United Utilities Group PLC

Half year results

Six months ended 30 September 2013

CHIEF EXECUTIVE

Steve Mogford

Good morning and welcome ladies and gentlemen.

This morning Russ and I will provide you with a brief overview of our progress over the last six months. It has been another good period for the business with us making progress against our strategy on all fronts.

You will see that customer satisfaction is continuing to improve, asset performance is delivering stable or improving serviceability, costs are firmly under control and our capital programme is on track. We are also pleased with our early success in the Scottish business retail market.

We recognise affordability is a key issue and have decided to use tax refunds to discount customer bills and to help those struggling to pay.

We are delivering for all our stakeholders and have increased our interim dividend in line with our policy.

Our hard work over AMP5 has put us in a good place as we approach AMP6.

We are now only days away from releasing our business plan for AMP6. We can't provide you with a full summary before all companies have released their plans, but this morning I will give you a sense of its key features.

Agenda

- Strategic alignment
- AMP5 performance
- Financial performance
- AMP6 business plan
- Summary
- Q&A

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This is the agenda for this morning's presentation.

Strategic alignment
Functional separation to prepare for AMP6

- Customer centric strategy – delivered significant improvements
- Preparation for 2015-20 (AMP6) pricing structure
- Develop interfaces and working arrangements appropriate to competitive market
- Functional separation with effect from 1 April 2013
  - Domestic Retail (household)
  - Business Retail (non-household)
  - Wholesale
    - Water
    - Wastewater

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Two years ago we adopted a customer centric strategy focussed on delivering class leading customer satisfaction. We have made good progress and, as you will see in a few moments, we are no longer the sector laggard. In fact, we are the most improved water and wastewater company in the sector. We know that we have more to do to be consistently one of the best in our sector and delivery of our plans will achieve this.

However, AMP6 and the sector evolution contemplated by the UK Government’s Water Bill will re-define what it means to be the best. Change in the water sector is much more likely to be evolutionary than revolutionary but AMP6 marks a departure from the last 20 plus years of water regulation.

Two of the big changes featuring in AMP6 are separate binding price caps and retail competition for business customers. We are preparing to thrive in AMP6 and beyond and to exploit the opportunity presented by sector reform. In April this year we brought about functional separation of our three key business areas into:

- Domestic Retail or household;
- Business Retail or non-household; and
- Wholesale, subdivided into water and waste water

Against the backdrop of our 25 year Strategic Direction Statement, each of these business areas has created a delivery plan for AMP6 focussed on meeting the needs of customers, regulators and other stakeholders for its area of operation.

Each team is also focussed on delivering the best outcome for customers and shareholders as competition is progressively introduced into the sector.

AMP5 performance

- **Domestic Retail**
- Business Retail
- Wholesale
- Sharing benefits with customers

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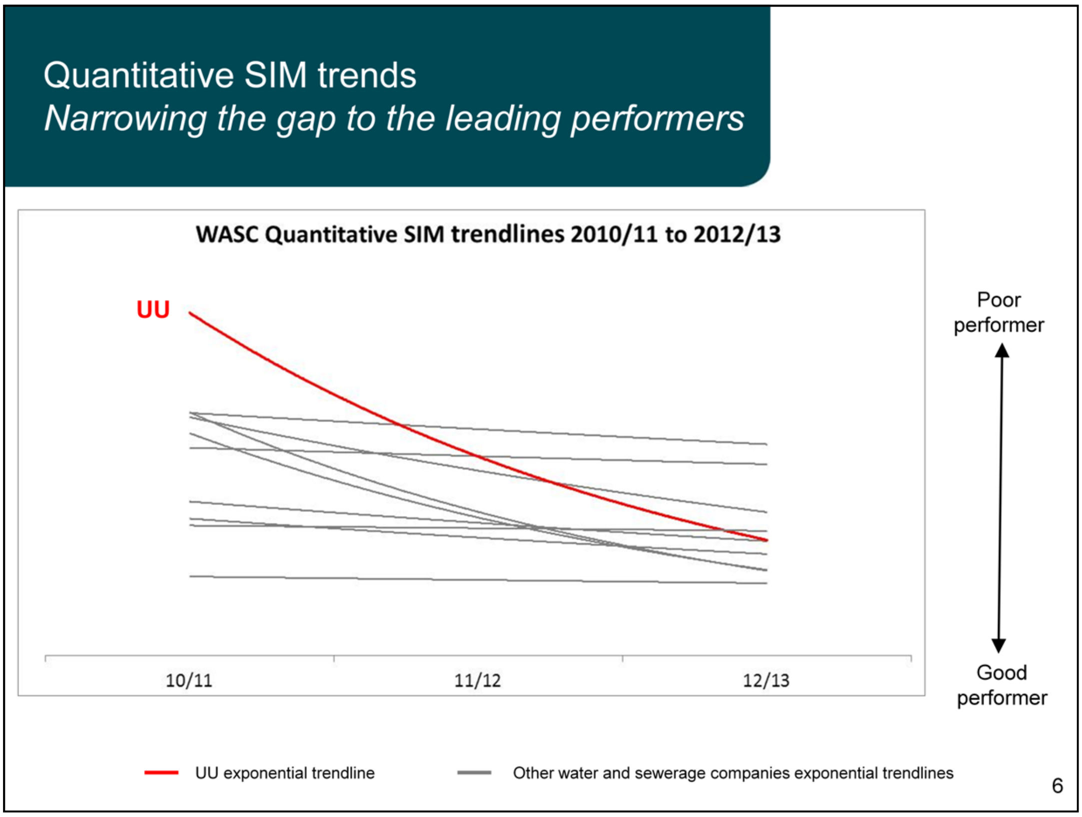
So, starting with our domestic retail business.

The Ofwat Service Incentive Mechanism, or SIM, has provided us with a great litmus test of how well we are delivering.

Over the last two years of SIM measurement we have progressed from last, among the ten water and sewerage companies, to joint fifth last year.

