

**United Utilities Group PLC**  
**Final results**  
Year ended 31 March 2010



CHIEF EXECUTIVE

Philip Green



Good morning ladies and gentlemen.

## Agenda

- Overview
- Financial performance
- Business update
- Questions

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This is the agenda for this morning's presentation.

I will provide you with a brief overview before handing over to Tim who will talk you through the numbers. I will provide an update on the business and we'll then be pleased to take any questions.

Also with us today are other members of our senior management team.

Before we start, I would like to thank Tim for his significant contribution to United Utilities over the last four years. Today is Tim's last day with us and it has been a great pleasure to work with him. Tim, I would like to wish you all the very best in your new role at Cable&Wireless Worldwide.

On Tuesday we announced that Russ Houlden will be our new CFO and we expect him to start in the autumn. He is currently CFO of Telecom New Zealand and brings with him extensive experience of operating in a regulatory environment and managing large capital expenditure programmes.

## Overview

### *Well positioned for 2010-15*

- Sound underlying financial performance
- Customer satisfaction at highest recorded levels
- Programme of actions to deliver outperformance during 2010-15
- Implementing plans to improve efficiency and performance
- Reduced pension deficit – sustainable, lower risk approach
- Clarity on dividends and capital structure
- Agreed non-regulated disposals totalling c£267m
- Assessing expressions of interest for remaining non-regulated businesses

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United Utilities has delivered a sound underlying financial performance in a difficult economic environment.

Customer satisfaction is now at its highest recorded levels and we met our leakage target despite the extreme winter weather we experienced.

As you know, we accepted Ofwat's final determination. We see this as a challenging price review, with customers benefiting from a reduction in prices coupled with an increase in capital investment.

We have undertaken a root and branch review of our business over the last 12 months and with the extensive efficiency plans we have developed and are already implementing, this gives us confidence that we can deliver outperformance.

We have made changes to our defined benefit pension schemes, placing our pension provision on a more sustainable footing and reducing the pension deficit, future service cost and funding risk.

We are targeting real growth in our dividends giving investors clarity for the next five years.

We have a robust and sustainable capital structure and are continuing to target an A3 credit rating with Moody's for United Utilities Water, and Moody's has reaffirmed this rating.

During the second half of the year, we completed the disposals of our holdings in Northern Gas Networks and Manila Water for £132 million.

In addition, earlier this month we agreed the sale of our Australian business for approximately £135 million, bringing the total value of non-regulated disposals to almost £270 million.

We are continuing to assess the expressions of interest we have received for our remaining non-regulated businesses.

Overall, we are well positioned for the next five years.

I'll now hand over to Tim who will discuss our financial performance.

CHIEF FINANCIAL OFFICER

Tim Weller



Thank you, Philip. Good morning.

## Financial highlights

### *Sound underlying financial performance*

- Underlying operating profit<sup>1</sup> up 3% to £756m
- Underlying profit before taxation<sup>1</sup> down 6% to £500m
- Significant benefits from changes in pension provision
- Regulated underlying operating profit<sup>2</sup> up 3% at £701m
- Non-regulated underlying operating profit<sup>3</sup> marginally down at £59m
- Total dividend for 2009/10 of 34.3p per share, an increase of 5.0%

<sup>1</sup> as described on slide 13 <sup>2</sup> as described on slide 6 <sup>3</sup> as described on slide 8

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This slide shows the financial highlights for the year.

Underlying operating profit from continuing operations was up three per cent at £756 million.

Underlying profit before tax was £500 million, down six per cent, reflecting an increase in interest expense as a result of higher average net debt, following the return of £1.5 billion to shareholders, and an increase in the cost of net borrowings including a reduction in investment income. As in previous years we have adjusted for one-off items and the volatility from IAS 39 fair value adjustments to provide a more representative view of performance.

It is worth highlighting the £92 million credit in group operating profit from the changes we have made to our defined benefit pension schemes. This is the largest one-off item we have stripped out of the underlying numbers and I will discuss this in more detail shortly.

Our regulated business delivered an underlying operating profit of £701 million, representing growth of three per cent.

Underlying operating profit in our non-regulated activities was marginally lower at £59 million, reflecting reduced dividend income, following the disposals of our interests in Northern Gas Networks and Manila Water, offset by a strong performance in our other non-regulated businesses.

Regulated activities  
*Profit growth delivered*

£m	2010	2009	
Revenue	1,540.7	1,499.5	+3%
<b>Operating profit</b>	<b>761.7</b>	<b>678.4</b>	<b>+12%</b>
<u>Adjustments:</u>			
Pensions credit	(76.7)	-	
Restructuring costs	15.8	1.0	
<b>Underlying operating profit</b>	<b>700.8</b>	<b>679.4</b>	<b>+3%</b>

- Modest underlying profit growth reflects economic environment
- 6.0% allowed price rise offset by reduced water demand and cost pressures as expected

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Moving on to our regulated business, revenue increased by three per cent, reflecting the allowed price rise of six per cent, principally offset by reduced water demand as expected.

Underlying operating profit also increased by three per cent. This reflects the revenue increase, partly offset by ongoing cost pressures and higher depreciation, which we have highlighted previously.

The regulated business benefited from a £77 million credit in relation to its share of the pension scheme changes, partly offset by one-off restructuring costs of £16 million.

Regulated activities: operating expenses  
*Strong focus on cost management*

£m	2010	2009	
Depreciation and amortisation	249.8	236.2	
Infrastructure renewals expenditure (IRE)	113.7	117.8	
Power	61.5	55.3	
Property rates	52.1	54.8	
Bad debts	55.1	50.7	
Other expenses	307.7	305.3	
<b>Underlying operating expenses</b>	<b>839.9</b>	<b>820.1</b>	<b>+2%</b>

- Ongoing cost pressures in areas such as power and bad debts
  - higher power costs reflects forward buying – lower unit costs expected in 2010/11
  - bad debts represent 3.6% of revenue – broadly in line with prior year
- Other expenses broadly flat reflecting tight cost control

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Looking at the movement in regulated operating costs in more detail, depreciation and amortisation have increased reflecting the recent high levels of capital expenditure.

