

**United Utilities Group PLC
EEI presentation
15-16 March 2010**



Good afternoon ladies and gentlemen, and welcome to United Utilities' presentation. I am Philip Green, Chief Executive, and with me today is Tim Weller, our CFO, Phil Aspin, our Treasurer, and Darren Jameson, our Head of Investor Relations.

Agenda

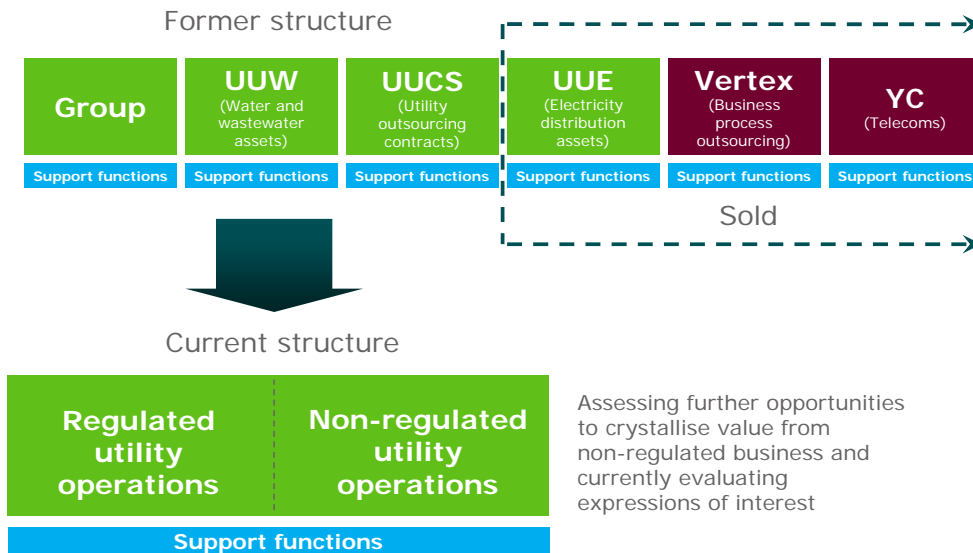
- **Overview**
- 2009 water price review
- Business update
- Summary and outlook
- Supporting information

1

After a brief overview of the group, I will discuss the recent water sector price review, before providing an update on the business. I will finish with a summary and the outlook for the group.

At the end of the presentation, we will be pleased to take any questions.

Overview *United Utilities portfolio*



Support functions relate to internal activities such as finance, legal, human resources and communications

2

Looking at the group's portfolio, over the last four years, we have transformed UU into a company focused on its core utility skills.

We have also centralised our support functions and the improved focus has helped drive performance improvements.

Last year we agreed the disposals of our investments in Northern Gas Networks and Manila Water for approximately £130 million.

As part of our continuing focus on core activities, we are assessing further opportunities to crystallise value from our non-regulated business.

No decision has been taken to sell any further non-regulated businesses, but we are currently evaluating several expressions of interest.

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3

Now, turning to the water price review.

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 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%

4

Last November, Ofwat published its final determination of price limits for water companies in England and Wales, covering the five year period through to March 2015.

This slide shows a summary of Ofwat's proposals.

In respect of capex, we had asked for £3.7 billion in our final business plan and Ofwat has allowed £3.6 billion in price limits. This partly reflects Ofwat's view that we were the most efficient company in the sector for water capex.

Ofwat has asked us to achieve an average annual underlying operating efficiency of 1.2% for the water service and 2.4% for the wastewater service. This equates to approximately £9 million of cost savings in 2010/11.

The regulator has assumed a cost of capital of 4.5% post-tax, real. Taken together, this results in an average annual real price decrease of 0.4% for United Utilities.

Overall, this represents a challenging outcome and I would now like to explain the decision we have taken in respect of these final proposals.

2009 water price review

Accepted new price limits: well prepared for 2010-15

- A challenging price review: lower bills for customers
- £3.6bn capital investment programme
 - £400m higher capex in real terms than 2005-10 period
 - 12% or £900m real growth in regulatory capital value across 2010-15 period
- Well prepared for 2010-15: detailed plans already being implemented
- Confident of achieving outperformance, particularly in financing
- Attractive return for shareholders with real dividend growth
- In best interests of shareholders to accept price review

5

As you probably know, in January we made the decision to accept Ofwat's final determination.

Our decision follows a very detailed analysis of the final determination under a range of scenarios.

Together with an assessment of the extensive efficiency plans we already have in place, and the low cost of the group's debt portfolio, we are confident we can at least meet the regulatory targets.

We are well prepared for this next price review period and we believe we can deliver outperformance in a number of areas, particularly financing.

Overall, we believe we can earn an attractive return for shareholders, with real dividend growth. We therefore believe it is in shareholders' and customers' best interests that we accepted the final determination.

2009 water price review *Confident of delivering outperformance*

- Low cost of debt portfolio vs 3.6% real assumed by Ofwat
- £2bn of index-linked debt at average of 1.8% real
- Remaining debt largely fixed for 2010-15 at 5.0% to 5.5% nominal
- Detailed efficiency plans underway
 - workforce: significant headcount reduction
 - customer service: reduced cost to serve combined with improved performance
 - systems and processes: streamlining processes and rationalising IT infrastructure
 - capital delivery: signed new supplier contracts for 2010-15 on improved terms
 - financial: assessing cost of defined benefit pension schemes

6

As I said, we are well prepared for this next price review period and we are confident of delivering outperformance.

Our £2 billion index-linked debt portfolio has a low average cost of 1.8% real, which gives us confidence in the group's cashflow position and secures financing outperformance for the next five years, when compared with Ofwat's cost of debt assumption of 3.6% real.