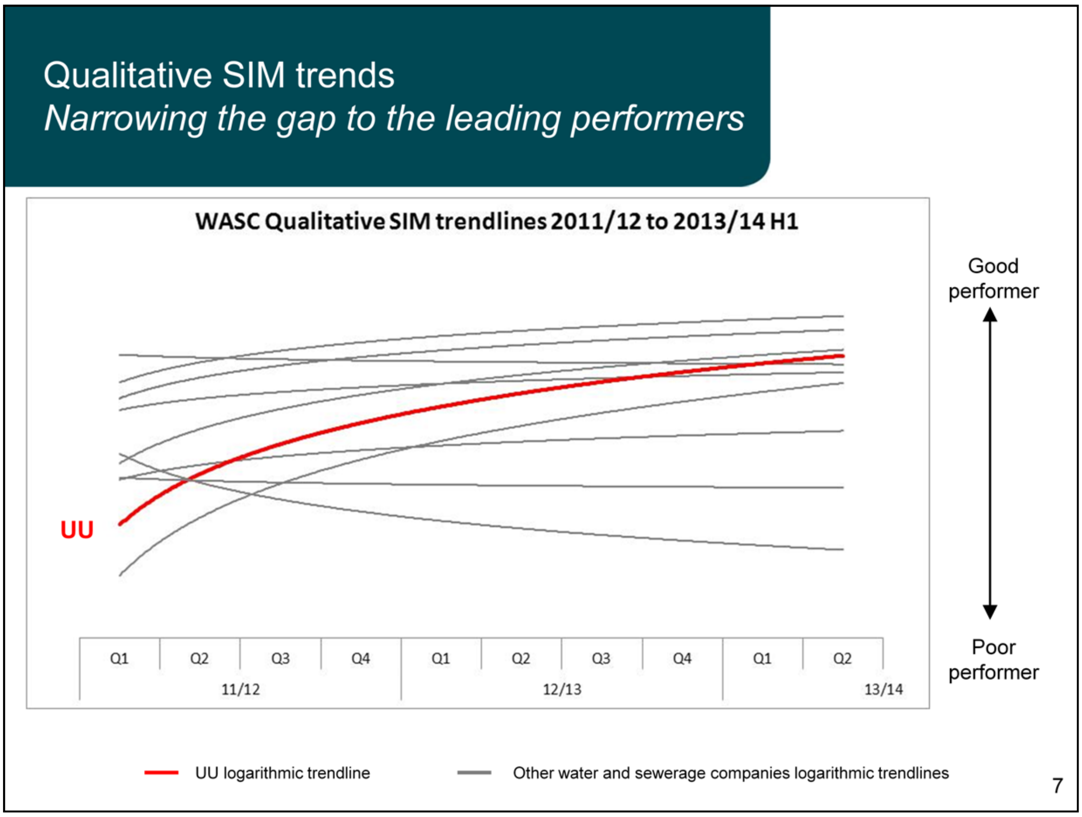
This is the third and last year of SIM measurement for use by Ofwat in calculating companies' eligibility for an AMP5 penalty or reward. I thought you would be interested to see the performance trendlines based upon available results to date.



This chart shows the exponential trendlines of water and sewerage companies' quantitative SIM scores, using performance to date. You will recall that quantitative SIM measures the avoidable contacts companies receive from customers.

As you can see, all companies have improved with us improving the most. The best improving companies are on a converging path and we have worked hard to be among this group.

The qualitative SIM trendlines show a similar picture.



You will recall that the qualitative SIM score measures customers' satisfaction with how their contact with a company was handled.

Again, we are one of the most improved companies and on a convergence path with the best. High performing companies are now clustered with very few SIM points between them. Just a few dissatisfied customers out of a population of millions can make the difference between first and second quartile performance. What is important, however, is that customer satisfaction has significantly improved over AMP5 and this is important for the legitimacy of the sector.

The final outcome will not be known until the summer of 2014 when the full three-year SIM results are published.

Nothing is certain but based on current progress we are on track to achieve our aim of not receiving a SIM penalty, based on Ofwat's penalty/reward methodology. This would represent a significant achievement given our starting position as an outlier.

Customer performance
Improving trend continues

- Customer service improvements continuing
  - further reduction in customer complaints in first half of the year
  - no complaints warranting CCW investigation in first half of 2013/14
  - further SIM score improvements
- Consistently rated 3rd out of 10 via an independent brand tracker survey
  - only behind Marks & Spencer and John Lewis
- External recognition of customer satisfaction
  - ‘Best in the Utility Sector’ for 2013 - Top 50 contact centre awards
  - House Builders Federation ‘Service to the Water Industry’ award

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Since 2010, every year we have continued to improve the customer experience.

Customers dissatisfied with our handling of their complaint can refer the matter to the Consumer Council for Water (CCW). It is testimony to our improved handling arrangements that the number of such referrals has reduced significantly over the last two years and none were considered by the CCW to warrant investigation last year. This remains the case for the first half of 2013/14.

Our customer centric strategy recognises that customers’ expectations of us are also conditioned by their experience of non water companies. So each quarter we benchmark our performance against other leading service providers in our region. In the last results, we scored over 90 per cent for customer satisfaction and customers ranked us third behind John Lewis and Marks and Spencer.

Cross-sector recognition for our efforts, evidenced by our recent contact centre and House Builders Federation awards, tells us that our work is delivering results.

AMP5 performance

- Domestic Retail
- **Business Retail**
- Wholesale
- Sharing benefits with customers

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In 2011 we undertook a detailed study into the implications of opening the business retail market to wider competition. This led to the recruitment of a team experienced in retail competition in the utility and other sectors to deliver our strategy for this area.

Over this period the UK Government reduced the threshold at which companies in England can compete for their water retailer as a next step toward full opening of the English retail market for business customers in 2017.

Today we can see only a small number of incumbents and new entrants active in the English market. We assume that this is because the discount available to customers is too small to be of interest until new pricing arrangements take effect in AMP6.

However, the Scottish business retail market has been open for a number of years and whilst there has been limited switching away from the Scottish incumbent, there is an attractive margin available in this market.

Business Retail
Extending our presence

- UU Business now the second largest water retailer in Scotland
- Pleasing early success
  - secured >50 customers covering >1,500 sites and annual revenue of c£6m
- Significant pipeline of opportunities being pursued
- Value added propositions developed ‘Total Solutions’ – first contracts won
- Strong focus on customer satisfaction
- Good preparation for full opening of English market in 2017

In October 2012, we were granted a licence to trade in Scotland and have since won customers with over 1,500 sites representing an annual revenue of around £6 million.

In this short period we have become the second largest water retailer in Scotland after the incumbent, Business Stream, and we continue to pursue a significant pipeline of opportunities.

Our retail service is underpinned by a range of value-added services, such as on-site engineering solutions and water efficiency advice. This, combined with our strong focus on delivering high levels of customer satisfaction, is winning business.

