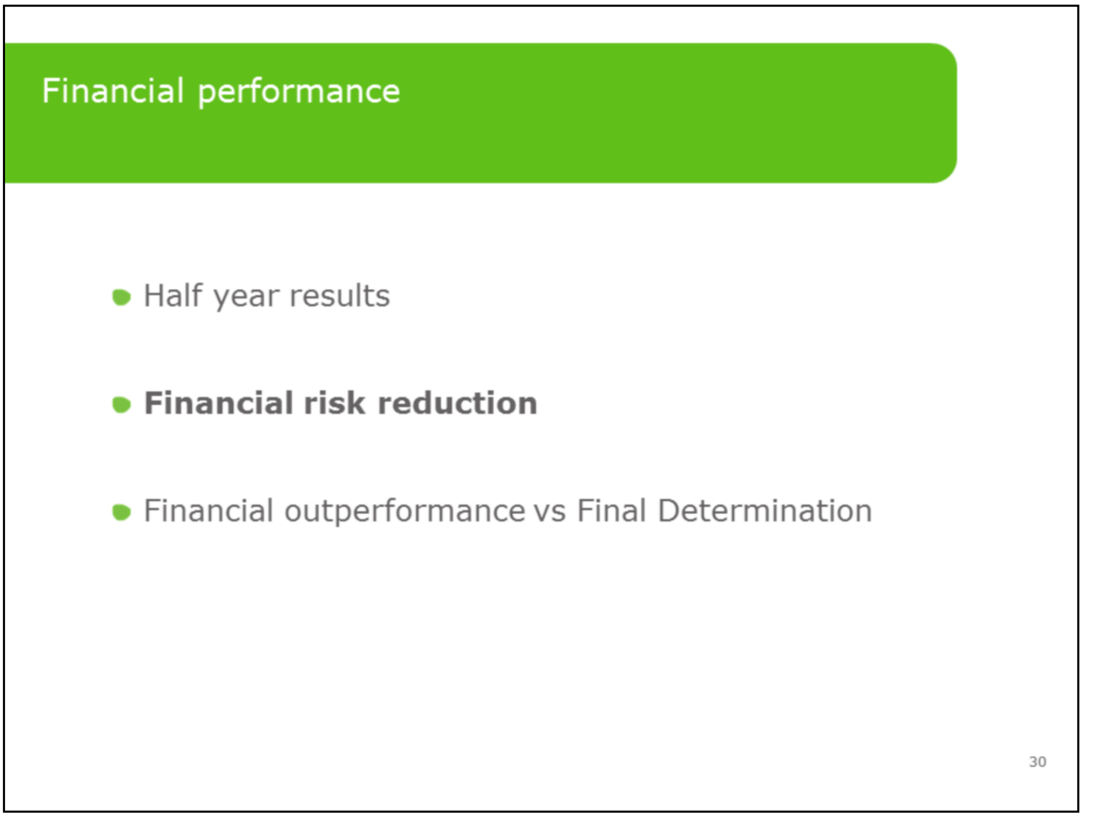
Cash from financing activities was £80 million, a movement of £268 million compared with the first half of last year, as we received £150 million of proceeds from the EIB loan in April and May, counterparty banks posted £66 million of collateral, and less borrowings were due for repayment in the period.



