



United Utilities PLC

Preliminary results
Year ended 31 March 2008

www.unitedutilities.com



Sir Richard Evans

Chairman

2

Good morning ladies and gentlemen, and welcome to United Utilities' results presentation. With me on the platform are Philip Green, our Chief Executive, and Tim Weller, our Chief Financial Officer. We also have with us other members of our executive team.

It is great to have my successor here, John McAdam, who is sitting on the front row and who, as you will know, is taking over the chairmanship of UU when I retire from the Board in July.

Agenda

- **Introduction** **Sir Richard Evans**
- **Overview** **Philip Green**
- **Financial review** **Tim Weller**
- **Business update** **Philip Green**
- **Questions**

In a moment, Philip will provide an overview on the progress we've made during the year and the key areas of focus for the business. He'll then hand over to Tim, who will take you through our results.

Philip will then provide an update on the business before closing with a summary and our views on the outlook for the group.

At the end of the presentation we'll be pleased to answer your questions.

Now, over to Philip.



Philip Green

Chief Executive

4

Thank you Chairman. Good morning.

I would like to provide you with an overview of what we have achieved this year.

Overview



- Strong financial performance in 2007/08
- UUE sale completed at substantial premium to regulatory asset value
 - portfolio now focused on core skills
 - proposed £1.5bn return to shareholders on schedule
- Capital investment programme on track
- Operational performance improvements: outperformed tougher leakage target
- Contract extensions with Southern Water and British Gas Trading
- Robust liquidity position: pre-funded to 2010

5

We have had a successful year. We have sold United Utilities Electricity (UUE) for a substantial premium to the regulatory asset value, focused the portfolio, addressed the capital structure of the group and announced a new dividend policy. We remain on course to return £1.5 billion to shareholders and I am pleased to report another good set of financial results.

Capital expenditure is up by almost a half, compared with the previous year, reflecting the peak phase of the investment programme. Having agreed a new sludge strategy with Ofwat, our capital programme is now broadly in line with regulatory assumptions.

We have delivered further operational performance improvements and outperformed our leakage target for 2007/08, having met our target last year for the first time in five years.

We are pleased to have agreed extensions to the contract with Southern Water and our metering contract with British Gas Trading. This consolidates our position as the leading utility infrastructure outsourcing company in the UK.

We have a robust liquidity position and are pre-funded through to 2010. This is particularly important in the current economic climate and Tim will talk more about this later.

I would now like to outline our key areas of focus.

Key areas of focus



Challenge	Progress
Portfolio	✓
Capital structure	✓
Operational performance	✓ On track

Current Priorities

- Operational performance
- Delivery of 2005-10 regulatory contract
- 2009 water price review
- Growth in the non-regulated business

Our vision: to be a world class operator of utility infrastructure

6

Over the last two years, I have consistently spoken to you of our three challenges: portfolio, capital structure and operational performance. As I said at our half year results, we have addressed the group's portfolio and capital structure and have given ourselves ticks for each of these boxes.

We have delivered operational performance improvements and for that we have given ourselves half a tick. There is more to do and this stays high on our agenda. We are very much focused on running what is now essentially a single business based on our core skills.

We now have four key priorities. These are continuing to improve operational performance, successful delivery of the current regulatory contract, the 2009 water price review and growth in the non-regulated business.

I will provide an update on these key areas later, but firstly I will hand you over to Tim who will take you through our results.



Tim Weller

Chief Financial Officer

7

Thank you Philip. Good morning.

Results highlights



- **Underlying profit before taxation¹ up 17% to £476m**
 - profit before taxation of £478m
- Underlying operating profit¹ up 7% to £677m
- Regulated activities – underlying operating profit² up 8% to £614m
- Non-regulated activities – underlying operating profit³ up 4% at £62m
- Proposed final ordinary dividend of 31.47p per share based on previous policy⁴
- £493m post-tax profit from discontinued operations
- UUE sold at substantial premium to regulatory asset value
- On track to return £1.5bn to shareholders

¹ as described on slide 13; ² as described on slide 9; ³ as described on slide 11

⁴ based on number of shares in issue prior to proposed £1.5 billion return of value. There will be a new dividend policy for 2008/09 in light of the revised composition and earnings profile of the group – further information is provided on slides 40 and 41

This slide sets out the financial highlights of the year and I am pleased to report another strong performance.