Competing in the Scottish market is also helping us to learn about the propositions, processes and systems needed to acquire out of area customers. This is important in the run up to the English market opening in 2017.

AMP5 performance

- Domestic Retail
- Business Retail
- **Wholesale**
- Sharing benefits with customers

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Now, onto our Wholesale business.

Ofwat's assessment of 2012/13 performance

UU delivers another strong overall performance

	Customer experience			Environmental Impact					Serviceability, reliability and availability					
	SIM Score	Internal sewer flooding incidents	Water supply interruptions - hours per total properties served	Greenhouse gas (GHG) emissions	Pollution incidents sewerage	Serious pollution incidents sewerage	Discharge permit compliance	Satisfactory sludge disposal	Serviceability water non-infrastructure	Serviceability water infrastructure	Serviceability for sewerage non-infrastructure	Serviceability sewerage infrastructure	Leakage	Security of supply index (SoSI)
Water and sewerage companies														
ANG	G	—	G	G	A	G	A	G	G	G	G	A	G	G
WW	G	A	—	G	A	A	A	G	G	G	G	G	G	G
NWG	G	R	G	G	A	A	G	G	G	G	G	G	G	G
SVT	G	R	A	G	A	A	G	A	G	G	G	G	G	G
SWW	G	R	G	G	R	R	A	G	G	G	G	G	G	G
STN	G	R	G	G	R	R	A	G	G	G	A	G	G	G
TMS	G	A	G	G	A	A	G	G	G	G	G	A	G	G
UU	G	R	G	G	A	G	G	A	G	G	G	G	G	G
WSX	G	A	G	G	G	G	G	G	G	G	G	G	G	G
YKS	G	A	G	G	A	A	A	A	G	G	G	G	G	G

Source: Ofwat's "Companies' performance 2012-13"

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This table shows Ofwat's latest KPI assessment for the ten water and sewerage companies.

Once again we have delivered an above average performance and the best among the listed companies.

In the previous year, we had four amber scores and no reds. In 2012/13 we halved our amber scores, but we did have one red assessment on internal sewer flooding incidents. This was an industry wide issue as the exceptionally intense rainfall in the year led to many companies seeing higher levels of sewer flooding. Our plans for AMP6 are to reduce the risk of internal sewer flooding by a further 40 per cent.

The Environment Agency has yet to publish its latest KPIs for water and sewerage companies. In its draft report it congratulates UU for becoming one of the two leading water and sewerage companies for environmental performance, alongside Wessex.

So good progress, with more to do, but a good platform for AMP6.

Expenditure and capital delivery
Continued good progress

- Sustained focus on delivering commitments on time and within budget
  - Time: Cost: Quality index (TCQi) performance over 90% for half year
  - invested £407m in first half 2013/14, up 15% on prior year
  - on target to deliver capex of at least £800m in 2013/14
- Private sewers progressing as planned: expenditure within estimates
- Cumulative capex in AMP5 of c£2.4bn: much improved delivery of outputs
- Remain on track to meet 2010-15 regulatory allowance for c£3.5bn[1]

[1] Excluding costs associated with private sewers and transitional investment

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I'll briefly cover capital delivery and Russ will talk in more detail about our opex performance later in the presentation.

In previous presentations I have talked about how we use our Time, Cost and Quality index, or TCQi, to measure how well we are delivering our capital programme. We have made good progress, achieving a score of around 90 per cent last year, compared with our score of around 50 per cent for the first year of this regulatory period. We are pleased to have improved again in the first half of the year, with a TCQi score now in excess of 90 per cent.

This performance was key in enabling us to accelerate our capital programme last year, when we invested £787 million, an increase of around £100 million compared with the prior year. It has also underpinned our ability to re-invest around £200 million of savings in projects that will deliver benefits to customer service or the environment.

We have maintained momentum this year, investing £407 million in the first half, an increase of around 15 per cent on the first half of last year. This puts us well on track to invest at least £800 million in 2013/14.

Management of private sewers continues to progress well, with expenditure remaining within our cost estimates.

Accelerating investment has enabled us to complete a number of projects early, reducing risk in the last year of this regulatory period.

Our cumulative investment across the first three and a half years of AMP5 is now £2.4 billion and we remain on track to deliver the five-year capex programme within the AMP5 allowance of around £3.5 billion.

Overall, we have significantly improved our performance in delivering regulatory commitments compared with AMP4, when our poor performance led us to receiving a shortfalling revenue penalty of over £80 million. Our much improved performance should significantly reduce the penalty risk at PR14.

Innovating to improve performance
Successful Haweswater Aqueduct project

- New target operating model to drive long-term performance improvements
- Integrated Control Centre aims to provide bird’s-eye view of our networks
- Upgraded telemetry system to improve real-time data from our assets
- Recently completed survey of Haweswater Aqueduct
  - supplies c2m people from Cumbria to Manchester
  - closed aqueduct for 3 week period
  - inspection and repairs
  - used 40 alternative treatment works
  - West-East link used to supplement local supplies
  - no customer impact

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Our Wholesale business has seen a lot of change over the last two years. The fact that we have delivered significant improvement in performance whilst undergoing considerable change in process, technology, organisation and people is testament to the commitment of our Wholesale team.

We have developed a new target operating model for our business, integrating best practice and experience from our sector and others. Our goal is to achieve optimisation of our system in real time to deliver customer service, efficiency and statutory compliance.

During AMP5 we have taken a number of steps to establish the foundations of this new way of working and we intend to continue the programme into AMP6.

A recent project to survey the Haweswater Aqueduct presented us with an opportunity to test our approach. The aqueduct is a critical asset which supplies water to around 2 million people on its route from Cumbria to Manchester. We closed the aqueduct for three weeks while we surveyed the tunnel and carried out small repairs. We took water from around forty alternative treatment works around our region and reconfigured our network in real time to keep customers supplied. This was achieved without our customers noticing any change to the quality or reliability of supply, including the Prime Minister who was in Manchester at the time attending the Conservative Party Conference.

AMP5 performance

- Domestic Retail
- Business Retail
- Wholesale
- **Sharing benefits with customers**

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Before passing over to Russ, I would like to touch on how we are sharing benefits with our customers.