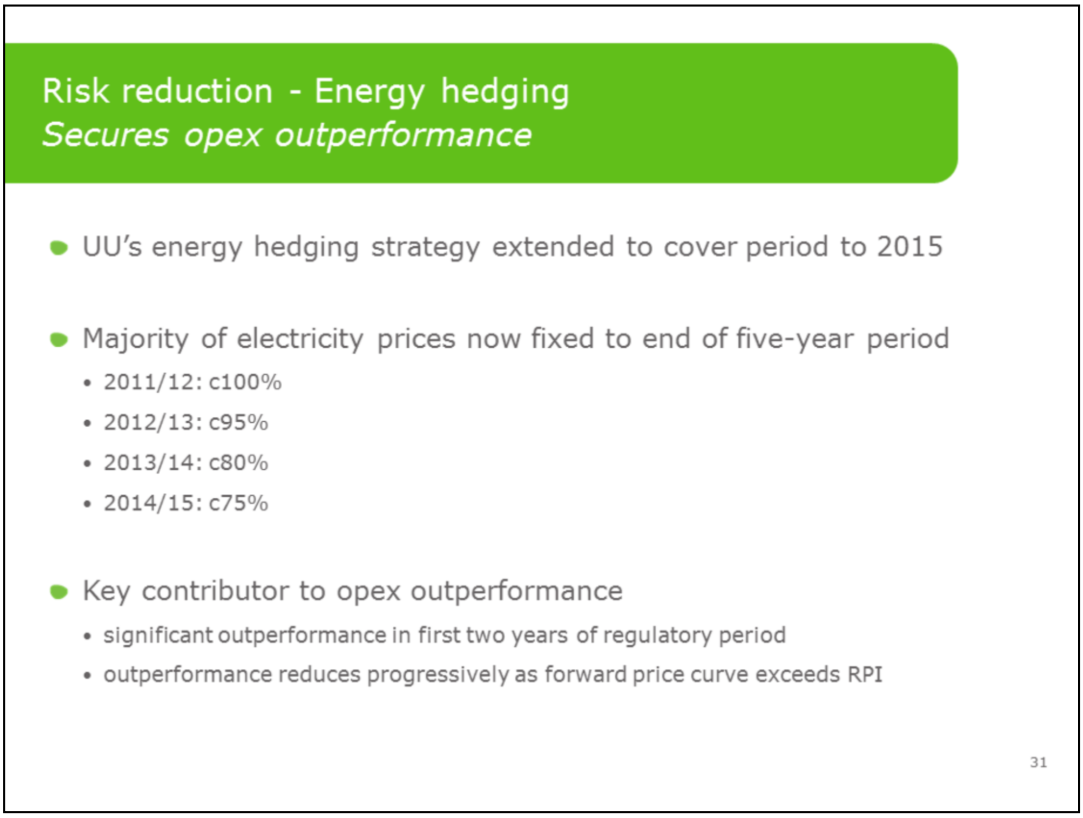
We continue to benefit from a robust financing position and we now have headroom to cover our projected financing needs into 2014.

This robust financing position enabled us to accelerate £100 million of pension deficit repair payments, providing a higher return than could have been achieved through short-term deposits.

We have now agreed a total of £400 million of new borrowings with the EIB so far in this regulatory period. We drew down the first £200 million index-linked loan facility between March and May 2011 at an average real interest rate of 1.2 per cent, our best rate since privatisation. In early November, a further £200 million index-linked loan facility was agreed with the EIB and, although pricing is still to be finalised, it is expected that this will deliver additional outperformance.