Adjusting for one-off items and stripping out the volatility from IAS 39 fair value adjustments, underlying profit before tax was £476 million, up 17 per cent.

Underlying operating profit from continuing operations increased by 7 per cent, to £677 million.

Underlying operating profit from our regulated business was up 8 per cent, at £614 million.

Our non-regulated activities delivered an underlying operating profit of £62 million, up slightly compared with last year.

The proposed final ordinary dividend of 31.47 pence per share is based on our previous dividend policy of growing dividends in line with inflation. It is scheduled to be paid in August on the number of shares in issue prior to the reduction in capital associated with the proposed £1.5 billion return of value to shareholders.

Discontinued operations contributed £493 million to post-tax profits, principally as a result of the £371 million profit on disposal of UUE.

Regulated activities



£m	2008	2007	
Revenue	1,416.3	1,320.8	+7%
Operating profit¹	611.6	581.0	+5%
<u>Adjustments:</u>			
Restructuring costs	2.6	5.3	
Settlement claims ²	-	(27.6)	
Ofwat transfer pricing fine	-	8.5	
Underlying operating profit	614.2	567.2	+8%

- Strong growth in regulated business
- Underpinned by allowed price increase of 8.3% including inflation

¹ operating profit for the prior year has been re-presented as set out on slide 37 ² in the prior year, the regulated business benefited from a £27.6m settlement of claims with contractors and from the end of the statutory period of potential claims against the group

Revenue in our regulated business has increased by 7 per cent and underlying operating profit is up 8 per cent.

These increases primarily reflect the price rise allowed by Ofwat that helps fund our substantial capital investment programme, offset by cost impacts set out on the following slide.

Without adjusting for the one-off items shown on this slide, operating profit increased by 5 per cent to £612 million.

**Regulated activities
Operating expenses**



£m	2008	2007
Depreciation and amortisation	222.9	195.5
Infrastructure renewals expenditure (IRE)	120.1	101.2
Power	42.5	49.1
Property rates	59.6	54.7
Bad debts	51.4	38.9
Other expenses	305.6	314.2
Operating expenses (before restructuring costs and one-off items)	802.1	753.6

- Higher depreciation and IRE in line with planned expenditure profile
- Benefit of lower power usage but prices now rising

10

This slide provides a breakdown of the main costs in our regulated business, excluding the one-off items mentioned on the previous slide.

Depreciation and amortisation has increased, reflecting the higher level of capital spend in the peak phase of our capital expenditure programme.

There has been a £19 million increase in infrastructure renewals expenditure, which is consistent with our planned re-phasing of infrastructure investment over the current five-year price review period.

We have seen lower power costs as we benefit from a successful energy purchasing contract for the year, our combined heat and power plants and our integrated performance management scheme which optimises energy consumption. However, we do expect the unit cost of electricity to rise significantly in 2008/09.

In the year, we have experienced cost pressures and property rates have continued to rise. Our bad debt expense has increased by around £12 million, reflecting revenue growth and the collection rates experienced, particularly over the latter months of the year. This increase represents less than one per cent of our regulated activities' annual revenue. Nevertheless, the current economic climate is likely to make cash collection more challenging over the coming months.

Non-regulated activities



£m	2008	2007	
Revenue	949.2	729.2	+30%
Operating profit^{1,2}	50.6	62.6	-19%
<u>Adjustments:</u>			
Restructuring costs ³	11.6	0.3	
Settlement claims ⁴	-	(3.0)	
Underlying operating profit	62.2	59.9	+4%

- First time contribution from electricity distribution contract
- Peak contribution from Southern Water contract in prior year

¹ operating profit for the prior year has been re-presented as set out on slide 37

² depreciation and amortisation in the year ended 31 March 2008 was £24.9m (£24.3m in 2007)

³ principally relating to the company's planned efficiency delivery in its gas and electricity outsourcing activities

⁴ in the prior year, the non-regulated business benefited from a £3.0m settlement of claims with contractors and from the end of the statutory period of potential claims against the group

Performance on an underlying basis in our non-regulated activities is marginally up on the previous year, benefiting from the first year's contribution from our electricity distribution outsourcing contract.