IRE is marginally lower than last year, in line with the planned investment profile. In 2010/11, we expect capital expenditure, including IRE, to be substantial, reflecting the company's investment profile over the next five years and this will drive a further increase in depreciation. Philip will talk about this profile in more detail later.

As we have previously highlighted, the business had entered into forward contracts for the majority of its power requirements for 2009/10. Unit power costs were approximately 10 per cent higher than in 2008/09 and this has resulted in an increase of around £6 million in the year. We are largely hedged for the next two years and expect unit power costs to be in the order of 20 per cent lower than in 2009/10.

Bad debt expense, expressed as a percentage of regulated revenue, is broadly in line with the prior year. This reflects the impact of the continuing tough economic environment on cash collection rates.

Other expenses, which include labour, pensions, materials, chemicals and support services costs, are broadly flat, reflecting continuing tight cost control within the business.

## Non-regulated activities

*Good financial performance, adjusting for disposals*

£m	2010	2009	
Revenue	890.2	911.8	-2%
<b>Operating profit<sup>1</sup></b>	<b>63.1</b>	<b>63.4</b>	<b>0%</b>
<u>Adjustments:</u>			
Pensions credit	(8.9)	-	
Restructuring costs	4.9	(1.0)	
<b>Underlying operating profit</b>	<b>59.1</b>	<b>62.4</b>	<b>-5%</b>
Dividends from NGN and Manila Water	(2.4)	(12.3)	
<b>Adjusted for disposals</b>	<b>56.7</b>	<b>50.1</b>	<b>+13%</b>

<sup>1</sup> depreciation and amortisation in the year ended 31 March 2010 was £26.2m (£25.6m in year ended 31 March 2009 restated for IFRIC 12)

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Moving on to our non-regulated activities, revenue was marginally lower at £890 million. This reflects the impact of the difficult conditions in the UK property market on the group's utility connections business and, as expected, a reduction in contribution from our UK outsourcing contracts in the final year of the 2005-10 regulatory period.

Underlying operating profit was marginally down at £59 million.

We incurred restructuring costs of approximately £5 million, which partly offset the pensions credit I discussed earlier.

As you have heard, we completed the sales of our holdings in Northern Gas Networks and Manila Water in the second half of the year. Dividend income from these investments, which is included in operating profit, amounted to £2 million in 2009/10 compared with £12 million in the prior year.

Adjusting for these dividends would show a year on year increase in underlying operating profit of £7 million, as outlined on the slide.

## Changes to defined benefit pension schemes *Sustainable, lower risk approach*

- Retained defined benefit pension schemes for existing members
- Scheme changes allow sustainable approach to pensions
  - increase in employee contribution rates
  - cap on pensionable earnings increases
  - increase in retirement age
  - reduction in accrual rates
- Scheme rule changes supported by trade unions
- Necessary action to secure future of the schemes
- Funding at lower levels of risk

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We have previously mentioned that we have been reviewing our pension provision for our employees.

We have retained the defined benefit pension schemes for existing members, but have made changes which support a much more sustainable approach, as detailed on the slide. The majority of these changes took effect from 31 March 2010.

The changes to the rules of the pension scheme were supported by the company's trade unions, who understand that the actions we have taken will secure the future of the schemes.

A key benefit is that the amendments reduce future funding and deficit risk as well as future service cost.

Whilst we will continue with our contributions to the schemes, the investments in scheme assets will be on a lower risk basis.

The next slide sets out the impact of these changes on the 2009/10 financial statements.

## Impact of changes to pension schemes *£92m operating profit benefit and deficit reduction*

Impact on 2009/10 operating profit	£m
Regulated	76.7
Non-regulated	8.9
All other segments	6.7
<b>Group</b>	<b>92.3</b>

- Initial £92m one-off income statement credit in 2009/10
- £7m reduction in service cost expected for 2010/11
- £92m reduction in pensions deficit
- Increases headroom for credit ratings
- Pensions deficit now £271m versus £358m at the half year

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This shows the impact of the changes to the group's defined benefit pension schemes. The total one-off credit is £92 million, which we have adjusted for in calculating underlying profit.

We expect a reduction in service cost of approximately £7 million for 2010/11. As we intend to move to a lower risk funding strategy, this is likely to reduce investment income resulting in a lower net benefit at the profit before tax level.

The changes have also resulted in an immediate reduction in the deficit of £92 million. This increases headroom for credit rating calculations.

Taken together with the movement in liabilities, offset by investment returns and contributions, the net reduction in the deficit during the second half of the year was £87 million.

The pensions deficit at the year end was £271 million, compared with £358 million at the half year.

## Finance expense

*Continuing to outperform regulatory assumptions*

£m	2010	2009
<b>Published finance expense</b>	<b>(383.6)</b>	<b>(270.9)</b>
Net fair value losses on debt and derivative instruments	135.8	24.3
Add back interest on swaps and debt under fair value option	(22.2)	(8.3)
Investment income	14.1	70.7
Adjust for net pension interest expense/(income)	23.2	(6.8)
Adjustment for IFRIC 12 financing income	(2.9)	(5.2)
<b>Underlying cost of net borrowings</b>	<b>(235.6)</b>	<b>(196.2)</b>
<b>Average net debt</b>	<b>4,852</b>	<b>4,177</b>
<b>Average underlying rate of net borrowings</b>	<b>4.9%</b>	<b>4.7%</b>

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The group's finance expense has increased by £113 million. This includes fair value losses on debt and derivative instruments of £136 million, compared with £24 million in the prior year.

The large fair value movement is principally a result of the decrease in credit spreads on our borrowings that are designated at fair value through profit or loss, compared with an increase in credit spreads in the prior year.

The underlying cost of net borrowings has increased reflecting the higher average net debt compared with the prior year and a marginal increase in the rate.