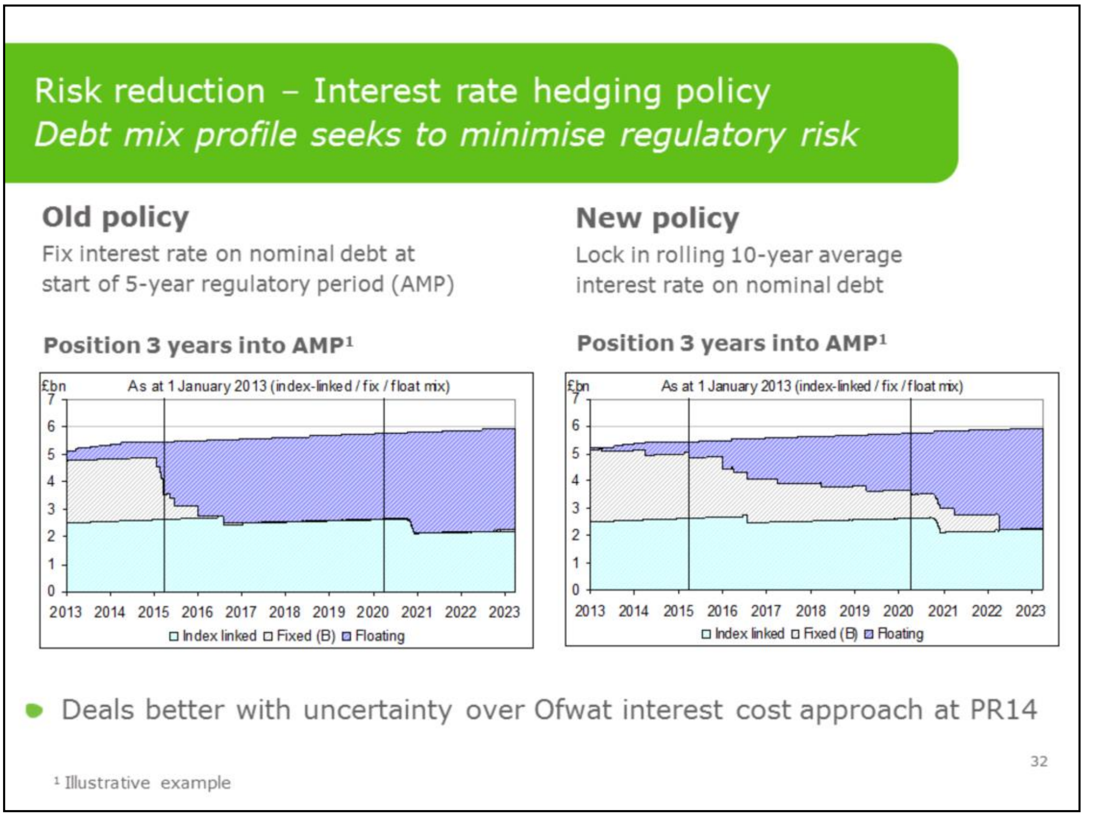
We've mentioned previously that we are focusing on improving performance across a broad front. As part of this improvement process, we have been assessing opportunities to reduce further our financial risks in three key areas.



First, power costs.

We have increased our energy hedging and have now substantially locked in our power requirements through to 2014/15, as shown by the hedged percentages on this chart.

This delivers significant outperformance versus the regulatory contract, although the greatest benefit comes in the early years due to the upward sloping forward price curve.



The second area of risk reduction relates to interest rate management.

Very long-term sterling inflation index-linked debt is our preferred form of funding, as this provides a natural hedge to assets and earnings.

However, index-linked debt is not always available and therefore we raise a significant amount of nominal debt. Where this is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability.

Then, to manage exposure to interest rates during a five-year regulatory period, we used to fix interest costs for a substantial proportion of the group's debt for the duration of the period around the time of the price review.