This has helped to alleviate the expected reduced contribution from the Southern Water contract, reflecting the planned capital investment profile.

Operational performance across the contract portfolio is good and the order book is strong, at well over £6 billion.

Finance expense

Continuing operations



£m	2008	2007
Published finance expense	331.6	258.1
IAS 39 net fair value (losses)/gains	(42.7)	26.0
Add back interest on swaps and debt under fair value option	41.7	57.3
Underlying interest payable	330.6	341.4
Investment income	(146.7)	(118.3)
Adjust for net pension interest income	23.5	17.6
Underlying cost of net borrowings	207.4	240.7
Average net debt¹	3,571.5	3,808.8
Average underlying cost of net borrowings	5.8%	6.3%

- Impact of repayment of 6.625% €1,000m bond and associated swaps in Nov 07
- Higher RPI interest effect on index-linked debt
- RCV and allowed revenues linked to RPI and will benefit from higher inflation rates

12

¹ excluding net debt relating to UUE and adjusted for disposal of stake in THUS Group plc and fair value and foreign exchange movements

Finance expense for continuing operations of £332 million was £74 million higher than last year after adjusting for the disposal of UUE. The 2007/08 expense includes a £43 million fair value loss on debt and derivative instruments compared with a £26 million gain in the previous year. This volatility arises because IAS 39 limits the use of hedge accounting for the interest rate hedges we've put in place for the duration of the current price review period. In addition, the fair value movements include the impact of changes in credit spread on debt accounted for at fair value through profit or loss. However, these fair value movements have no cash flow impact.

The underlying cost of net borrowings was £207 million, compared with £241 million in the prior year.

The average cost of net borrowing has fallen on an underlying basis principally reflecting the repayment of the €1 billion bond and associated swaps during the year.

This was partly offset by the impact of higher inflation on our index-linked debt. However, our water regulatory capital value and allowed revenues are also linked to RPI and will benefit from the higher inflation rates.

Profit before tax

Continuing operations



£m	2008	2007	
Operating profit ¹	663.2	642.1	
Investment income and finance expense ¹	(184.9)	(139.8)	
Profit before tax¹	478.3	502.3	-5%
<u>Adjustments:</u>			
Restructuring costs ²	14.0	10.6	
Settlement claims ²	-	(30.6)	
Ofwat transfer pricing fine ²	-	8.5	
IAS 39 net fair value losses/(gains)	42.7	(26.0)	
Interest on swaps and debt under fair value option	(41.7)	(57.3)	
Interest associated with cash proceeds from UUE sale	(17.7)	-	
Underlying profit before tax	475.6	407.5	+17%

¹ operating profit and profit before tax for the prior year have been re-presented as set out on slide 37
² deducted from operating profit to obtain underlying operating profit

13

Underlying profit before tax was up 17 per cent, after adjusting for the one-off items previously discussed, fair value volatility and the interest associated with the cash proceeds from the sale of UUE.

The latter adjustment has been made since the cash proceeds from the sale result in a short term net debt and interest reduction prior to the proposed return of value later in the year.

This underlying measure provides a more representative view of the group's performance.

Without adjusting for these items, reported group profit before tax was down 5 per cent.