## Finance expense: index-linked debt *Benefit from indexation on 8 month lag*

£m	2010	2009
Interest on index-linked debt	(37.1)	(30.9)
RPI adjustment to index-linked debt principal - 3 month lag <sup>1</sup>	(42.8)	12.5
RPI adjustment to index-linked debt principal - 8 month lag <sup>2</sup>	12.2	(40.9)
<b>Interest charge on index-linked debt</b>	<b>(67.7)</b>	<b>(59.3)</b>
Interest on other debt (including fair value option debt and swaps)	(167.9)	(136.9)
<b>Underlying cost of net borrowings</b>	<b>(235.6)</b>	<b>(196.2)</b>

- Index-linked debt: RPI interest effect with 3 or 8 month lag
- Benefit from negative RPI adjustment on debt with 8 month lag

<sup>1</sup> affected by movement in RPI between January 2009 and January 2010  
<sup>2</sup> affected by movement in RPI between July 2008 and July 2009

This slide shows the benefit of the group's £2 billion index-linked debt portfolio, which provides a natural hedge to our regulated assets and earnings.

The increase in the interest paid, from £31 million to £37 million, reflects the higher level of index-linked debt held by the group. This includes the full year impact of a £400 million loan from the European Investment Bank raised in autumn 2008 and the £70 million index-linked bond issued in July 2009.

There is a £43 million indexation charge in relation to the group's index-linked debt with a three month lag, reflecting the increase in RPI between January 2009 and January 2010.

A key driver in the group's low net borrowing rate is the impact of the decrease in RPI over the 12 months between July 2008 and July 2009. This affects the portion of the group's index-linked debt portfolio with an eight month lag. The associated indexation adjustment results in a £12 million credit which reduces net finance expense in the period.

Overall, there is a £68 million net charge to the income statement on approximately £2 billion of index-linked debt.

## Profit before tax

*Sound underlying performance*

£m	2010	2009	
Operating profit	817.9	729.5	+12%
Profit on disposal of investments	36.6	-	
Evaluation and disposal costs relating to non-regulated businesses	(10.8)	-	
Investment income and finance expense	(369.5)	(200.2)	
<b>Profit before tax</b>	<b>474.2</b>	<b>529.3</b>	<b>-10%</b>
<u>Adjustments:</u>			
Pensions credit <sup>1</sup>	(92.3)	-	
Restructuring costs <sup>1</sup>	30.7	1.2	
Other reorganisation costs <sup>1,2</sup>	-	5.4	
Profit on disposal of investments	(36.6)	-	
Evaluation and disposal costs relating to non-regulated businesses	10.8	-	
Net fair value losses on debt and derivative instruments	135.8	24.3	
Interest on swaps and debt under fair value option	(22.2)	(8.3)	
Interest associated with cash proceeds from UUE sale	-	(20.6)	
<b>Underlying profit before tax</b>	<b>500.4</b>	<b>531.3</b>	<b>-6%</b>

<sup>1</sup> added to operating profit to obtain underlying operating profit

<sup>2</sup> other reorganisation costs in 2008/09 relate to the capital restructuring associated with the £1.5bn return to shareholders

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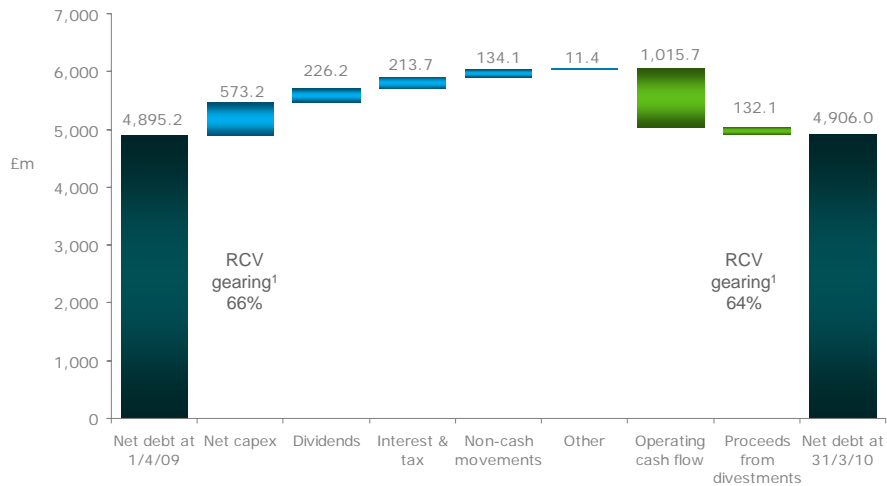
Underlying profit before tax was £500 million, after adjusting for the items set out on this slide.

The decrease principally reflects the impact of a higher cost of underlying net borrowings, including lower investment income, compared with the prior year.

Investment income was £14 million, compared with £71 million in 2008/09. This is primarily as a result of the lower level of cash held by the group since the return of £1.5 billion to shareholders in August 2008.

Without making any adjustments, profit before tax was £474 million.

## Movement in net debt *Reduction in RCV gearing*



● Adjusting for non-recourse JV debt of £234m, RCV gearing is 61%

<sup>1</sup> group net debt / United Utilities Water's regulatory capital value in outturn prices

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Net debt at the year end was broadly in line with the prior year, as outlined on the slide.

RCV gearing, measured as group net debt to the water company's regulatory capital value, has decreased from the position at March 2009 and was 64 per cent at the year end.

This reflects the inflationary impact on the RCV of increasing RPI over the year.

Adjusting for the group's non-recourse joint venture debt of £234 million, RCV gearing was 61 per cent (compared with 63 per cent at 31 March 2009).

## Financial summary

### *Robust financial position*

- Sound underlying financial performance
- Raised a further £220m of debt finance
- Financing headroom through to spring 2012
- Maturity of term debt portfolio over 25 years
- Index-linked debt provides a natural RPI hedge
- Reduced cost and risk of future pension provision

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In summary, the group has delivered a sound underlying financial performance.

A further £220 million of debt finance has been raised during the year. In addition, we have extended the term of £150 million of existing committed bank facilities. We now have financing headroom through to spring 2012.

The maturity of our term debt portfolio is over 25 years and just over 40 per cent of our net debt is index-linked, which provides a natural RPI hedge. The maturity profile of our term debt portfolio is provided in the supporting information towards the back of this presentation.