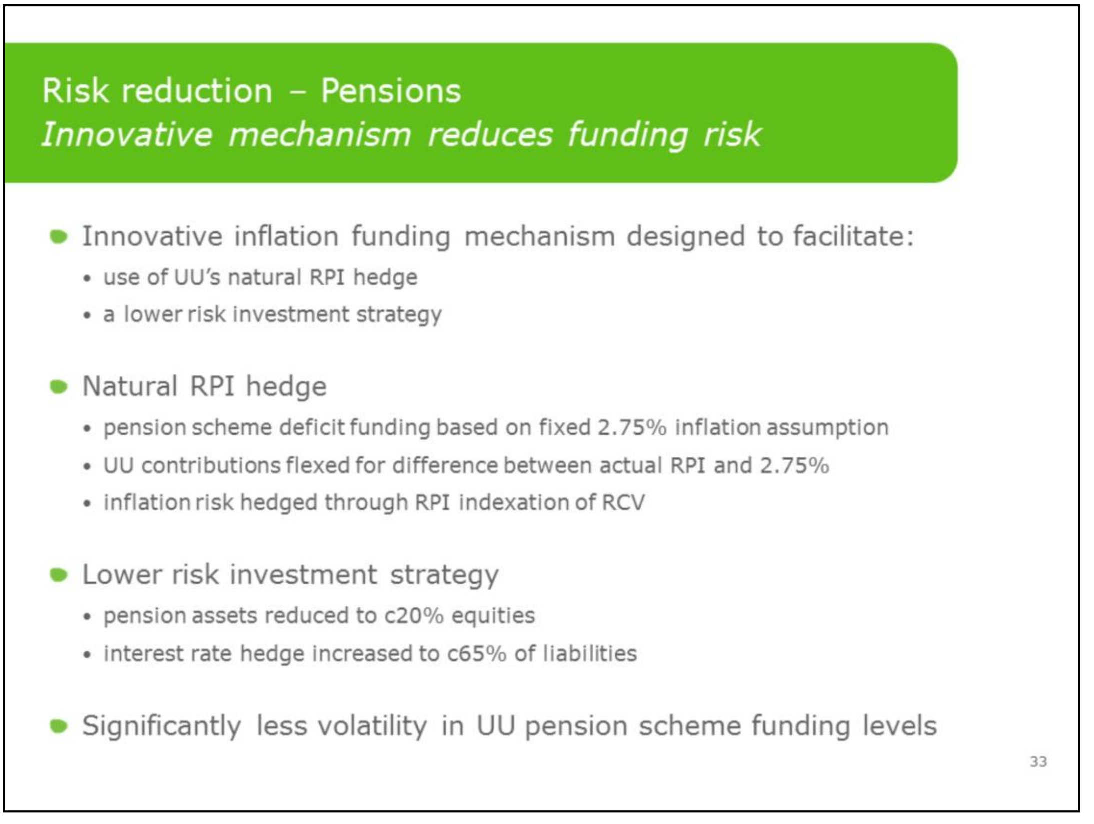
Earlier this year, we reassessed our interest rate hedging policy with a view to further reducing regulatory risk.

You may be aware that Ofwat has a range of options in assessing industry cost of debt at PR14, including the use of spot rates, historical average rates and an indexation model.

To help address this uncertainty, we have revised our interest rate management policy and have now extended our fixed interest rate hedge out to a ten year maturity on a reducing balance basis.

The intention is to extend the interest rate hedge each year to eventually achieve a ten year rolling average interest rate on the group's nominal debt, as depicted on the charts.

We believe that this revised interest rate hedging policy, which provides for a longer fixing of interest rates, will put us in a good position to respond to whatever approach Ofwat adopts to the industry cost of debt at PR14.



A third area where we have implemented risk reduction measures is pensions.

In March 2010, we amended the terms of our defined benefit pension schemes. We also reduced our future pension obligations as a result of the sale of non-regulated activities.

We have now introduced an innovative inflation funding mechanism, which facilitates the use of our natural RPI hedge and a move to a lower risk investment strategy.

We have agreed with the trustee of our main pension scheme to use a lower investment return assumption and a fixed inflation assumption of 2.75 per cent, in carrying out valuations of the scheme.

In periods when RPI inflation is higher than 2.75 per cent, we will make additional contributions. These payments will be smoothed over a five year period to help mitigate RPI fluctuations.