Sharing benefits with customers

- Reinvesting c£200m of capex outperformance for customer & environmental benefits
- Reinvesting c£40m of financing outperformance in unfunded private sewers costs
- HMRC agreement: c£75m AMP5 net cash benefit to be used as follows
  - c£20m special customer discount; offsetting allowed real price increase for 2014/15
  - c£17m of further support for customers struggling to pay
  - c£38m balance to be used for future sharing with customers
- Customer bills in AMP6 to benefit from a further c£90m of tax savings

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We previously announced £240 million of capex and financing outperformance reinvestment for the benefit of customers and the environment.

In addition to this, there has been a recent development in the sector in respect of taxation.

HMRC and water companies have recently reached an agreement regarding credits of prior years' tax. Russ will touch on this in a little more detail.

We have carefully considered what is the right thing to do with our cash tax refund and we have decided that we should share a £75 million net cash benefit with customers.

Our final determination for AMP5 allows us to increase 2014/15 prices by an average of 1.2 per cent over inflation. We will use around £20 million of tax refunds as a special discount to offset this factor, so that, on average, customer bills rise by no more than inflation.

Across AMP5 customers in our region will have seen prices rise by less than inflation.

Our trust fund, which we established a number of years ago, helps customers struggling to pay their bills and around 70 per cent of customers receiving assistance from the fund return to regular payment. We intend to use £17 million of tax refunds to provide further funding to the trust. This will help customers struggling to pay and reduce indebtedness.

The balance of £38 million of the cash tax refund is to be used for future sharing with customers. We will decide upon precise arrangements once we understand our AMP6 final determination and can identify how the refunds can be used to best effect.

We believe we are achieving a good balance in sharing our success between customers and shareholders.

Going forward, we have also assumed that revised tax arrangements will apply in AMP6, saving customers a further £90 million over the 2015-20 period.

Now, over to Russ to present the financials.

CHIEF FINANCIAL OFFICER

Russ Houlden

United Utilities

Thank you, Steve.

Good morning.

Financial highlights
Good results in a tough economic climate

- Underlying operating profit of £343m, up £29m or 9%
- Underlying profit before taxation of £216m, up £27m or 14%
- Underlying EPS of 24.7 pence, up 19%
- Responsible financing and dividend policies
- Interim dividend of 12.01 pence per ordinary share, up 5.0%

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This is another good set of results in a tough economic climate.

An increase in revenue, tight cost control and a lower tax rate combined to increase underlying operating profit by 9 per cent, underlying profit before tax by 14 per cent and underlying EPS by 19 per cent.

We have responsible financing policies with RCV gearing comfortably within Ofwat's AMP5 range. And our dividend policy, targeting growth of RPI+2 per cent each year, keeps dividends growing in line with RCV.

For the half year, we have declared an interim dividend of 12.01p per share, up 5.0 per cent. This increase comprises RPI inflation of 3.0 per cent for the year to November 2012, which is the rate included within our price limit for 2013/14, plus two per cent in line with our stated dividend policy.

Profit after tax reconciliation
Profit increase from one-off tax credits

£m Six months ended 30 September *Continuing operations*	2013	2012 (Restated[1])
Reported profit after tax	**546.8**	**156.8**
Adjustments:		
One-off items[2]	1.5	0.6
Net fair value (gains)/losses on debt and derivative instruments	(100.0)	49.4
Interest on swaps and debt under fair value option	4.5	3.0
Net pension interest (income)/expense	(0.5)	1.7
Capitalised borrowing costs	(11.5)	(5.4)
Adjustment for release of tax interest accrual	(13.3)	-
Deferred taxation credit - change in taxation rate	(158.6)	(52.8)
Agreement of prior years' UK taxation matters	(125.0)	-
Taxation in respect of adjustments to underlying profit before tax	24.4	(11.8)
Underlying profit after tax	**168.3**	**141.5**
Basic earnings per share (pence)	**80.2**	**23.0**
Underlying earnings per share (pence)	**24.7**	**20.8**

[1] In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the prior half year has been restated
[2] Principally relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

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As usual we have made some adjustments to reported profit to get to underlying profit, which we believe gives a more representative view of underlying performance.

We had a £100 million fair value gain in the half year, largely due to gains on the regulatory swap portfolio, resulting from a significant increase in sterling interest rates during the period. This compares with a fair value loss of £49 million in the first half of last year.

Our tax charge in the first half of this year benefited from a £159 million deferred tax credit, reflecting the substantive enactment of changes to reduce the corporation tax rate from 23 to 20 per cent by 2015/16. This compares with a £53 million credit in the first half of last year, which reflected a one per cent reduction in that period. We also benefited from a tax credit of £125 million following an agreement with HMRC, which I will discuss in more detail with the next slide.

As a result, reported profit after tax was up significantly. The more meaningful underlying measure was also up, with an increase of £27 million, to £168 million, for the first half.

HMRC agreement
Tax credits benefit customers & shareholders

- £125m accounting credit on agreement of prior years' tax matters with HMRC
  - covers a period of over 10 years in total
  - principally relates to revised capex tax treatment (abolition of IBAs in 2008)
  - includes non-cash elements

- Net cash tax refund of c£75m to be shared with customers

- Long-term benefits for customers from HMRC agreement
  - tax savings in 2015-20 of c£90m all to customers

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As Steve mentioned, we have recently reached agreement with HMRC on historical tax matters covering a period of over ten years. The agreement principally relates to revised tax treatment in respect of capital expenditure, particularly regarding the abolition of industrial buildings allowances, or IBAs, in 2008.

The total tax credit to the income statement of £125 million includes deferred tax and the release of an accounting accrual, which are non-cash items.

We expect to receive a cash tax benefit of around £90 million over the next two years relating to the revised IBAs tax treatment, of which a £15 million cost was borne by shareholders in the latter part of the previous regulatory period.

We are proposing to share the £75 million net cash benefit with customers, as Steve outlined earlier.

In addition, our agreement with HMRC on capex tax treatment is expected to reduce future tax charges. We estimate that there will be tax savings of around £90 million in the 2015-20 period, all of which will flow through to customers through our PR14 pricing proposals.

This provides benefits to customers both today and in the long-term.

Now, moving on to the income statement.