The group has made changes to its defined benefit pension schemes, resulting in a one-off income statement credit of £92 million and an immediate reduction in our pensions deficit. This materially reduces the long-term funding risk of our pension schemes.

As Philip has reminded you, this is my last day with the company. I would just like to say that I have very much enjoyed my time with United Utilities. I believe I am leaving the group well positioned for outperformance over the next five year period, with a robust capital structure and a clear and sustainable dividend policy.

I'll now hand back to Philip.

CHIEF EXECUTIVE

Philip Green



Thank you, Tim.

## Business update

- **Price review**
- Operational performance
- Efficiency initiatives
- Non-regulated activities
- Summary

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I'll start with a summary of the key issues from the price review.

## 2010-15 regulatory period

*Well prepared and confident of outperformance*

- A challenging price review: higher capex and lower customer bills
- Well prepared for 2010-15: detailed plans already being implemented
- Confident of achieving outperformance
- Attractive return for shareholders with real dividend growth
- In best interests of shareholders to accept price review

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Our decision to accept Ofwat's final determination followed a very detailed analysis of the proposals under a range of scenarios.

Together with an assessment of the extensive efficiency plans we are already implementing, and the low cost of the group's debt portfolio, we are confident we can deliver outperformance over the period.

Overall, we believe we can earn an attractive return for shareholders, with real dividend growth. Therefore, we believe it was in shareholders' best interests that we accepted the final determination.

## 2009 water price review

### *Summary of final determination proposals*

- £3.6bn capital investment programme (2007/08 prices)
  - £1.4bn water and £2.2bn wastewater
  - CIS<sup>1</sup> ratios of 94 for water (most efficient in sector) and 108 for wastewater
- Improvement in underlying operating efficiency
  - 1.2% p.a. improvement for water and 2.4% p.a. for wastewater
- 4.5% cost of capital (fully post-tax, real)
- Average annual real price decrease of 0.4%

Year to 31 March	2011	2012	2013	2014	2015
K factor	-4.3%	-0.2%	+0.6%	+1.0%	+1.2%

<sup>1</sup> Ofwat's capital expenditure incentive scheme

This slide reminds you of the key numbers from Ofwat's final determination for United Utilities Water (UW).

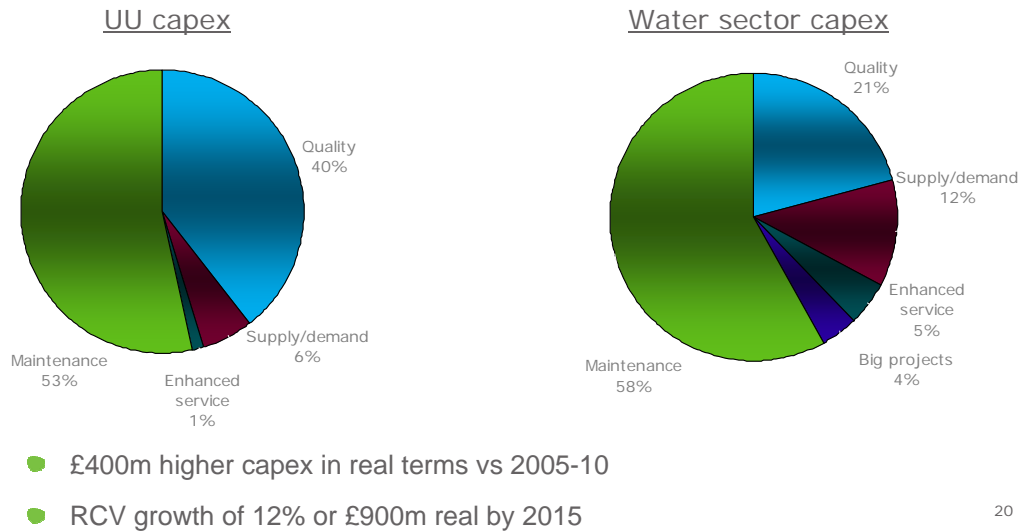
As you know, there will be a 4.3% real price decrease in 2010/11, equivalent to around £60 million in revenue.

Overall, this does represent a tough outcome with capital investment increasing and customer prices decreasing. Customers are benefiting not only from price decreases, but also from improved service levels.

However, as I said, given the detailed efficiency plans we have developed and are already implementing we are confident of outperforming.

## 2010-15 regulatory period

*£3.6bn capex programme drives further growth*



Now, looking at our capex programme in more detail.

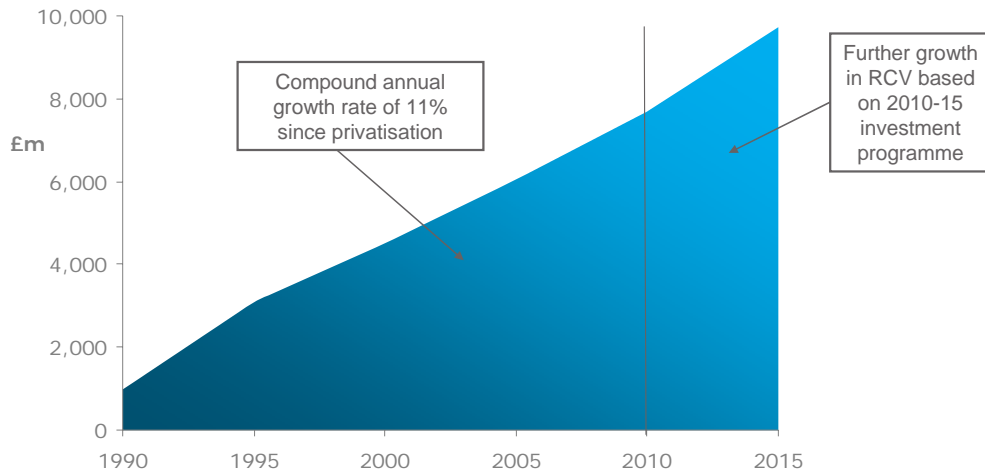
Our capital investment programme for the next five years is some £400 million higher in real terms than the last five years.

This chart shows how we will be investing that capital. As you can see, overall, we have a greater proportion of investment that will grow our regulatory capital value (RCV).