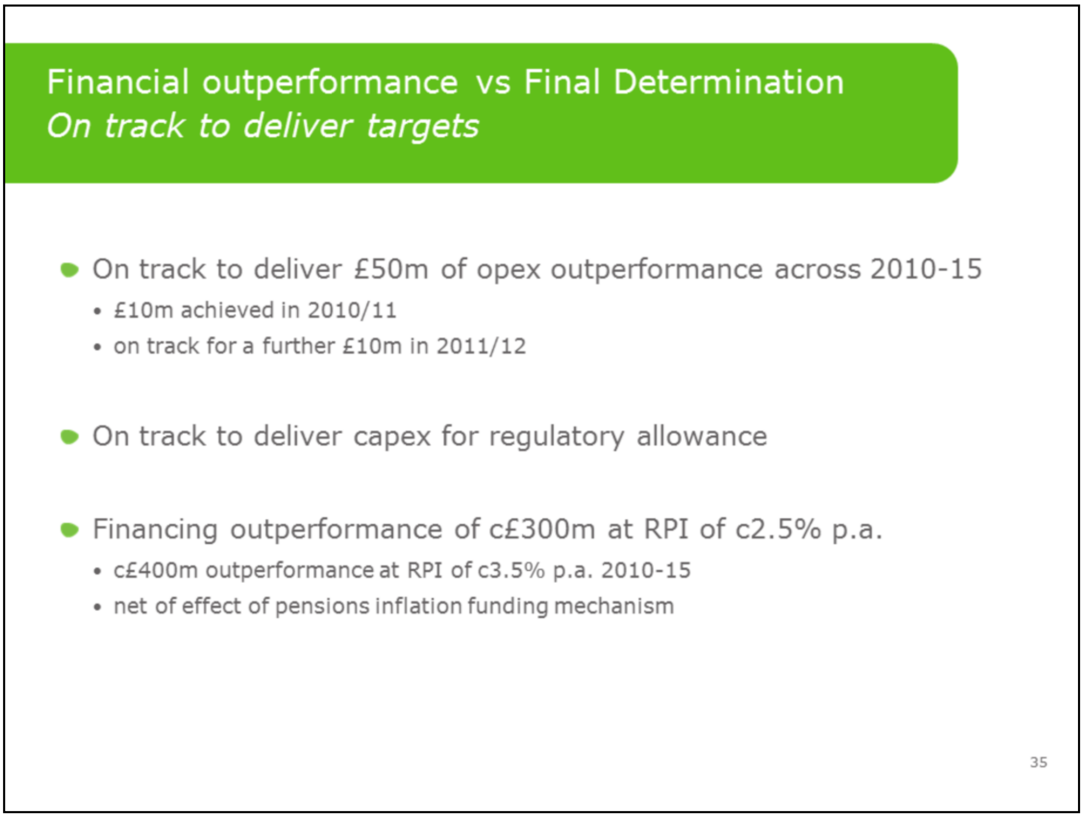
We are comfortable in making these additional contributions, as the company's RCV is linked to RPI inflation and therefore this provides a natural hedge against this risk.

The inflation funding mechanism has allowed us to reduce the allocation of our pensions assets to 20 per cent in equities, from 34 per cent last year.

We have also increased our interest rate hedge to around 65 per cent of pension scheme liabilities.

Overall, we believe this mechanism significantly reduces the risk around our pension scheme funding levels.

I’d like now to provide a brief update on regulatory outperformance, before handing back to Steve.



Our performance in the first six months of this year has reinforced our confidence in delivering the outperformance targets that we set out in May.

In respect of opex outperformance, we are targeting a total of at least £50 million, or approximately two per cent of the regulatory allowance, over the 2010-15 period. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of around £150 million over the five years.