Income statement – underlying
Another good financial performance

£m **Six months ended 30 September** *Continuing operations*	2013	2012 (Restated[1])	
Revenue	853.3	822.9	
Operating expenses	(346.8)	(348.0)	
EBITDA	**506.5**	**474.9**	
Depreciation and amortisation	(163.3)	(160.2)	
Operating profit	**343.2**	**314.7**	
Net finance expense	(127.5)	(126.0)	
Profit before tax	**215.7**	**188.7**	
Tax	(47.4)	(47.2)	
Profit after tax	**168.3**	**141.5**	
Earnings per share (pence)	**24.7**	**20.8**	***+18.8%***
Total dividend per ordinary share (pence)	**12.01**	**11.44**	***+5.0%***

[1] In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the prior half year has been restated

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This is a summary of the underlying income statement after making the adjustments shown on the earlier slide.

Revenue for the half year of £853 million was up £30 million, or 3.7 per cent, similar to the allowed regulated price increase of 4.0 per cent nominal (3.0 per cent RPI inflation plus a 1.0 per cent real price increase).

Underlying operating profit was up £29 million, to £343 million, as a result of the increase in revenue and tight cost control.

Underlying profit before tax was £216 million, £27 million higher than the first half of last year, due to the £29 million increase in underlying operating profit partly offset by a £2 million increase in underlying net finance expense.

The underlying tax charge of £47 million was similar to the first half of last year, as the tax impact from higher profit was largely offset by a fall in the total tax rate. This rate reduction was partly due to the one per cent reduction in the mainstream rate of corporation tax from 24 to 23 per cent.

Operating costs
Profit up as we tightly managed our cost base

£m Six months ended 30 September *Continuing operations*	2013	2012
Revenue	**853.3**	**822.9**
Employee costs[1]	(65.9)	(70.7)
Power	(31.1)	(29.8)
Property rates	(38.0)	(38.8)
Bad debts[2]	(18.3)	(18.5)
Regulatory fees	(19.1)	(17.2)
Other expenses	(96.4)	(94.2)
	(268.8)	(269.2)
Infrastructure renewals expenditure (IRE)	(78.0)	(78.8)
Depreciation and amortisation	(163.3)	(160.2)
Total underlying operating expenses	**(510.1)**	**(508.2)**
Underlying operating profit	**343.2**	**314.7**
Adjustments:		
One-off costs[3]	(1.5)	(0.6)
Reported operating profit	**341.7**	**314.1**

[1] In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the prior half year has been restated
[2] Includes bad debts relating to non-regulated businesses
[3] Principally relates to restructuring costs within the business

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Our cost performance in this period has been good.

Employee costs have decreased by £5 million, mainly reflecting an increased proportion of capex activity, supported by a tightly controlled pay award.

Power costs have increased by £1 million and rates and bad debts were similar to the first half of last year.

Regulatory fees increased by £2 million and other expenses also increased by £2 million.

Overall, our tight cost control measures have helped us keep operating costs flat at £269 million.

Infrastructure renewals expenditure was similar to the first half of last year, as our maintenance programme continues to progress well.

Depreciation was £3 million higher, as expected, mainly as a result of an increase in the commissioned asset base.

And so our total operating expenses, including IRE and depreciation, increased by less than one per cent.

Bad debts and cash collection
Good performance despite tough economy

£m	2009/10[1]	2010/11	2011/12	2012/13	H1 2013/14
Regulated business revenue	1,521	1,477	1,527	1,597	837
Regulated bad debt expense	38	31	34	35	18
Bad debt / regulated revenue	2.5%	2.1%	2.2%	2.2%	2.2%

- Bad debts level contained despite ongoing tough economic climate
- Overall, another good performance – continued strong focus

[1] Re-presented in line with subsequent revised application of revenue recognition approach under IAS18

On to our bad debt performance.

We recognise the financial difficulties facing many of our customers and provide a range of options to help those who are struggling to pay their bills. However, we continue with our robust approach to those customers who can afford to pay but choose not to.

We have delivered another good performance, maintaining bad debts at 2.2 per cent of regulated business revenue for the first half of 2013/14 despite the tough economic conditions. We remain strongly focused on this important area, particularly given the potential impact from the Government's recent benefit changes.

Financial position
Robust capital structure

£m	30 Sep 13	31 Mar 13
Property, plant and equipment	9,176.0	8,990.7
Retirement benefit surplus	-	15.1
Other non-current assets	123.6	112.8
Cash	53.0	201.7
Other current assets	431.1	366.5
Total derivative assets	580.2	721.2
Total assets	**10,363.9**	**10,408.0**
Gross borrowings	(5,991.2)	(6,173.5)
Other non-current liabilities	(1,477.7)	(1,642.2)
Retirement benefit obligations	(183.9)	-
Other current liabilities	(486.0)	(520.4)
Total derivative liabilities	(126.5)	(200.0)
Total liabilities	**(8,265.3)**	**(8,536.1)**
TOTAL NET ASSETS	**2,098.6**	**1,871.9**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,112.4	885.1
Other reserves	483.5	484.1
SHAREHOLDERS' EQUITY	**2,098.6**	**1,871.9**
NET DEBT[1]	**(5,484.5)**	**(5,450.6)**

[1] Net debt includes cash, borrowings and derivatives (slide 38)

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Turning now to the statement of financial position.

Property, plant and equipment was up £185 million in the first half of the year to just over £9 billion, as we continue to make good progress on our capex programme.

Cash and short term deposits of £53 million were £149 million lower than the position at March, mainly as a result of capex spend.

Total derivative assets have decreased by £141 million, to £580 million, mainly due to a significant increase in market interest rates during the period. This has been partly offset by a decrease of £73 million in derivative liabilities, to £127 million, for the same reason.