As a result of this programme, our RCV is projected to grow by 12%, or £900 million, in real terms by 2015.

And you can see the impact of this growth on the next slide.

## Growth in U UW regulatory capital value (RCV)<sup>1</sup> *Highest RCV growth rate of listed water companies*



- Further environmental improvements and adaptation to climate change should drive long term growth

<sup>1</sup> outturn prices: 2010-15 growth based on RPI of 4.4% for 12 months to March 2010 and 2.5% p.a. forecast thereafter

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This slide shows the growth of our capital base over the last twenty years. From privatisation in 1989 the RCV of U UW has grown at an average compound annual rate of 11 per cent.

This reflects a very high level of investment, which has improved quality standards and delivered significant environmental improvements.

This investment is ongoing and we have the highest projected RCV growth rate of any of the listed UK water companies over the next five years.

In addition to the real growth rate, our RCV is adjusted for movements in RPI. Based on inflationary growth of, say, 2.5 per cent per annum over the next five years, our RCV would reach close to £10 billion by 2015.

We also expect further growth thereafter, driven by environmental legislation.

## Capital structure

### *Robust and sustainable capital structure*

- Continue to target A3 credit rating for U UW with Moody's
- Moody's reaffirmed A3 rating for U UW with Stable outlook
- Lower credit rating from Standard & Poor's expected & fully considered
- Financing headroom through to spring 2012
- Stable gearing 2010-15: consistent with Ofwat's 55% to 65% range
- Average term to maturity of debt portfolio over 25 years

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Moving on to capital structure.

As we start the new price review period, we are confident that the group has a robust capital structure and will be able to finance itself effectively through the next five years.

We have for many years sought to mirror regulatory assumptions. We intend to continue targeting an A3 credit rating with Moody's for U UW, which we believe best mirrors the regulatory assumptions underpinning the final determination, and remains appropriate to maintain efficient access to debt capital markets.

Shortly after our announcement accepting the final determination, Moody's reaffirmed its A3 credit rating for U UW.

As expected, Standard & Poor's has assigned a lower credit rating, based on a different methodology, particularly with regard to the treatment of infrastructure renewals expenditure. This was, of course, fully considered in our assessment of capital structure.

We expect RCV gearing to remain fairly stable over the next five years, in the middle of Ofwat's assumed range of 55 per cent to 65 per cent. The group already has headroom to cover its projected financing needs until spring 2012.

## Dividends

### *Dividend policy targets real growth*

- 2009/10 total dividend per share of 34.3p: growth of 5%
- Intend to pay a dividend of 30p per share for 2010/11
- Continue with target dividend growth rate of RPI+2% p.a. to 2015
- Reflects challenging price review & need to retain robust financial profile
- Recognise importance of income to shareholders
- Not dependent on any non-regulated disposals

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Turning to dividends.

We have proposed a total dividend for 2009/10 of 34.3 pence per share. This is an increase of five per cent, in line with our policy of targeting dividend growth of RPI plus two per cent per annum.

We recognise that income is critically important to our shareholders and this was a key consideration in reviewing the dividend policy for the next five years.

We have reviewed the financial position of the group over the whole five-year period and intend to pay a dividend of 30 pence per share for 2010/11. Thereafter, we intend to continue with our policy of targeting real dividend growth of RPI two per cent per annum through to 2015.

Our position on dividends and, indeed, capital structure is not dependent on any non-regulated disposals.

We believe this represents an appropriate balance, recognising a tough final determination, that includes both increased investment and customer price reductions, the importance of income to our shareholders and the need for United Utilities to retain a robust and sustainable financial profile.

## Business update

- Price review
- **Operational performance**
- Efficiency initiatives
- Non-regulated activities
- Summary

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Now, looking at operational performance.

## Key operational and service measures

### *Customer satisfaction at highest recorded levels*

	Start point	Current	Target
Relative efficiency	Below average	Narrowed operating efficiency gaps to most efficient water companies since 2005 <sup>1</sup> and improved opex position to band B for water and band C for wastewater as assessed by Ofwat – <b>expect to sustain these bandings for 2009/10</b>	Upper quartile in the medium term
Security of water supply	Had not met economic level of leakage rolling target since 2002	<b>Met or outperformed leakage target set by Ofwat for last four years<sup>2</sup></b> Achieved despite extreme winter weather conditions No water restrictions anticipated during the year	Meet or outperform rolling leakage targets and avoid the need for water restrictions
Pollution	In 2005/06: 2 water & 21 wastewater incidents <sup>3</sup>	One <sup>2</sup> water and seven <sup>2</sup> wastewater category 1&2 incidents in 2009 - <b>Met or outperformed target for four consecutive years</b>	Reduce incidents by around 50% in the medium term
Sewer flooding	1091 properties on flooding register in 2005/06 <sup>4</sup>	<b>Continued to remove properties from the register</b> Methodology and processes reviewed and numbers reassessed <sup>2</sup> . Net reduction of 63 properties in the four year period from 2005/06 based on reassessed numbers.	Reduce number by around 50% in the medium term
Overall customer satisfaction (in response to enquiries)	<50%	<b>82% for 2009/10 (85% for March 2010)</b> Continuous improvement over last four years <b>Customer satisfaction at highest recorded levels</b>	85% in the medium term Aspiration of 100%

<sup>1</sup> based on UU internal modelling estimates <sup>2</sup> subject to regulatory audit <sup>3</sup> refers to Category 1&2 incidents as defined by the Environment Agency <sup>4</sup> reassessed number; refers to properties at risk of experiencing at least one sewer flooding incident in 10 years

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You will be familiar by now with this table showing our key operational metrics.

We expect to sustain our relative efficiency bandings in Ofwat's 2009/10 assessment. Improving efficiency remains a key priority as we progress through the next regulatory period.

We are pleased to have met our leakage and pollution targets for the fourth consecutive year.