In line with our policy, we have fixed the interest rates on a significant proportion of our remaining debt portfolio for the 2010-15 period. This was achieved at an average nominal rate, inclusive of credit spread, in the range 5.0% to 5.5%. This provides more clarity on our ability to outperform the final determination.

In terms of operations, we have detailed plans already in place to improve our performance and deliver higher levels of customer service, whilst at the same time reducing our cost base materially.

Over the last 12 months, we have undertaken a root and branch review of our business, challenging how we operate right across the group. I would like to highlight some examples of the efficiency initiatives that we are implementing:

In the 12 months to March 2010, we will have reduced our headcount by around 500 staff across the group. Of this, around 350 employees either work directly in, or support, our regulated business. This equates to a headcount reduction of approximately 7% of that workforce.

Customer service is a key area and we are aiming to reduce our cost to serve significantly. A couple of years ago our average cost to serve was approximately £23 per customer. We have since reduced this by over 15%, to approximately £19 per customer, with further reductions to come.

We are streamlining our processes from end to end as we aim to become a leaner, more efficient company. For example, simplifying the process from meter reading to billing to cash collection. We are also rationalising our IT infrastructure and rolling out new systems in our support functions.

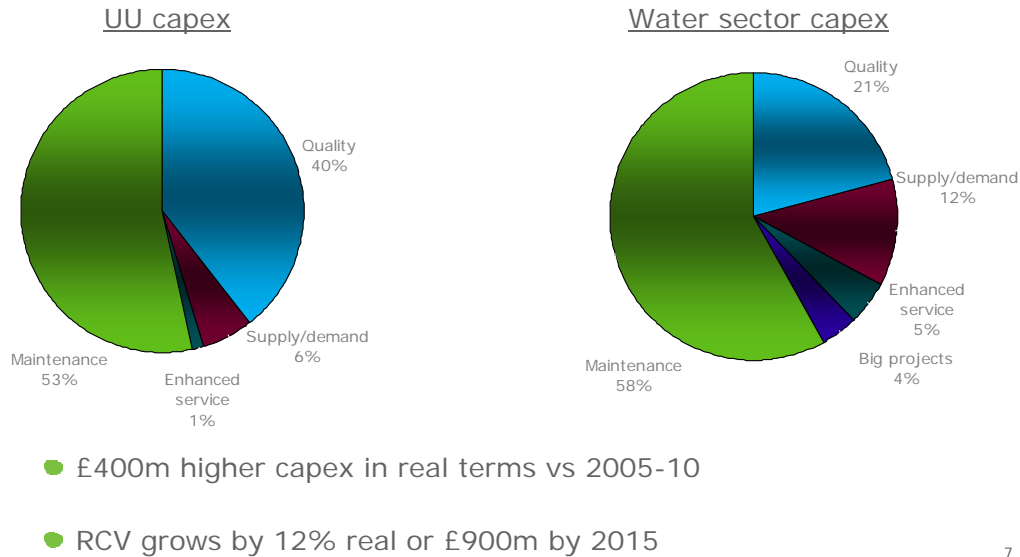
We have signed new supplier contracts for the 2010-15 period on improved terms, which will deliver significant savings and help improve our operational and capital efficiency.

We are assessing the cost of our defined benefit pension provision and will be able to provide more clarity on this later in the year.

I hope you can see from these illustrations that we are taking a range of management actions to meet the regulatory targets, with a strong focus on improving our levels of efficiency.

2009 water price review

£3.6bn capex programme drives further growth



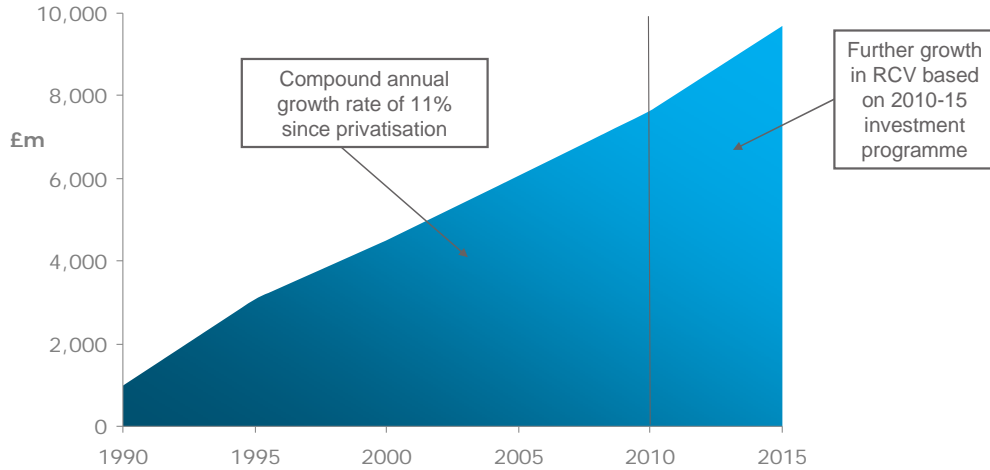
Now, looking at our capex programme in more detail.

Our capital investment programme for the next five years is some £400 million higher in real terms compared with the 2005-10 period.

This chart shows how we will be investing that capital. As you can see, UU's capital programme has a higher proportion of 'Quality' spend than the rest of the sector. That is, expenditure to comply with regulations or environmental standards.

As a result of this programme, our regulatory capital value or RCV is projected to grow by 12% in real terms by 2015.

Growth in U UW regulatory capital value (RCV)¹ *Highest growth rate of listed water companies*



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

8

¹ outturn prices: 2010-15 growth based on Ofwat projections and RPI forecast of 4.1% for 12 months to March 2010 and 2.5% p.a. thereafter

This slide shows the growth in United Utilities capital base over the last twenty years. From privatisation in 1989 the RCV of United Utilities Water grew at an average compound annual rate of 11 per cent.

This reflects a huge investment programme, which has improved quality standards and delivered significant environmental improvements.