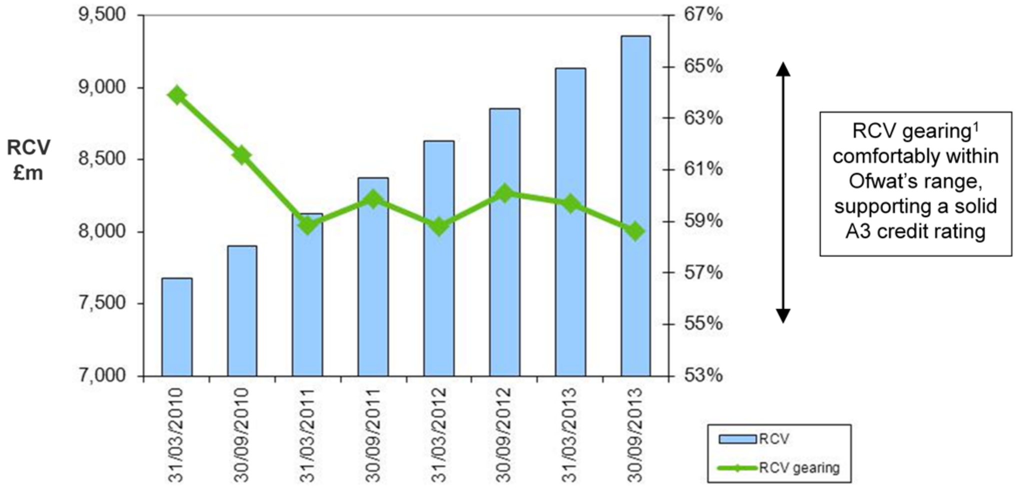
As at September, the group had an IAS 19 pension deficit of £184 million, compared with a net pension surplus of £15 million at March 2013. This £199 million adverse movement reflects the movement of market rates during the period, particularly the significant reduction in corporate credit spreads. In contrast, the scheme specific funding basis does not suffer from volatility due to credit spread movements as it uses a conservative, fixed credit spread assumption. Therefore, the recent credit spread movements have not had a material impact on the scheme specific funding and the level of deficit repair contributions. The triennial actuarial valuations of the group's defined benefit pension schemes were carried out as at 31 March 2013 and the overall funding position has actually improved since March 2010.

Retained earnings have increased by £227 million, mainly as a result of the impact of the tax credits and fair value gains, partly offset by actuarial losses on our defined benefit pension schemes.

Net debt was only £34 million higher than last year end, despite the increase in capital expenditure, as we benefited from fair value gains on our debt and derivative instruments.

RCV and gearing

RCV gearing supports robust capital structure



• Including pensions deficit, gearing would be c61%

[1] RCV gearing calculated as group net debt/United Utilities Water's regulatory capital value adjusted for actual capex (outturn prices)

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This chart shows our RCV and gearing level.

The blue bars, representing RCV, have been adjusted to reflect actual capital expenditure to date, consistent with the regulatory treatment expected at the next price review. These bars show our steady growth in RCV.

The green line shows the movement in RCV gearing since the start of this regulatory period. Our gearing remains fairly stable at 59 per cent. If we were to include the IAS 19 pension deficit, treating it as though it were debt, gearing would be 61 per cent.

Our gearing remains comfortably within Ofwat's assumed AMP5 range, of 55 to 65 per cent, supporting a solid A3 credit rating.

Cash flow statement
Increase in cash from operations

£m **Six months ended 30 September** *Continuing operations*	**2013**	**2012**
Net cash generated from operating activities	383.1	265.1
Net cash used in investing activities	(336.6)	(295.0)
Net cash used in financing activities[1]	(179.1)	(151.2)
Net movement in cash	**(132.6)**	**(181.1)**

[1] Includes £(0.1)m of FX movements in 2013/14, £(0.3)m in 2012/13

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Moving on to cash flow.

Net cash generated from operating activities was £383 million, up £118 million compared with the first half of last year. This increase was mainly as a result of lower pension contributions and an increase in operating profit.

Cash used in investing activities increased mainly because of the planned increase in our capital investment programme.

The £179 million net cash outflow from financing activities mainly reflects dividend payments.

Following our agreement with HMRC, we expect to receive a refund of around £75 million in this financial year or next.

Outperformance
Well on track and customers benefiting

- On track to deliver at least £50m of opex outperformance across 2010-15
  - target unchanged
  - customers will benefit from this in 2015-20
- On track to deliver capex for regulatory allowance (adjusted for COPI)
  - reinvesting c£200m of capex outperformance
  - providing further customer and environmental benefits
- On track to deliver financing outperformance of >£300m across 2010-15
  - net of effect of pensions inflation funding mechanism
  - reinvesting £40m of this in unfunded private sewers costs for customer benefits

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And finally, an update on our performance against our key regulatory financial targets and how our good performance is benefiting customers.

We have now delivered cumulative opex outperformance of over £50 million in the first three and a half years of this regulatory period.

In respect of capex, we are delivering significant efficiencies and expect to meet Ofwat's revised allowance, as adjusted for COPI, and are reinvesting around £200 million of savings for the benefit of customers and the environment.

As previously reported, we are also reinvesting around £40 million of our financing outperformance in unfunded private sewers costs.

Our strong performance across these areas has added value for shareholders and at the same time enabled us to propose below inflation average household bills for our customers in AMP6.

Now, back to Steve.

CHIEF EXECUTIVE

Steve Mogford

Thank you, Russ.

Business Plan 2015-20

Customer priorities at the heart of our plan
Phased approach to capex programme

- Listened to the views of over 27,000 customers and other stakeholders
- Extensive engagement with our Customer Challenge Group
- Customers expressed consistent views:
  - satisfied with current service levels
  - affordability is a key issue
  - prepared to fund a small number of improvements e.g. reduced sewer flooding
- Substantial capital investment programme
  - new environmental obligations via a phased approach, supported by EA
  - river and bathing water programme
  - supply/demand improvement programme in West Cumbria

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Companies are due to release their AMP6 business plans by Monday 2 December.

In building our plan we have taken account of the views of over 27,000 customers and other stakeholders to understand their priorities.

An overriding message that came back from customers is that they are content with existing service levels and they are generally prepared to pay for a small number of improvements, such as sewer flooding.

In respect of the environment, customers do care but they expressed the need to balance the cost of improvements against affordability.

This is important in respect of new European environmental legislation on river and bathing water quality under which the implications for the North West are significant. We have worked with the Environment Agency and other stakeholders to devise a phased approach to compliance with new legislation that sees us delivering improvements over the next three AMP periods. Recognising that we alone cannot deliver the outcomes required under new legislation, our plans are founded on partnership working with other interested parties.

The net result is that our capex plan is heavily influenced by expenditure in meeting environmental legislation and results in a substantial investment programme.

Business Plan 2015-20
Balances the needs of all stakeholders

- High levels of willingness to pay for price movement at or below RPI inflation
- Slightly lower household bills in real terms despite upward pressure from:
  - new environmental obligations and ageing wastewater network
  - significant investment requirements and higher maintenance needs
  - high levels of deprivation in the North West
- Deprivation special factor claim supported by comprehensive evidence
- Plan reflects views of our customers and stakeholders
- Plan achieves affordable pace of implementation of environmental legislation
- Below inflation average household bills for decade to 2020

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Affordability has been the principal concern for customers and the overriding driver for our plans. 86 per cent of domestic customers surveyed expressed support for a plan in which prices increased by no more than inflation over AMP6. And three quarters of business customers support a plan where average bills increase by no more than 2.5 per cent above inflation by 2020. This recognises that environmental legislation has a greater impact on prices to high users of wastewater services than for domestic customers.