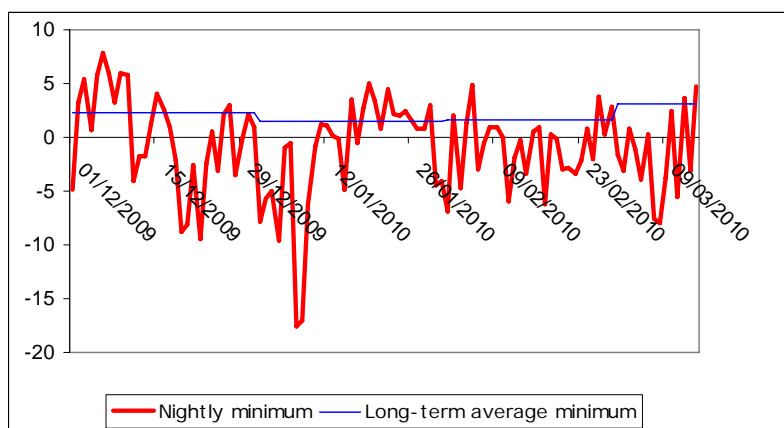
We can also report further improvement in overall customer satisfaction, which is now at its highest recorded levels. We scored 82 per cent for the year, including a score of 85 per cent for March. We are now scoring consistently over 80 per cent compared with less than 50 per cent four years ago.

As we start the new five year period, we feel this year would be an appropriate time to review our KPIs and we would expect to provide an update at our half year results in November.

## Leakage target met for 4<sup>th</sup> consecutive year *Achieved despite extreme weather conditions*

- Strong management focus and commitment of workforce

Winter 2009/10 night time temperatures (°C)



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We believe that meeting our leakage target this year was a significant achievement.

The extreme cold weather resulted in a large number of water pipes bursting. We received an unprecedented number of customer calls about leaks in the six day period to the 12th January and our operational response centre received more calls in that period than it did in the whole of November.

This chart shows how much lower temperatures were this winter, when compared with the long-term average.

The lowest recorded temperature at the Manchester Airport weather station was minus 18 on the night of 7th January, but even lower temperatures would have occurred in the more remote or upland areas of our region.

We could not have met this target without the strong focus of our management team and the commitment of our staff who did an excellent job in such tough conditions.

## Action taken to improve OPA score

### *Customer satisfaction important element of SIM*

- Improvements in the areas of:
  - wastewater treatment works compliance
  - company contact score
  - unplanned interruptions
- Programme of work commenced to improve sewer flooding
- Service incentive mechanism (SIM) replacing OPA
- SIM to be more focused on customer experience
- Customer satisfaction at highest recorded levels

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We have highlighted previously some key areas we would be focusing on to improve our OPA score.

We are pleased to report improvements in the areas of wastewater treatment works compliance and company contact score.

In each of the last two years, our sewage works at Fleetwood has adversely impacted our OPA score. The capital investment programme we initiated at Fleetwood is scheduled to be completed later this year, on time and on budget. We have improved our compliance performance this year and expect this to make a positive contribution.

The company contact score is based on a number of customer-related measures, including response to billing enquiries. More flexible working practices, closer monitoring of regulatory targets and better information are helping to improve our performance.

We have also delivered improvements in respect of unplanned supply interruptions.

In addition, we have commenced a programme of work to help mitigate the risks of sewer flooding.

Overall, we expect a much improved OPA score for 2009/10.

As you may know, from 2010/11, Ofwat is replacing OPA with a new service incentive mechanism (or SIM), which is expected to focus more on the customer experience. The intention is that at the 2014 price review, the incentive/penalty mechanism will be based on the SIM rather than OPA. As a result, this is the last time we will provide an update on our OPA performance.

Many of the measures that contribute to the OPA score also impact the customer experience and are therefore likely to influence the SIM. We welcome the increased focus on the customer and, indeed, the qualitative element of SIM is similar to our own customer satisfaction measure.

## Business update

- Price review
- Operational performance
- **Efficiency initiatives**
- Non-regulated activities
- Summary

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Moving on to our efficiency initiatives.

## Management actions to meet regulatory targets

### *Comprehensive review of working practices*

- Well prepared for 2010-15 price review period
- Undertaken a root and branch review over the last 12 months
- Challenging how we operate right across the group

#### Detailed plans being implemented to:

- Improve performance
- Deliver higher levels of customer service
- Reduce cost base materially

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We are well prepared for this regulatory period.

Over the last 12 months, we have undertaken a root and branch review of our business, challenging how we operate right across the group.

We are implementing detailed plans to improve performance, deliver higher levels of customer service and, at the same time, reduce our cost base materially.

I'd now like to talk through our initiatives in more detail.

## Workforce

### *Early resource planning - immediate cost reduction*

- Group workforce<sup>1</sup> reduced by 500 in 2009/10
- 350 worked in or supported the regulated business
- Represents reduction of 7% of the regulated workforce
- Immediate contribution to achievement of Ofwat efficiency targets

<sup>1</sup> includes United Utilities staff and agency staff

During 2009/10, we reduced the number of people working in the group by the equivalent of approximately 500 full time employees.

Approximately 350 out of the 500 either worked directly in, or supported, our regulated business - a reduction equivalent to seven per cent of that workforce.

This makes an immediate contribution to the achievement of the efficiency targets set by Ofwat.

## Customer service

### *Improving customer experience and reducing cost*

- Reduced cost to serve from £23 per customer to £19 per customer p.a.
- Amended staff incentive mechanisms: focus on 'get it right first time'
  - performance based on first time resolution rather than average call handling time
  - reduce unnecessary customer contacts and duplicate calls
- Enhancing customer online self-service facility
  - aim to reduce customer contacts to call centre by a third
- Improve debt collection rates
  - improved customer segmentation and more proactive follow up
  - better data on departed customers
  - utilise more local authority collection agreements

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Customer service is, as I've said, a key area, as this forms part of Ofwat's relative efficiency analysis and will also contribute to the regulator's new SIM assessment. We are aiming to improve the customer experience further and reduce our cost to serve significantly.

A couple of years ago our average annual cost to serve was approximately £23 per customer. We have reduced this by over 15 per cent, to approximately £19 per customer, and are implementing plans to deliver further reductions, all while customer satisfaction has improved markedly.

We have amended our incentive mechanisms to encourage staff to get things right first time, with the aim of reducing unnecessary customer calls. Performance measurement is now based on first time resolution, rather than average call handling time.