Discontinued operations

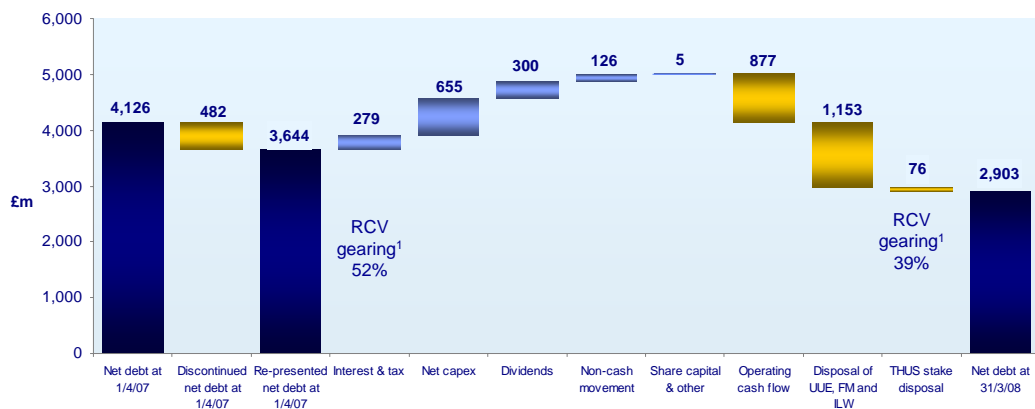
£m	Post-tax profit/(loss) 2008	Profit/(loss) on disposal 2008	Total
United Utilities Electricity ¹	121.8	371.2	493.0
Industrial liquid waste operations ²	(0.1)	(4.9)	(5.0)
Facilities management operations ³	1.3	9.1	10.4
Telecoms ⁴	-	(5.5)	(5.5)
	123.0	369.9	492.9

- Discontinued operations contributed £493m in 2007/08
 - reflects value achieved from sale of United Utilities Electricity
 - adds 56.0p to basic EPS in 07/08

¹ United Utilities Electricity sold on 19 December 2007
² Industrial liquid waste operations sold on 26 October 2007
³ Facilities management operations sold on 22 February 2008
⁴ 22.63% stake in THUS sold on 19 June 2007

This slide sets out the contribution from discontinued operations during 2007/08. A post-tax profit of £123 million was recognised from discontinued operations, of which £122 million represented the trading results of UUE in the period up to its date of disposal. A £371 million profit was also recorded on the disposal of UUE. In total, discontinued operations contributed £493 million in the year.

Movement in net debt



- £1.1bn cash proceeds from sale of UUE: short-term reduction in net debt
- Expecting RCV gearing¹ level towards upper end of Ofwat's assumptions (55% to 65% for 2005-10 period) by 2010

15

¹ group net debt less net debt associated with UUE / water regulatory capital value in outturn prices

Here you can see the main components driving the movement in net debt over the year.

Net debt has fallen primarily due to the receipt of £1.1 billion of cash proceeds from the sale of UUE.

RCV gearing, measured as group net debt to the water company's regulatory capital value, has decreased as a result of the short-term reduction in net debt. However, following the proposed £1.5 billion return to shareholders, we expect RCV gearing to move towards the upper end of Ofwat's assumed range, of 55 to 65 per cent, by the end of this regulatory review period.

During the year, we issued £185 million of index-linked debt at an average interest rate of 1.6 per cent real with maturities of thirty to fifty years. Our total index-linked debt now stands at around £1.5 billion, supporting approximately 21 per cent of the water RCV.

Robust liquidity position

- Pre-funded to 2010 in line with treasury policy
 - including the £1.5bn return to shareholders
- Arranged or extended maturity date of £500m of facilities since 30 September 2007
- UU has a long-standing relationship with the European Investment Bank
 - in discussions regarding a £400m loan to support capital investment
- Credit crunch has all but closed the index-linked debt 'market'

16

We continue to benefit from a robust liquidity position and, in line with our treasury policy, the group is pre-funded through to 2010, including the proposed return of £1.5 billion to shareholders.

We have arranged or extended the maturity dates of around £500 million of committed medium-term bank facilities since the half year.

We have a long-standing relationship with the European Investment Bank, whose loans help fund our significant capital investment programmes. We are currently in discussions with the EIB regarding a £400 million term loan to support the remainder of our current capital programme. This would enhance our liquidity position further.

However as a result of the current credit climate, we see very limited opportunities for further issuance of index-linked debt.

Results highlights



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⁴ based on number of shares in issue prior to proposed £1.5 billion return of value. There will be a new dividend policy for 2008/09 in light of the revised composition and earnings profile of the group – further information is provided on slides 40 and 41

So to sum up, we have delivered another strong set of financial results.
I'll now hand back to Philip.