Deprivation in the North West is another key driver in our plan. The region is home to more of the most deprived households than any other in the country by a considerable margin and this is a significant driver of our cost to serve. Our plan builds on the processes and practices we have developed to help customers struggling to pay, always with the objective of assisting them to return to regular payment. However, after savings delivered in AMP5 and planned for AMP6, the Ofwat methodology around average cost to serve does not reflect our situation and our plan assumes an additional cost allowance to deal with deprivation.

We are confident that our plan reflects the views of customers and other stakeholders. It achieves an affordable pace of implementation of environmental legislation, restricting bill increases during AMP6.

Our plan means that customers would benefit from below inflation average household bills for the decade to 2020.

We will be pleased to provide you with more detail following release of the plan on Monday.

Summary
Operational focus delivers customer benefits

- Good financial performance
- Significant customer service improvements
- Strong operational performance
- Capital investment of c£2.4bn to date in 2010-15 period
- On track to deliver outperformance targets
- Well placed in business retail market
- Sharing benefits between customers and shareholders

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So in summary, we have delivered another good financial performance and are on track to deliver our objectives for AMP5.

We said that we would significantly improve customer satisfaction and we are the most improved water and waste water company, with opportunity to do more.

We said that we would improve operational performance and we are the best performing listed company as measured by Ofwat's KPIs, and one of the two leading companies in the sector as measured by the Environment Agency.

We are managing operating and capital expenditure well and delivering our outperformance targets.

We are well placed to deliver benefit from sector reform and the most successful new entrant in the Scottish business retail market, paving the way for English market opening in 2017.

We are taking a responsible approach to sharing our success between customers and shareholders in a difficult economic period.

We have established a strong platform for AMP6. On Monday, we will release a plan which builds on these strong foundations.

That concludes our results presentation.

Thank you for listening.

We'll now be pleased to take questions.

Supporting information

- Reported income statement
- Underlying profit before tax
- Finance expense
- Derivative analysis
- Movement in net debt
- Financing and liquidity
- Term debt maturity profile
- Debt structure

United Utilities

Income statement – reported
Tax credits enhance reported earnings

£m **Six months ended 30 September** *Continuing operations*	**2013**	**2012** (Restated[1])
Revenue	853.3	822.9
Operating expenses	(348.3)	(348.6)
EBITDA	**505.0**	**474.3**
Depreciation and amortisation	(163.3)	(160.2)
Operating profit	**341.7**	**314.1**
Investment income and finance expense	(6.7)	(174.7)
Profit before tax	**335.0**	**139.4**
Taxation	211.8	17.4
Profit after tax	**546.8**	**156.8**
Basic earnings per share (pence)	**80.2**	**23.0**
Total dividend per ordinary share (pence)	**12.01**	**11.44**

[1] In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the prior half year has been restated

Underlying profit before tax
Increase on first half of last year

£m Six months ended 30 September *Continuing operations*	2013	2012
Operating profit[1]	341.7	314.1
Investment income and finance expense[2]	(6.7)	(174.7)
Profit before tax[1,2]	**335.0**	**139.4**
Adjustments:		
One-off items[3]	1.5	0.6
Net fair value (gains)/losses on debt and derivative instruments	(100.0)	49.4
Interest on swaps and debt under fair value option	4.5	3.0
Net pension interest (income)/expense[2]	(0.5)	1.7
Capitalised borrowing costs	(11.5)	(5.4)
Release of tax interest accrual	(13.3)	-
Underlying profit before tax[1]	**215.7**	**188.7**

[1] 2012 half year comparator restated to include pension administration costs under the revised IAS19 accounting standard applied retrospectively
[2] 2012 half year comparator restated to include pension interest expense under the revised IAS19 accounting standard applied retrospectively
[3] Principally relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

Finance expense
Underlying interest rate similar to prior period

£m **Six months ended 30 September** *Continuing operations*	**2013**	**2012**
Investment income	1.2	1.3
Finance expense[1]	(7.9)	(176.0)
	(6.7)	**(174.7)**
Less net fair value (gains)/losses on debt and derivative instruments	(100.0)	49.4
Adjustment for interest on swaps and debt under fair value option	4.5	3.0
Adjustment for net pension interest (income)/expense[1]	(0.5)	1.7
Adjustment for capitalised borrowing costs	(11.5)	(5.4)
Release of tax interest accrual	(13.3)	-
Underlying net finance expense	**(127.5)**	**(126.0)**
Average notional net debt	**5,336**	**5,069**
Average underlying interest rate	**4.8%**	**5.0%**
Effective interest rate on index-linked debt	4.8%	4.9%
Effective interest rate on other debt	4.8%	5.1%

[1] 2012 half year comparator restated to include pension interest expense under the revised IAS19 accounting standard applied retrospectively

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

£m **Six months ended 30 September** *Continuing operations*	**2013**	**2012**
Cash interest on index-linked debt	(24.4)	(23.4)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(30.0)	(29.7)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(14.5)	(13.0)
Finance expense on index-linked debt	**(68.9)**	**(66.1)**
Interest on other debt (including fair value option debt and swaps)	(58.6)	(59.9)
Underlying net finance expense	**(127.5)**	**(126.0)**

- Cash interest payment of £24m on c£2.9bn of index-linked debt
- Slight increase in indexation charge due to higher levels of index-linked debt
- RPI benefit on RCV exceeds RPI impact on debt principal

[1] Affected by movement in RPI between January 2013 and July 2013
[2] Affected by movement in RPI between July 2012 and January 2013