Our customer online self-serve system is being enhanced to make it more comprehensive and user friendly, with the aim of reducing customer calls by a third.

We are aiming to improve our debt collection rates, by being more proactive. We are enhancing systems to improve our customer segmentation analysis and we are obtaining better data on customers who have moved address. We are also planning to utilise more local authority collection agreements.

## Systems and processes

### *Streamlining to work more efficiently*

- Fewer, simpler and consistent processes
  - halving number of steps from metering to cash collection
- Rationalising IT infrastructure
  - improved technology automating our workflows
- Greater understanding and visibility of workflow
  - process owners appointed
- Workforce management system
  - improving efficiency of frontline staff

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We are reviewing and streamlining our processes as we aim to become a leaner, more efficient company.

We are focused on operating with fewer, simpler and more consistent processes. For example, we are halving the number of steps from metering to cash collection.

The group is rationalising its IT infrastructure, providing greater automation of workflows.

Managers now have responsibility for all steps in a process to help enhance performance. Individuals also have greater visibility and understanding of how their performance influences the efficiency of an entire process.

Our workforce management system is a key initiative in improving the efficiency of frontline staff and this continues to deliver benefits.

## Capital delivery contracts

### *Robust commercial framework*

- New supplier contracts for 2010-15: significant savings
- Incentive mechanisms closely linked to U UW business plan
- Pain/gain incentives on a project basis
- Partial fee retention to drive on-time project delivery
- Flexibility on level of competitive tendering during 2010-15

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Now, turning to capital delivery.

We have a robust commercial framework in place.

Our contractor partners have been appointed and we have signed new supplier contracts for the next five years, which will deliver significant savings and help improve efficiency.

We have revisited the terms and conditions of our contracts. For example:

- incentive mechanisms are closely linked to our business plan and pain/gain incentives will be assessed on a project basis, rather than a cumulative basis, providing more clarity on performance;
- a partial fee retention mechanism is also in place to help drive on-time project delivery; and
- in addition, we have flexibility on the level of competitive tendering we may use in the award of future work over the five year period.

## 2010-15 capital investment programme

*Early planning facilitates smoother delivery profile*

- Detailed advanced planning enables smooth transition into AMP5
- Leveraging recent economic conditions for procurement efficiency
- High level of capital investment expected in 2010/11
- Strong focus on asset serviceability
- Bringing forward delivery of outputs
- Confident of delivering our regulatory contract

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Looking at the capital investment profile over the next five years.

We have undertaken detailed advanced planning to enable a smooth transition into the 2010-15 period and have leveraged recent economic conditions to deliver procurement efficiency benefits.

We expect capital investment, including infrastructure renewals expenditure, in 2010/11 to be substantial as we aim for a smoother capital delivery profile over the five year period compared with 2005-10.

We have a strong focus on asset serviceability and expect to bring forward the delivery of outputs.

Although we are only two months into the new investment programme, we have made a good start and are confident of successfully delivering our regulatory contract.

## Financial

### *Low cost of debt locks in outperformance*

- £2bn index-linked debt (1.8% real) vs allowed cost of debt (3.6% real)
- Remaining debt largely fixed for 2010-15 at 5.0% to 5.5% nominal
- Financing outperformance on existing debt c£300m across 2010-15<sup>1</sup>
- Little re-financing required in 2010-15 period

<sup>1</sup> based on RPI inflation rate of 2.5% per annum over 2010-15 period

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In the area of financing, we have already locked in significant outperformance for the next five years.

We have approximately £2 billion of long dated, index-linked debt at an average cost of 1.8% real. This compares with Ofwat's cost of debt assumption of 3.6% real.

In line with our policy, we have also fixed the interest rates, for the next five years, on a significant proportion of the remainder of our existing debt. This has been done at an average nominal rate in the range 5.0% to 5.5%.

This equates to approximately £300 million of financing outperformance over the next five years, based on an RPI inflation rate of 2.5% per annum.

In addition, we require little re-financing during this regulatory period.

You can see from these illustrations that we have taken a range of management actions to meet and outperform the regulatory targets.

Whilst we outperformed overall in the 2005-10 period, this was principally due to financing. The level of detail in which we have prepared our plans and our success in cost reduction in 2009/10 give us confidence we can outperform in the next five years.

I am well aware that you are keen for more detail in respect of our outperformance plans and we do intend to provide additional details with our half year results in November.

## Business update

- Price review
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- **Non-regulated activities**
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Now, moving on to our non-regulated activities.

## Non-regulated activities

### *Assessing further opportunities to crystallise value*

- Good performance across contract portfolio
- Completed disposal of 15% stake in Northern Gas Networks for c£86m
- Completed disposal of 11.7% holding in Manila Water for c£46m
- Agreed sale of UU Australia and related entities for c£135m
- Proceeds to be retained within the group
- Evaluating expressions of interest for remaining non-regulated businesses

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Our non-regulated activities have delivered a good financial performance for the year. We have implemented tight cost control measures and our international operations have performed well.

Consistent with our strategy of focusing on our core activities, we have completed the disposal of our stakes in Northern Gas Networks and Manila Water for £132 million.

In addition, we have recently agreed the sale of our Australian business for approximately £135 million, increasing the total value from non-regulated disposals to almost £270 million.

We intend to retain the proceeds within the group.

We will continue to evaluate the expressions of interest we have received for our remaining non-regulated businesses and will update the market as appropriate.

## Business update

- Price review
- Operational performance
- Efficiency initiatives
- Non-regulated activities
- **Summary**

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So, to sum up.

## Summary

### *Well positioned for 2010-15*

- Sound underlying financial performance for 2009/10
- Challenging price review: higher capex and lower customer bills
- Robust capital structure and stable gearing during 2010-15
- Forecast 2010/11 DPS of 30p with RPI+2% p.a. growth target to 2015
- Programme of actions to deliver outperformance over next five years

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This has been a significant year for the group.

We have delivered a sound underlying financial performance, improved our service to customers, tackled some extreme weather, reduced our costs and fulfilled our commitment to shareholders through a proposed five per cent increase in the final dividend.