This investment is ongoing and the projected real growth rate of 12 per cent over the next five years is the highest RCV growth rate of the listed UK water companies.

And we expect further growth thereafter.

Capital structure

Robust and sustainable capital structure

- Continue to target A3 credit rating for UUW with Moody's
 - mirrors regulatory assumptions
 - Moody's has reaffirmed A3 rating for UUW with Stable outlook
- Fully considered expected lower credit rating from Standard & Poor's
 - different methodology, particularly on infrastructure renewals expenditure
- Stable gearing 2010-15: consistent with Ofwat's 55% to 65% range
- Financing headroom through to early 2012
- Average term to maturity of debt portfolio over 25 years
- Not dependent on crystallising value from non-regulated business

9

Now, moving on to capital structure.

As we start the new price review period, we are confident the group has a robust capital structure and will be able to finance itself effectively through the 2010-15 period.

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

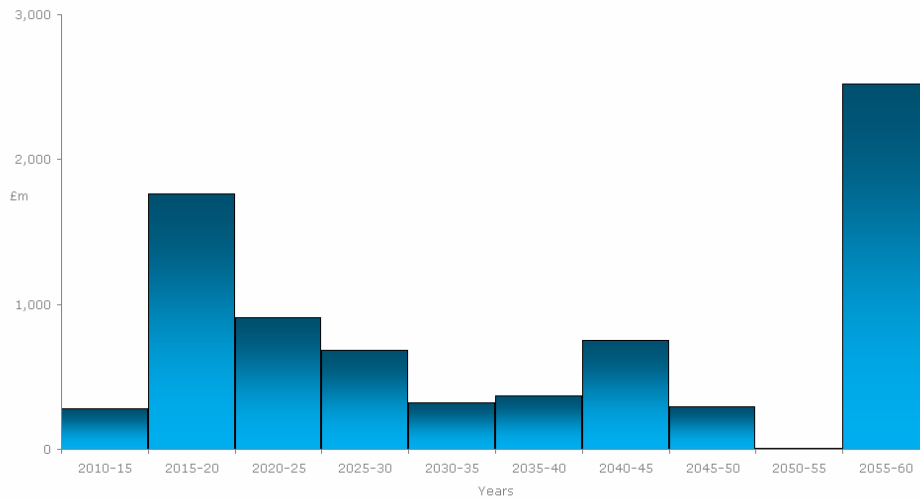
Shortly after our announcement accepting the final determination, Moody's affirmed its A3 credit rating for UUW.

As expected, Standard & Poor's has assigned a lower credit rating, based on a different methodology. This was, of course, fully considered in our assessment of capital structure. Details of the impact of the methodology differences and how Standard & Poor's has changed its approach since the last price review are included in the supporting information towards the back of the presentation pack.

We expect RCV gearing to remain fairly stable over the five years, consistent with Ofwat's assumed range of 55% to 65%. The group already has headroom to cover its projected financing needs until early 2012.

Finally, our decision in relation to capital structure is not dependent on any potential opportunities to crystallise further value from our non-regulated business.

Term debt maturity profile¹ *Average term to maturity over 25 years*



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

10

This chart shows the maturity profile of our long-term debt portfolio. A significant proportion of our debt is not due to be refinanced until after 2055.

Before the onset of the credit crunch, we took the opportunity to issue around £1.5 billion of index-linked debt at a real interest rate of around 1.8 per cent. The majority of this debt is very long-dated.

As well as being a good match for our regulated assets, this debt has helped lower the group's refinancing risk.

Dividends

Dividend policy targets real growth

- Expected 2009/10 total dividend per share of 34.3p: growth of 5%
- Intend to rebase dividends for 2010/11 to 30p per share
- 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

11

Turning to dividends.

We have outlined a rebasing of the dividend. This will not affect the current financial year and, as indicated previously, we expect to grow the final dividend for 2009/10 by 5% in line with our existing policy of targeting dividend growth of RPI+2% per annum.

As we have mentioned before, a regulated utility needs to assess its dividend policy at the start of a new price review period. We recognise that income is critically important to our shareholders and this was a key consideration in setting the dividend policy for the 2010-15 period.

We have reviewed the financial position of the group over the whole five-year period.

Our assessment has led us to the decision to rebase the dividend for 2010/11 to 30 pence per share. Thereafter, we intend to continue with our policy of targeting real dividend growth of RPI+2% per annum through to 2015.

As I've already said, we know dividends are really important to our shareholders. We believe this dividend rebasing represents an appropriate balance, recognising the challenges of the final determination, the importance of income to shareholders and the need for United Utilities to retain a robust and sustainable financial profile.

Again, our position on dividends is not dependent on any potential opportunities to crystallise further value from our non-regulated business.

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12

I would now like to provide an update on the business.

Financial highlights Six months ended 30 September 2009

- Underlying profit before taxation¹ up 6% to £268m
- Underlying operating profit¹ up 1% to £370m
- Regulated underlying operating profit² up £1m at £348m
- Regulatory capital investment of c.£300m
- Non-regulated underlying operating profit³ up £5m to £28m
- Raised a further £220m of debt finance
- Interim ordinary dividend increased by 5.0% to 11.17p per share

¹ as described on slide 41 ² as described on slide 36 ³ as described on slide 38

13

This slide shows the financial highlights for the half year.

Underlying profit before tax was £268 million, up 6 per cent. Underlying operating profit was marginally up at £370 million.

Overall, the results were in line with our expectations of delivering a sound underlying financial performance for 2009/10.

Business update

Regulated activities

- Sound underlying financial performance
- Customer satisfaction continues to increase
 - now at highest level for many years
 - highest monthly score of 85% achieved in Dec 09 (83% in Oct and Nov 09)
- Taking action to improve overall performance
 - OPA score for 2009/10 on track to improve significantly
- Efficiency initiatives progressing well

14

Turning to our regulated business.