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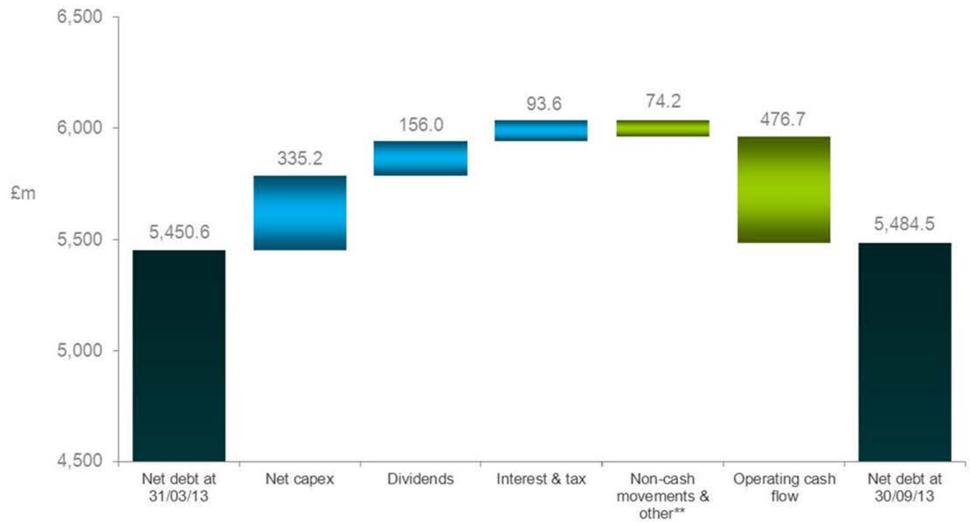
Derivative analysis
Derivatives intrinsically linked to debt

£m	30 Sep 13	31 Mar 13
Derivatives hedging debt	551.2	719.0
Derivatives hedging interest rates to 2015	(86.8)	(120.9)
Derivatives hedging interest rates beyond 2015	(3.6)	(70.8)
Derivatives hedging commodity prices	(7.1)	(6.1)
Total derivatives assets and liabilities (slide 24)	**453.7**	**521.2**

- **Derivatives hedging debt; hedge our non index-linked debt into sterling, floating interest rate debt. Typically these are designated in fair value hedge accounting relationships**
- **Derivatives hedging interest rates to 2015; fix our sterling interest rate exposure out to 2015**
- **Derivatives hedging interest rates beyond 2015; fix our sterling interest rate exposure beyond 2015. This represents the transition to our hedging strategy of fixing interest on a 10 year rolling average basis as announced in November 2011. This will be fully implemented by 2015**
- **Derivatives hedging commodity prices; fix a substantial proportion of our electricity prices out to 2015**
- **Derivatives are included within net debt to eliminate, to a certain extent, the fair value recognised in borrowings and thereby present a more representative net debt figure**
- **Further details of our group hedging strategy can be found in the Group financial statements**

Movement in net debt*
Small increase in line with expectations

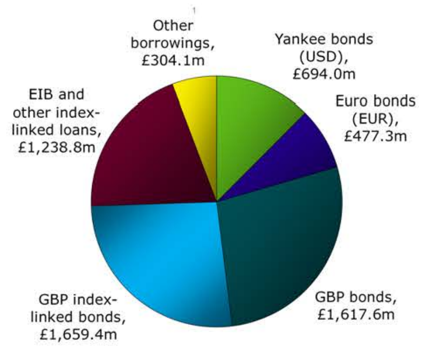


* Net debt includes derivatives which incorporate regulatory swaps

** Includes net fair value gains on debt and derivative instruments of £100.0m

Financing & liquidity at 30 September 2013

Gross debt = £5,991.2m

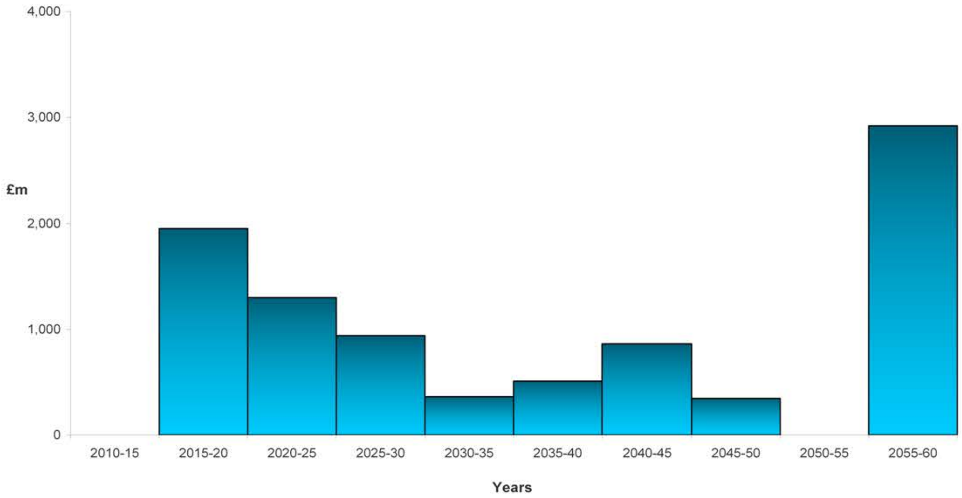


Headroom / prefunding = £273.1m

	£m
Cash and short-term deposits	53.0
Medium-term committed bank facilities[2]	350.0
Short-term debt	(129.6)
Term debt maturing within one year	(0.3)
Total headroom / prefunding	**273.1**

[1] Includes amounts relating to joint ventures of £28m
[2] Excludes £220m facilities maturing within one year and £50m with a forward start in January 2014

Term debt maturity profile[1]
Average term to maturity of c25 years



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

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Debt structure at 30 September 2013

United Utilities Group PLC

United Utilities PLC

Baa1 stable; BBB- positive outlook

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

Other debt:
- Short-term loans £56m

United Utilities Water PLC

A3 stable; BBB+ positive outlook
Ring-fenced and regulated by Ofwat

- £425m in 15s
- ¥5bn in 17s
- £150m in 18s
- €500m in 20s
- £375m in 22s
- £300m in 27s

Euro MTNs:
- £50m in 32s[1]
- £200m in 35s
- £100m in 35s[1]
- £35m in 37s[1]
- £70m in 39s[1]
- £100m in 40s[1]
- £50m in 41s[1]
- £100m in 42s[1]
- £50m in 43s[1]
- £50m in 46s[1]
- £50m in 49s[1]
- £510m in 56s[1]
- £150m in 57s[1]

Other debt:
- EIB index-linked loans £1,000m[1]
- Other index-linked loans £100m[1]
- Short-term loans £70m
- Other loans £114m

[1] Index-linked finance

Cautionary statement

This presentation contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and the company undertakes no obligation to update these forward-looking statements. Nothing in this presentation should be construed as a profit forecast.

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