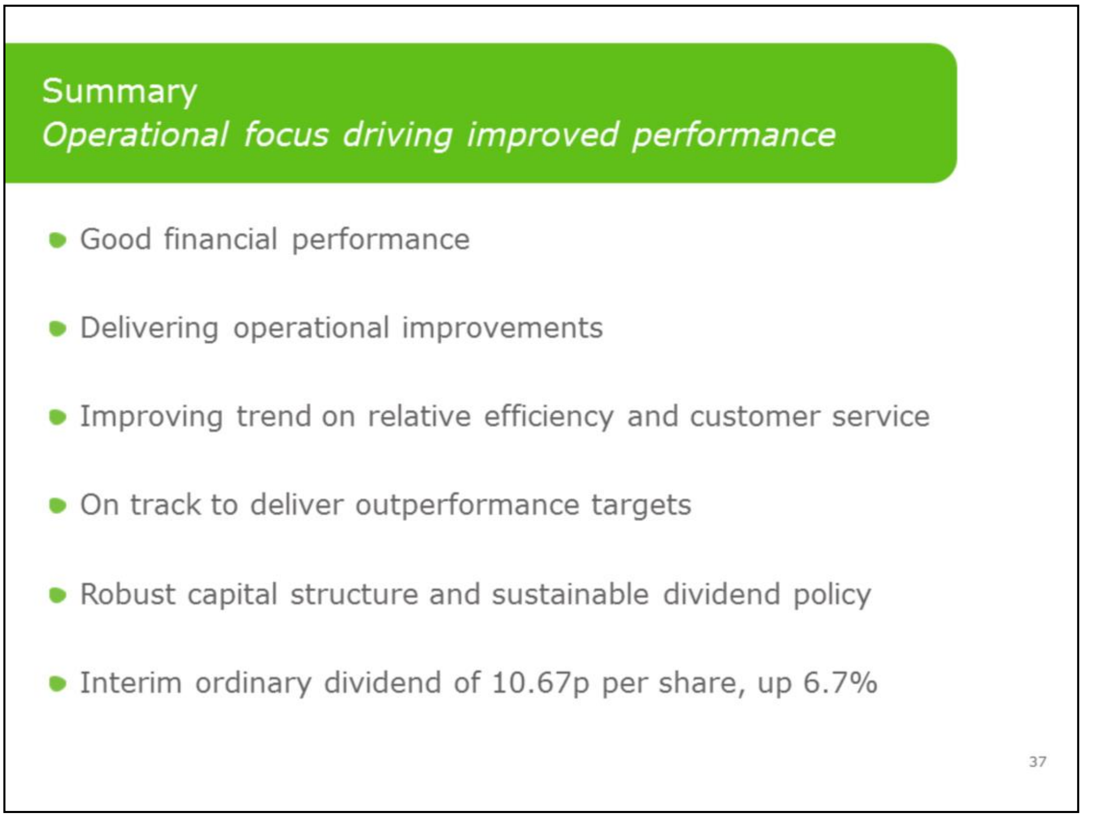
We made good progress last year and delivered around £10 million of opex outperformance. Progress so far this year has been encouraging and we are on track to deliver a further £10 million of opex outperformance for this year.

In the area of capital expenditure, we are delivering significant efficiencies and expect to broadly meet Ofwat's revised allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices or COPI.

We have already secured significant financing outperformance in this regulatory period. Based on an average RPI inflation rate of 2.5 per cent per annum, across 2010-15, our financing outperformance is around £300 million. Should average RPI inflation outturn at 3.5 per cent per annum, across the five-year period, this would generate around £400 million of financing outperformance, net of the effect of the pensions inflation funding mechanism which I discussed earlier.

Now, back to Steve.

Thank you, Russ.



So, in summary, we have delivered a good financial performance.

We have demonstrated that we are delivering improved customer service, efficiency and operational improvements, although we are determined to deliver more.

Our water supply and demand balance remains robust and our reservoirs are at healthy levels.

We remain on track to deliver our regulatory outperformance targets, with substantial financing outperformance already secured.

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

In line with this policy, we have increased the interim dividend by 6.7 per cent to 10.67 pence per share.

We will continue with our sustained focus on operational performance, as we aim to deliver further improvements for the benefit of our customers, shareholders and the environment.

That concludes our results presentation.

Thank you for listening.

We'll now be pleased to take questions.