We achieved a sound underlying financial performance in a difficult economic climate.

Customer satisfaction (in response to enquiries) continues to increase and in December we achieved our highest ever score of 85%.

Despite the improvements in operational performance we have made in recent years, our 2008/09 OPA assessment from Ofwat fell below the high standards we set ourselves.

Although there are a number of measures where we achieve the maximum possible score, there are three main areas which adversely impact our overall assessment: wastewater treatment works compliance, sewer flooding (other causes) and company contact score.

We are taking action to achieve improvements in these areas and our 2009/10 score is on track to improve significantly.

The improvements we are making, along with the increase in customer satisfaction we have achieved, should have a positive impact on Ofwat's new service incentive mechanism, or SIM, which is due to be introduced in 2010/11.

I have already highlighted some examples of the plans we have in place for the next five years and are, indeed, already implementing. In addition, the efficiency initiatives we have implemented over the last regulatory period continue to deliver benefits.

Key operational and service measures

Customer satisfaction continues to improve

	Start point	Current	Target
Relative efficiency	Below average	Narrowed operating efficiency gap to most efficient water companies since 2005 ¹ and improved opex position to band B for water and band C for wastewater as assessed by Ofwat – <u>sustained these bandings for 2008/09</u>	Upper quartile in the medium term
Security of water supply	Had not met economic level of leakage rolling target since 2002	<u>Met leakage target set by Ofwat for last three years</u> 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 and 21 wastewater incidents ³	<u>On course to meet or outperform this target for fourth consecutive year</u>	Reduce incidents by around 50% in the medium term
Sewer flooding	1091 properties on flooding register in 2005/06 ^{2,4}	<u>Continued to remove properties from the register</u> Methodology and processes reviewed and numbers reassessed ² . Net reduction of 101 properties in the three 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%	<u>78% for 12 months to 30 Sept 09 - further improvement achieved</u> , building on the significant improvement over last three years. <u>Customer satisfaction now at highest level for many years</u>	85% in the medium term Aspiration of 100%

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

15

You may be familiar by now with this table, which shows performance against our KPIs.

We sustained the improvements we have achieved in our relative efficiency bandings, as measured by Ofwat's 2008/09 assessment. Improving efficiency further remains a key priority for us.

We have met our pollution target for the last three years and are on track to meet the target for the fourth consecutive year.

We have also met our leakage target for the last three years. We have seen one of our most difficult winter periods for a significant time, which resulted in an unprecedented increase in leakage throughout January and early February. Through good performance earlier in the year and a lot of hard work and determination in the last quarter, we are still close to hitting our leakage target, for the fourth consecutive year, although we can't say with certainty until the end of March.

And you have already heard me report further improvement in overall customer satisfaction.

I have often stated that good service generally costs less than bad service and we will continue to focus on improving both our efficiency and our service to customers.

Business update

Non-regulated activities

- Good financial performance
- International operations continue to perform well
- Sales of holdings in Northern Gas Networks & Manila Water for £130m
- Assessing further opportunities to crystallise value
- No decision taken to sell but evaluating expressions of interest

16

I'd now like to update you on our non-regulated activities.

We delivered a good financial performance in the first half of the year. We have implemented tight cost control measures and our international operations continue to perform well.

During the second half of the year we agreed the disposal of two of our investments, in Northern Gas Networks and Manila Water, enabling the group to crystallise approximately £130 million of value.

We are currently assessing further opportunities to crystallise value from our non-regulated activities. Although no decision has been made to sell any further non-regulated businesses, we are currently evaluating the expressions of interest we have received.

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17

So, to sum up.

Growth drivers for United Utilities

- £900m or 12% real growth in regulatory capital value during 2010-15
 - underpinned by £3.6bn of capital investment
- Financing outperformance
 - final determination proposes cost of debt at 3.6% real for 2010-15
 - £2bn of index-linked debt at an average cost of 1.8% real
 - remaining debt largely fixed for 2010-15 at 5.0% to 5.5% nominal
- Opex and capex outperformance
 - implementing detailed efficiency plans
- Significant capital investment expected beyond 2015

18

This slide sets out the principal growth drivers for UU.

The RCV is expected to grow by around 12 per cent in real terms in the current period, underpinned by £3.6 billion of investment in our infrastructure. This growth in RCV, along with other factors, drives allowed revenues in the regulated water business.

We have around £2 billion of index-linked debt at an average cost of 1.8 per cent real. This compares with the regulatory allowance for the next five years of 3.6 per cent real, locking in significant outperformance.

The interest rates on our remaining debt have been fixed, for the 2010-15 period, at an average rate of 5.0% to 5.5% nominal which gives clarity on our ability to outperform the regulator's assumptions.

We are implementing a range of detailed plans to improve our efficiency and are confident we can deliver outperformance in a number of areas.

In the longer term, we believe that significant capital investment will continue to be required beyond 2015.

Summary and outlook

- Accepted 2009 water price review: well prepared for 2010-15
- Confident of outperformance, particularly in financing
- Robust capital structure and stable gearing across 2010-15
- Moody's reaffirmed A3 credit rating for U UW
- Forecast 2010/11 DPS of 30p with RPI+2% p.a. growth target to 2015
- Expect sound underlying financial performance for 2009/10
- Evaluating expressions of interest for non-regulated business

19

There is no doubt that this has been a challenging price review. However, we are well prepared to meet the requirements of the review given the detailed plans that we have already started to implement.

We therefore believe it is in shareholders' and customers' best interests that we accepted the final determination.

We are confident that we can deliver outperformance, particularly in the area of financing.

We have rebased the dividend, being very mindful of the importance of income to our shareholders. We aim to provide an attractive return, coupled with the continuation of the target to deliver real dividend growth, whilst at the same time retaining a robust and sustainable financial profile for the group.