The recent price determination sets the context and challenge for the next five years. It is a tough review.

We have put in a lot of hard work to make sure we are well prepared for the outcome. With the detailed plans we are now implementing, we are confident that we can outperform whilst fulfilling our commitments.

For customers, this means lower prices, significant capital investment and better service.

For shareholders, it means the highest RCV growth rate of any of the listed UK water companies, a strong focus on improving operational performance and a clear dividend policy underpinned by a robust capital structure.

There is much to do, but we are well positioned for the next five years.

## QUESTIONS



That concludes our results presentation.  
Thank you for listening.  
We'll now be pleased to take questions.

## Supporting information

Restatement of historical results for IFRIC 12  
Financing and liquidity  
Term debt maturity profile  
Debt structure



## Restatement of historical results for IFRIC 12 Year ended 31 March 2009

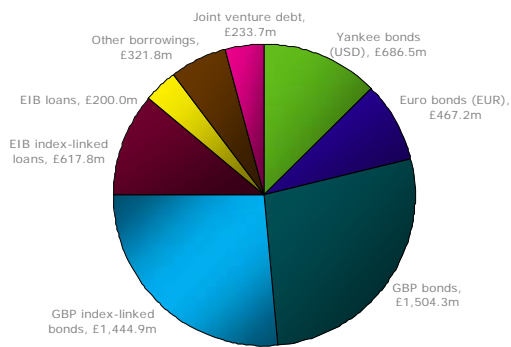
£m	As reported	IFRIC 12 <sup>1</sup>	Restated
Regulated activities	678.4	-	678.4
Non-regulated activities	69.1	(5.7)	63.4
All other segments	(12.3)	-	(12.3)
<b>Operating profit from continuing operations</b>	<b>735.2</b>	<b>(5.7)</b>	<b>729.5</b>
Investment income and finance expense	(205.4)	5.2	(200.2)
<b>Profit before taxation</b>	<b>529.8</b>	<b>(0.5)</b>	<b>529.3</b>
Taxation	(349.2)	0.2	(349.0)
<b>Profit after taxation from continuing operations</b>	<b>180.6</b>	<b>(0.3)</b>	<b>180.3</b>

<sup>1</sup> On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 12 'Service Concession Arrangements'. The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The group has adopted IFRIC 12 for the year ended 31 March 2010. IFRIC 12 is applied retrospectively hence the prior year has been restated to reflect this.

## Financing & liquidity as at 31 March 2010

**Gross debt = £5,476.2m**

**Headroom / prefunding = £1,100m**

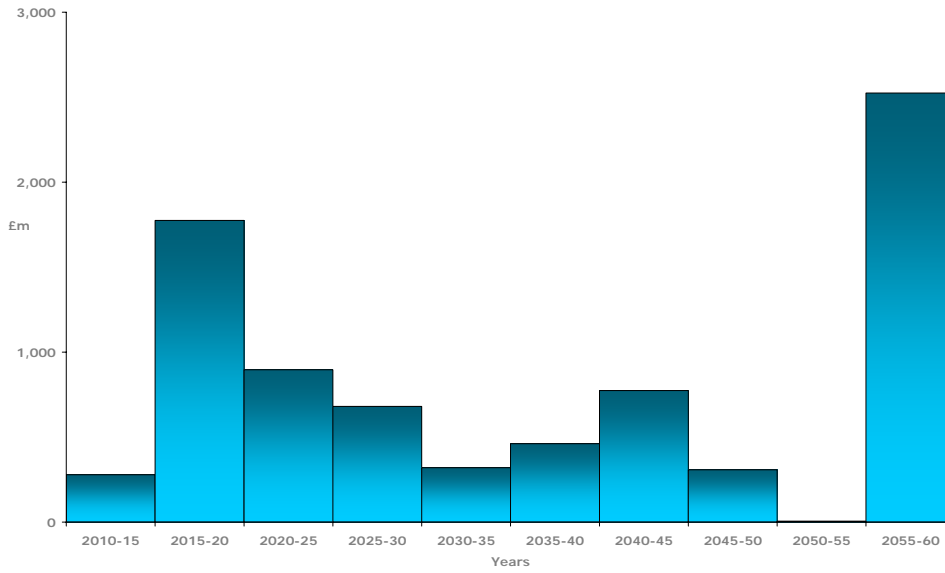


	£m
Cash and short-term deposits	301.5
Medium-term committed bank facilities <sup>1</sup>	966.8
Short-term debt	(101.1)
Term debt maturing within one year <sup>2</sup>	(67.2)
<b>Total headroom / prefunding</b>	<b>1,100.0</b>

<sup>1</sup> excludes £100m facilities maturing within one year

<sup>2</sup> includes amounts relating to joint ventures of £17m

## Term debt maturity profile<sup>1</sup> *Average term to maturity over 25 years*



<sup>1</sup> future repayments of index-linked debt include inflation based on an average annual RPI rate of 2.65%

## Debt structure at 31 March 2010

### 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:

- GBP 6.5m in 13's

##### Other debt:

- Short-term loans £53m

### United Utilities Water PLC

A3 stable; BBB+ stable

Ring-fenced and regulated by Ofwat

##### Euro MTNs:

- £425m in 15's
- £150m in 18's
- €500m in 20's
- £375m in 22's
- £300m in 27's
- £50m in 32's<sup>1</sup>
- £200m in 35's
- £100m in 35's<sup>1</sup>
- £35m in 37's<sup>1</sup>
- £70m in 39's<sup>1</sup>
- £100m in 40's<sup>1</sup>
- £50m in 41's<sup>1</sup>
- £100m in 42's<sup>1</sup>
- £50m in 43's<sup>1</sup>
- £50m in 46's<sup>1</sup>
- £50m in 49's<sup>1</sup>
- £510m in 56's<sup>1</sup>
- £150m in 57's<sup>1</sup>

##### Other debt:

- EIB index-linked loans £600m<sup>1</sup>
- EIB loans £200m
- EMTN private placements £140m
- Short term bank loan £50m
- Other loans £31m

<sup>1</sup> 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.