Supporting information

Reported income statement

Underlying profit before tax

Finance expense

Movement in net debt

Financing and liquidity

Term debt maturity profile

Debt structure

Income statement – reported
Deferred tax credit enhances earnings

£m Six months ended 30 September *Continuing operations*	2011	2010
REVENUE	792.7	762.4
Operating expenses	(323.5)	(309.2)
EBITDA	**469.2**	**453.2**
Depreciation and amortisation	(146.6)	(141.7)
OPERATING PROFIT	**322.6**	**311.5**
Investment income and finance expense	(198.2)	(189.3)
PROFIT BEFORE TAX	**124.4**	**122.2**
Taxation	16.4	10.9
PROFIT AFTER TAX	**140.8**	**133.1**
BASIC EARNINGS PER SHARE (pence)	**20.7**	**19.5**
INTERIM DIVIDEND PER ORDINARY SHARE (pence)	**10.67**	**10.00**

Profit before tax
Reflects inflationary impact on finance expense

£m	2011	2010
Operating profit	322.6	311.5
Investment income and finance expense	(198.2)	(189.3)
Profit before tax	**124.4**	**122.2**
Adjustments:		
One-off items[1]	1.6	16.2
Net fair value losses on debt and derivative instruments	55.9	53.2
Interest on swaps and debt under fair value option	3.8	2.0
Net pension interest expense	3.2	2.6
Adjustment for capitalised borrowing costs	(4.0)	(0.8)
Underlying profit before tax	**184.9**	**195.4**

[1] Principally relates to restructuring and reorganisation within the business. Added to operating profit to obtain underlying operating profit

Finance expense
Underlying interest rate broadly flat

£m	2011	2010
Investment income	1.7	1.2
Finance expense	(199.9)	(190.5)
	(198.2)	**(189.3)**
Less net fair value losses on debt and derivative instruments	55.9	53.2
Adjustment for interest on swaps and debt under fair value option	3.8	2.0
Adjustment for net pension interest expense	3.2	2.6
Adjustment for capitalised borrowing costs	(4.0)	(0.8)
Underlying net finance expense	**(139.3)**	**(132.3)**
Average net debt	**4,782**	**4,663**
Average annualised underlying interest rate	**5.8%**	**5.7%**
Effective interest rate on index-linked debt	6.6%	6.6%
Effective interest rate on other debt	5.1%	4.9%

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

£m	2011	2010
Cash interest on index-linked debt	(21.5)	(19.5)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(35.6)	(32.2)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(21.2)	(17.7)
Finance expense on index-linked debt	**(78.3)**	**(69.4)**
Interest on other debt (including fair value option debt and swaps)	(61.0)	(62.9)
Underlying net finance expense	**(139.3)**	**(132.3)**

- Cash interest payment of £22m on c£2.4bn of index-linked debt
- Increase in finance expense due to higher RPI and additional EIB loan
- RPI benefit on RCV exceeds RPI impact on debt principal

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

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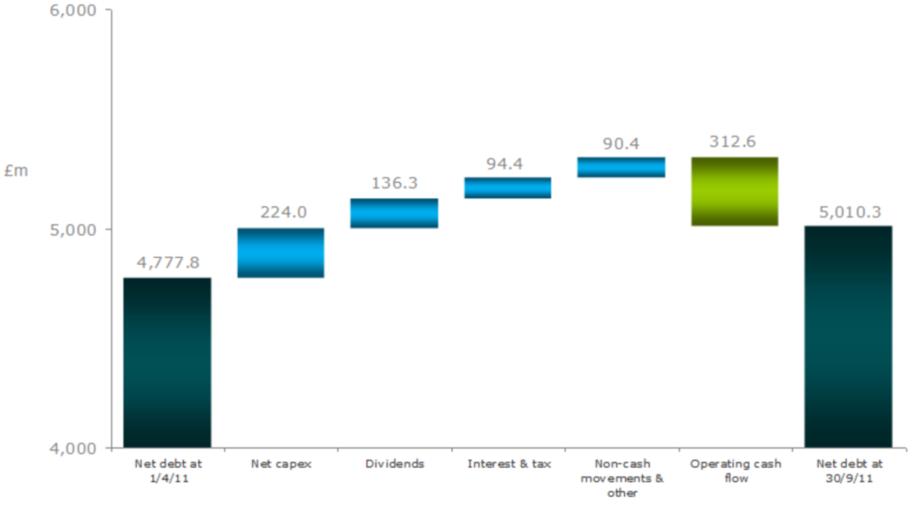
Movement in net debt[1]
Increase in line with expectations