We will continue to target an A3 rating for UU Water and Moody's has affirmed this rating. We believe our capital structure is robust and expect our RCV gearing to remain broadly stable over the next five years.

Overall, we believe the actions we have taken strike the right balance.

We expect to deliver a sound underlying financial performance for the year to 31 March 2010 and we will continue to evaluate the expressions of interest that we have received for our non-regulated business.

We'll now be pleased to take questions.

Supporting information

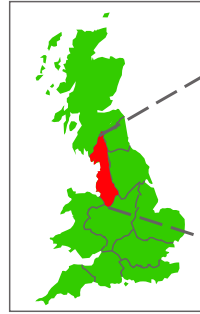
Geographical location
Efficiency initiatives
Operational performance
2009/10 half year results
Financing & liquidity and debt structure
Credit ratings
Water regulation in England and Wales



Geographical location

Regulated water and wastewater business

Customer premises
Water 3.2m
Wastewater 3.2m



Liverpool



Regional
population of 6.8m

Manchester



Non-regulated activities

No. 1 utility infrastructure outsourcing company in UK

- Southern Water capital management contract
- Three PFI wastewater treatment projects in Scotland
- Operate electricity distribution assets in North West of England
- Contract with Northern Gas Networks serving c.6 million people
- Manage c.5 million customer meters for British Gas Trading and earn rental income on meters installed via 50:50 JV
- International water interests: Australia, Estonia, Bulgaria, Poland

22

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

Management actions to meet regulatory targets

Workforce

- Reduced headcount by 500 across the group in 2009/10
- Of this, 350 work in or support the regulated business
- Represents headcount reduction of 7% of the regulated workforce
- Significant cost reduction will make immediate contribution to efficiency targets set by Ofwat for 2010/11 and beyond

Management actions to meet regulatory targets

Customer service

- Reduced cost to serve from £23 per customer to £19 per customer
- Further reductions to come
- Enhancing customer online self-service facility
 - aim to reduce customer contacts to call centre by a third
- Amended staff incentive mechanisms: focus on 'get it right first time'
 - reduce unnecessary customer contacts and duplicate calls
- Improve debt collection rates
 - utilise more local authority agreements
 - more proactive customer follow up

26

Management actions to meet regulatory targets

Systems and processes

- Streamlining processes to work more efficiently
 - simplifying the process from meter reading to billing to cash collection
 - reduce number of stages in leakage repair process
- Rationalising IT infrastructure
 - rolling out new systems in support services
- Rolling out workforce management system to contractor partners
 - on track for £9m annual benefits post 2011
 - remove interface and dependency with partner systems
 - deliver further efficiencies and improved operational performance

27

Management actions to meet regulatory targets

Capital delivery and financial

- New supplier contracts for 2010-15: significant savings
- Assessing cost of defined benefit pension schemes
- Fixed majority of existing debt at cost below Ofwat's assumptions
- Little re-financing required in 2010-15 period
- Continue to review cost base

Operational performance



Security of water supply

Met leakage target for third consecutive year

- Met or outperformed regulatory leakage target for third consecutive year
 - follows a period where the target was missed for five years
- Replaced over 1,600 km of water mains since April 2006
- Continued strong management focus
 - stricter internal leakage repair targets
 - better operational equipment
 - enhanced management information systems



Leakage repair

Pollution

Upper quartile performance

- Proactive approach with Environment Agency
 - quicker response to help mitigate impact of incidents
- Pumping station maintenance insourced – better visibility & control
- Focused on key risk areas
- Action planning – high risk register highlights key areas
- Organisational changes to improve performance
 - functional rather than geographic focus
 - clearer visibility of roles and responsibilities

31

OPA (overall performance assessment)

Three key areas of focus

OPA	Maximum	2008-09
DG2 - low pressure	37.5	36.9
DG3 - unplanned interruptions	37.5	32.6
DG4 - water restrictions	12.5	12.5
OPI - water quality	50.0	44.5
Category 1&2 water pollution incidents	12.5	11.5
Security of supply - absolute	12.5	12.5
Security of supply - target	12.5	12.5
Leakage	12.5	12.5
Water measures total	187.5	175.5
Wastewater treatment works compliance	50.0	23.5
Category 1&2 wastewater pollution incidents	25.0	25.0
Category 3 wastewater pollution incidents	12.5	11.8
Unsatisfactory sludge disposal	12.5	12.5
Sewer flooding (overloaded)	25.0	18.8
Sewer flooding (other causes)	37.5	3.8
Sewer flooding (risk)	12.5	10.2
Wastewater measures total	175.0	105.6
Company contact score	37.5	25.0
Assessed service score	37.5	37.5
Customer measures total	75.0	62.5
Total OPA score	437.5	343.6

32

OPA

Taking action to improve performance

- Wastewater treatment works compliance
 - capital investment project underway at Fleetwood
 - plans to install online monitoring system across treatment works
 - number of failing works more than halved

- Sewer flooding (other causes)
 - identification of high risk, high impact locations
 - more effectively allocating operational resources to help mitigate risks

- Company contact score
 - closer monitoring of performance against regulatory targets
 - more flexible resource allocation
 - complex work now dealt with in-house

Customer satisfaction in response to enquiries

Important element of service incentive mechanism

- Customer satisfaction continues to improve and at highest levels for many years
 - 78% satisfaction score¹ for 12 months to 30 September 2009
 - highest ever monthly score in Dec 09 of 85% (83% in Oct and Nov 09)
- Continued focus on getting it right first time
- Benefits of workforce management system
- Service incentive mechanism set to replace OPA
 - performance assessment likely to be more focused on customer experience

¹ based on an independent monthly survey of 700 customers that contacted UU and made an enquiry

2009/10 half year results



Regulated activities

£m	2009	2008	
Revenue	769.2	756.9	+2%
Operating profit	344.9	347.4	-1%
<u>Adjustments:</u>			
One-off costs ¹	3.5	-	
Underlying operating profit	348.4	347.4	+0%

- Underlying operating profit broadly in line with prior period
- 6.0% allowed price increase offset as expected by reduced water demand and cost pressures

¹ principally relates to restructuring within the business

Regulated activities: operating expenses

£m	2009	2008	
Depreciation and amortisation	124.9	116.1	
Infrastructure renewals expenditure (IRE)	58.4	57.7	
Power	30.6	26.2	
Property rates	30.4	27.6	
Bad debts	27.9	26.5	
Other expenses	148.6	155.4	
Underlying operating expenses	420.8	409.5	+3%

- Higher depreciation in line with planned capital expenditure profile
- Ongoing cost pressures in areas such as power and bad debts
 - increase in power costs, as expected
 - bad debts represent 3.6% of revenue - marginally higher than prior year

37

Non-regulated activities

£m	2009	2008	
Revenue	436.9	443.7	-2%
Operating profit^{1, 2}	25.6	23.3	+10%
<u>Adjustments:</u>			
One-off costs ³	2.3	-	
Underlying operating profit	27.9	23.3	+20%

- Lower contribution from connections – difficult conditions in property market
- Tight cost control measures implemented
- Small impact of IFRIC 12 – prior period restated

¹ depreciation and amortisation in the six months ended 30 September 2009 was £12.7m (£12.4m in six months ended 30 September 2008)

² the contribution in dividends from the group's investments in Northern Gas Networks and Manila Water Company was £12.3m for the year ended 31 March 2009, principally received in the second half of the year

³ principally relates to restructuring within the business

Finance expense

£m	2009	2008
Published finance expense	163.1	104.8
Net fair value (losses)/gains on debt and derivative instruments	(62.8)	30.8
Add back interest on swaps and debt under fair value option	11.7	8.3
Underlying interest payable	112.0	143.9
Investment income	(10.3)	(51.2)
Adjust for net pension interest (expense)/income	(11.5)	3.6
Adjustment for IFRIC 12 financing income	2.9	2.6
Underlying cost of net borrowings	93.1	98.9
Average net debt	4,866	3,443
Average annualised underlying rate of net borrowings	3.8%	5.7%

- RPI interest effect on index-linked debt
- Higher average net debt following £1.5bn return to shareholders in Aug '08

39

Finance expense: index-linked debt

£m	2009	2008
Interest on index-linked debt	18.2	13.9
RPI adjustment to index-linked debt principal - 3 month lag ¹	17.4	23.3
RPI adjustment to index-linked debt principal - 8 month lag ²	(25.1)	14.5
Interest charge on index-linked debt	10.5	51.7
Interest on other debt (including fair value option debt and swaps)	101.5	92.2
Underlying interest payable	112.0	143.9

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

¹ affected by movement in RPI between January 2009 and July 2009

² affected by movement in RPI between July 2008 and January 2009

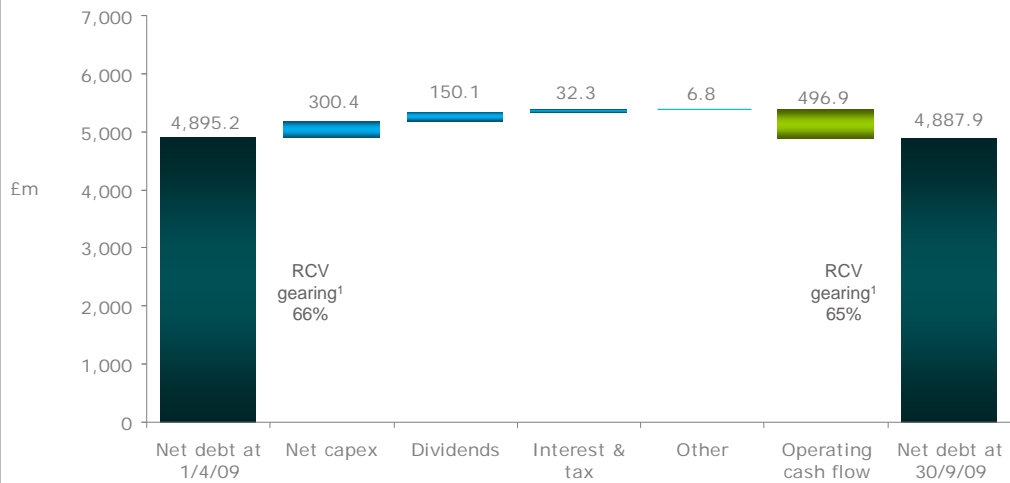
Profit before tax

£m	2009	2008	
Operating profit	358.9	359.4	-0%
Investment income and finance expense	(152.8)	(53.6)	
Profit before tax	206.1	305.8	-33%
<u>Adjustments:</u>			
One-off items ^{1,2}	11.0	6.5	
Net fair value losses/(gains) on debt and derivative instruments	62.8	(30.8)	
Interest on swaps and debt under fair value option	(11.7)	(8.3)	
Interest associated with cash proceeds from UUE sale	-	(20.6)	
Underlying profit before tax	268.2	252.6	+6%

¹ added to operating profit to obtain underlying operating profit

² one-off items in 2009/10 principally relate to restructuring within the business

Movement in net debt



● Adjusting for non-recourse JV debt of £234m, RCV gearing was 62%

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

42

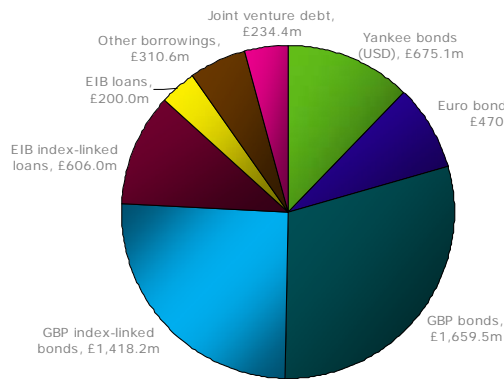
Financing & liquidity and debt structure