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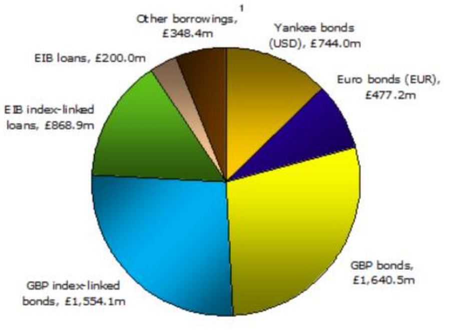
[1] Net debt includes derivatives which incorporate regulatory swaps

Financing & liquidity as at 30 September 2011

Gross debt = £5,833.1m



Headroom / prefunding = £508.8m

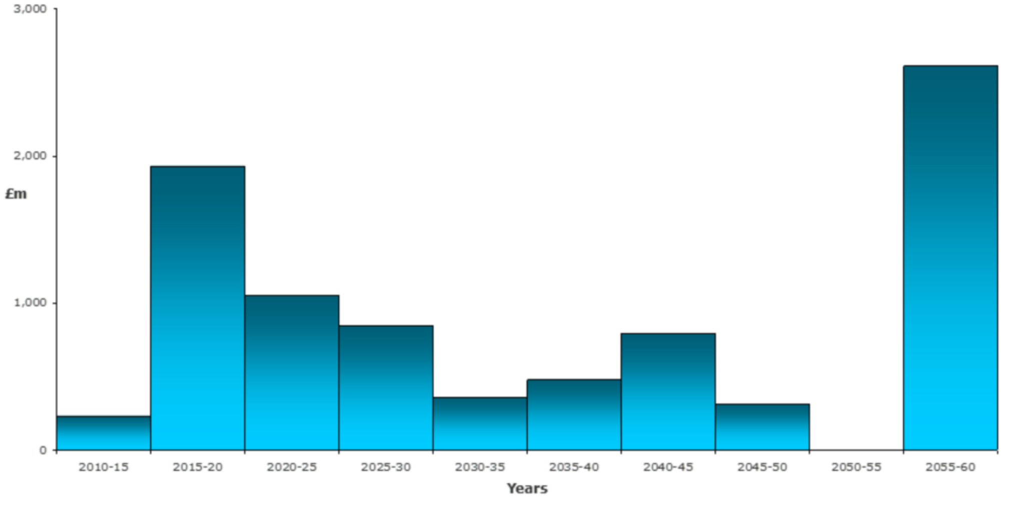
	£m
Cash and short-term deposits	325.2
Medium-term committed bank facilities[2]	503.5
Short-term debt	(119.6)
Term debt maturing within one year	(200.3)
Total headroom / prefunding	**508.8**

[1] Includes amounts relating to joint ventures of £28.8m

[2] Excludes £350.0m facilities maturing within one year

Term debt maturity profile[1]

Average term to maturity over 25 years



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

Debt structure at 30 September 2011

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable

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

Euro MTN:
- £6.5m in 13's

Other debt:
- Short-term loans £71m

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

Euro MTNs:
- ¥3bn in 13's
- £425m in 15's
- ¥5bn in 17's
- £150m in 18's
- €500m in 20's
- £375m in 22's
- £300m in 27's
- £50m in 32's[1]
- £200m in 35's
- £100m in 35's[1]
- £35m in 37's[1]
- £70m in 39's[1]
- £100m in 40's[1]
- £50m in 41's[1]
- £100m in 42's[1]
- £50m in 43's[1]
- £50m in 46's[1]
- £50m in 49's[1]
- £510m in 56's[1]
- £150m in 57's[1]

Other debt:
- EIB index-linked loans £800m[1]
- EIB loans £200m
- Short-term loans £41m
- Other loans £133m

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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.