Financing & liquidity as at 30 September 2009

Gross debt = £5,574.6m

Headroom / prefunding = £977m



	£m
Cash and short-term deposits	332
Medium-term committed bank facilities ¹	960
Short-term debt	(90)
Term debt maturing within one year ²	(225)
Total headroom / prefunding	977

¹ excludes £200m facilities maturing within one year

² includes amounts relating to joint ventures of £23m and £150m repaid on 22 January 2010

Debt structure at 30 September 2009

United Utilities Group PLC

United Utilities PLC Baa1 stable; BBB+ Negative watch¹

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 £34m
- Commercial paper £9m

United Utilities Water PLC

A3 stable; A- Negative watch¹
Ring-fenced and regulated by Ofwat

Euro MTNs:

- | | | |
|------------------------------|------------------------------|------------------------------|
| • £150m in 10's ² | • £200m in 35's | • £100m in 42's ³ |
| • £425m in 15's | • £100m in 35's ³ | • £50m in 43's ³ |
| • £150m in 18's | • £35m in 37's ³ | • £50m in 46's ³ |
| • £500m in 20's | • £70m in 39's ³ | • £50m in 49's ³ |
| • £375m in 22's | • £100m in 40's ³ | • £510m in 56's ³ |
| • £300m in 27's | • £50m in 41's ³ | • £150m in 57's ³ |
| • £50m in 32's ³ | | |

Other debt:

- EIB index-linked loans £600m³
- EIB loans £200m
- EMTN private placements £140m
- Short term bank loan £50m
- Other loans £31m

¹ Moody's reaffirmed its credit ratings for UUW PLC and UU PLC on 21 January 2010. As expected, Standard & Poor's downgraded UUW PLC to BBB+ and UU PLC to BBB- on 28 January 2010, due to differing methodology particularly with regard to infrastructure renewals expenditure

² repaid on 22 January 2010 ³ index-linked finance

Credit ratings



Credit ratings summary

- Board credit rating target of A3 from Moody's for UUW
 - we believed this best mirrored regulatory assumptions at PR04 and remains so at PR09
 - we consider Moody's ratings approach to be analytical, transparent, consistently applied, well communicated and understood by investors and our regulator, Ofwat
- Moody's Investors Service (Moody's)
 - Jan 2010: UUW rated A3, UU rated Baa1. Outlook for both is stable
 - consider the group well positioned within these ratings with a degree of flexibility
 - expect net debt to RCV ratio below high 60%^s and adjusted interest cover above 1.6x
- Standard & Poor's (S&P)
 - Jan 2010: UUW rated BBB+, UU rated BBB-. Outlook for both is stable
 - consider the group as having a moderate degree of headroom at these ratings
 - expect FFO to debt ratio of about 10-11%

47

S&P's methodology has changed since 2005

- S&P's key credit metric for water companies is FFO to debt
 - to maintain an 'A-' rating in 2005, a UK GAAP FFO to debt ratio of 13% was needed
- S&P maintained the same threshold on transition to IFRS
 - renewals accounting is not allowed under IFRS, resulting in materially lower FFO
 - S&P maintained thresholds; an 'A-' rating required an IFRS FFO to debt ratio of 13%
 - we believe this was significant credit metric tightening for equity based water companies
 - PR04 price increases offset the impact of IFRS in AMP4
 - as a consequence the credit metric tightening is only now being felt at PR09
 - no impact on ratings of securitised water companies
- S&P new methodology for index-linked debt was ratings neutral
 - from 2009, S&P further reduced FFO by the non-cash uplift to index linked debt
 - but, FFO to debt thresholds for an 'A-' rating were reduced to c.12% offsetting impact

48

How does FFO to debt compare 2005 to 2010?

A simplified illustrative example:	2005	UK GAAP = 13%		UK GAAP = 15%	
	Cash flow	FFO to Debt	Debt Capacity	FFO to Debt	Debt Capacity
FFO (Old UK GAAP basis)	£750m	13.0%	£5,769m	15.0%	£5,000m
Infrastructure renewals adjustment	£(120)m				
Inflation indexation adjustment	£(50)m				
FFO (IFRS basis)	£580m	13.0%	£4,462m	15.0%	£3,867m
FFO (IFRS basis) - Threshold adjusted to maintain debt	£580m	10.0%	£5,769m	11.6%	£5,000m
	2010	IFRS GAAP = c.10%		IFRS GAAP = c.11.5%	

- This example (based on U UW) shows that for FFO to debt
 - a 2005 UK GAAP ratio of 13% = c.10% adjusting for IFRS and IL debt at 2010
 - a 2005 UK GAAP ratio of 15% = c.11.5% adjusting for IFRS and IL debt at 2010

- S&P expect UU's FFO to debt to be about 10%-11% over AMP5*
 - the example shows this is consistent with a UK GAAP ratio of in excess of 13%
 - we believe this mirrors Ofwat's PR09 assumed credit metrics of FFO to debt of 13%
 - equivalent to an 'A-' rating in 2005, compared to a 'BBB+' rating in 2010

* 28 Jan 2010: United Utilities research note

Concluding thoughts on credit ratings

- Board credit rating target of A3 from Moody's for U UW
 - U UW is rated A3 by Moody's and is 'well positioned' within that rating category
 - we consider Moody's ratings approach to be analytical, transparent, consistently applied, well communicated and understood by investors and our regulator

- S&P effectively tightened credit metrics on transition to IFRS
 - only for equity based water companies
 - no impact on ratings of securitised water companies

- S&P credit metrics for an 'A-' rating in 2005 = 'BBB+' in 2010
 - S&P's expectation is that U U's FFO to debt will be about 10%-11% over AMP5*
 - the example shows this is consistent with a 2005 UK GAAP ratio in excess of 13%
 - we believe this mirrors Ofwat's PR09 assumed credit metrics of FFO to debt of 13%
 - we believe that credit metrics for an 'A-' rating in 2005 = a 'BBB+' rating in 2010

* 28 Jan 2010: United Utilities research note

50

Water regulation in England and Wales



Ofwat's legal duties

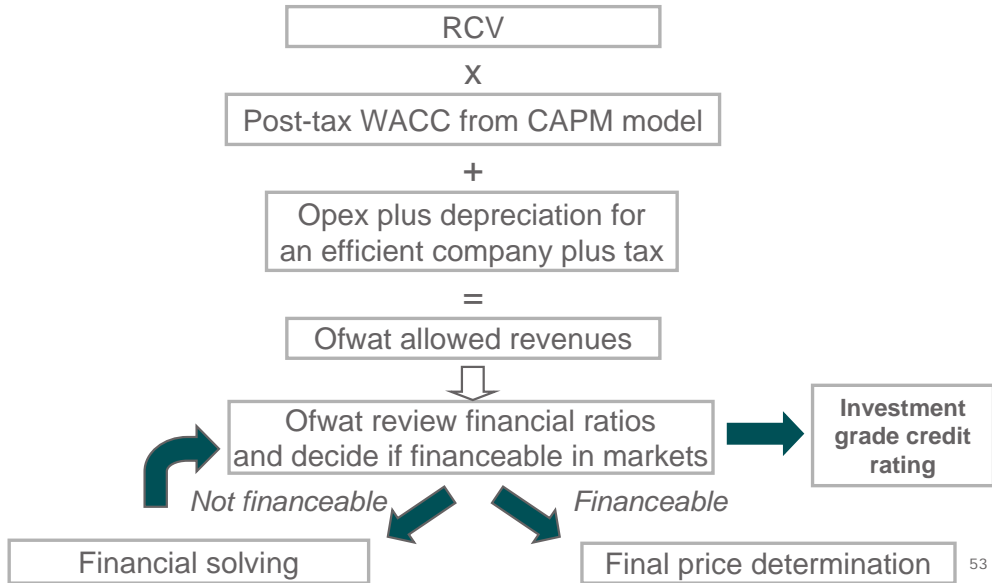
Primary

- Ensure companies properly carry out their functions
- Act in a way to enable efficient companies to finance those functions
- Protect interests of customers, where appropriate by promoting competition

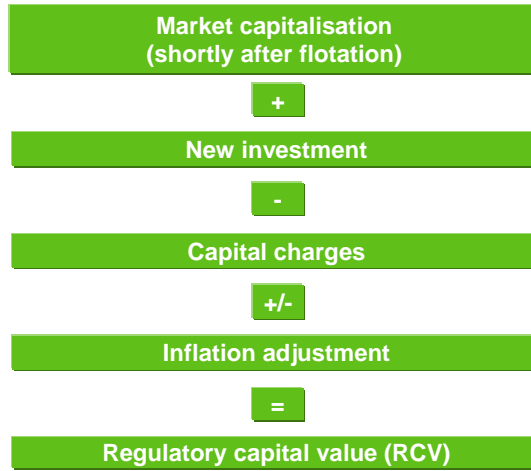
Secondary

- Promote efficiency and economy
- General environmental duty

Ofwat price setting methodology PR09



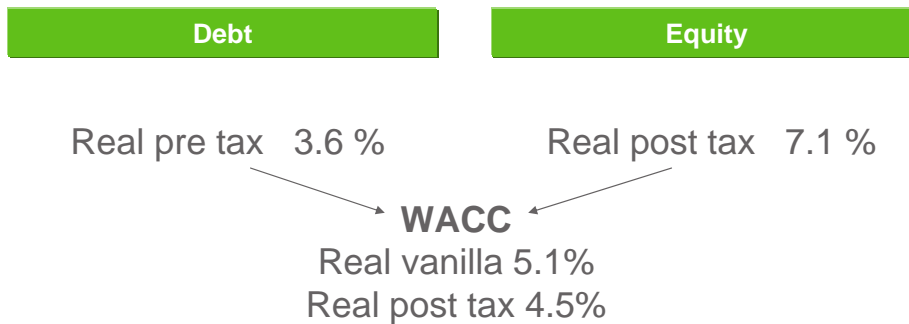
Regulatory capital value



Other adjustments at each price control, including rolling 5-year clawback of past capital efficiencies

Ofwat's final determination

Weighted average cost of capital 2010-15



- UU has £2bn of index-linked debt at 1.8% real
- Ofwat has assumed index-linked debt = 30% of gross debt
- Over 35% of UU's gross debt (>40% of net debt) is index-linked

55

Impact of inflation

Short-term timing differences

- Regulated revenue
 - Nov 07 to Nov 08 RPI¹ movement --> 1 Apr 09 price limits (2009/10 financial year)
- Dividend policy (RPI + 2% p.a.)
 - Nov 07 to Nov 08 RPI --> 2009/10 dividends (mirrors RPI in price limits)
- Regulatory capital value (RCV)
 - Mar 09 to Mar 10 RPI --> 31 Mar 10 RCV (year-end gearing calculation)
 - Year average RPI used to calculate return on RCV
 - RCV adjusted for construction price index (COPI) at each five-year price review
- Index-linked debt²
 - Jan 09 to Jan 10 --> adjustment to principal for 2009/10 (debt on 3 month lag)
 - Jul 08 to Jul 09 --> adjustment to principal for 2009/10 (debt on 8 month lag)

¹ Retail Prices Index (RPI)

² Indexation of principal is calculated based on monthly movements in RPI

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.