Philip Green

Chief Executive

18

Thank you Tim.

Business update

- **Operational performance**
- **Delivery of 2005-10 regulatory contract**
- **2009 water price review**
- **Non-regulated activities**
- **Summary and outlook**

I would like to update you on the four key priorities I outlined earlier: operational performance, successful delivery of our current regulatory contract, the 2009 water price review and growing our non-regulated activities.

I will then finish off with a brief summary and our views on the outlook for UU.

**Key operational and service measures
Improved and sustained performance**



	Start point	Current	Target
Relative efficiency	Below average	Narrowed operating efficiency gap to most efficient water companies¹ over last two years from 16% to 12% for water and from 27% to 18% for wastewater. 2006/07 opex position of band B for water and band C for wastewater as assessed by Ofwat	Upper quartile in the medium term
Security of water supply	Had not met economic level of leakage rolling target since 2002	Outperformed² tougher leakage target set by Ofwat in 2007/08. Second consecutive year of meeting leakage target. No water restrictions during the year	Meet or outperform rolling leakage targets and avoid the need for water restrictions
Pollution	In 2005/06: 2 water & 21 wastewater incidents ³	One ² water and eight ² wastewater category 1&2 incidents in 2007 – again outperformed medium term target of a 50% reduction	Reduce incidents by around 50% in the medium term
Sewer flooding	641 properties on flooding register in 2005/06 ⁴	Further progress achieved in 2007/08 with an estimated 434 properties on the register², representing a 32% reduction since 2005/06 On track to meet medium term target	Reduce number by around 50% in the medium term
Overall customer satisfaction (in response to enquiries)	<50%	73% – significant improvement over last two years , but more to do	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 refers to properties at risk of experiencing at least one sewer flooding incident in 10 years

So, focusing on operational performance.

This is the fourth time we have shown this chart which sets out our performance on our key operational metrics.

We have delivered some good improvements again and, overall, we remain on course to meet our medium term targets.

We outperformed the leakage target for 2007/08 set by Ofwat, of 465 megalitres per day, which reflects continued improvement in the business.

On relative efficiency, we have narrowed the gap to the more efficient companies over the last two years. For water we have reduced the gap from 16 per cent to 12 per cent and for wastewater from 27 per cent to 18 per cent. We perform well on operations but need to focus on reducing our customer service costs.

We have again outperformed our medium term target on the number of serious pollution incidents. In the year there was one water and eight wastewater incidents, versus a start point of two and twenty one respectively.

We have continued to remove properties from our sewer flooding register and at the year end there were 434 properties on the register. This represents a 32 per cent reduction in the last two years and we remain on course to meet our medium term target of a 50 per cent reduction.

We have made good progress on customer satisfaction and 73 per cent of UU's customers who made an enquiry were satisfied with the overall service they received. This represents a significant improvement from the start point.

Although we have delivered real progress, there is more to do in improving operational performance.

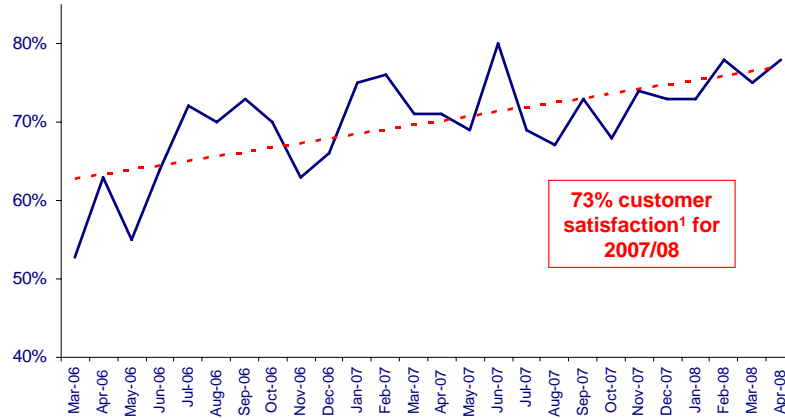
During 2007/08 there was a higher level of sewer flooding incidents influenced by adverse weather conditions. Together with environmental underperformance at our Fleetwood wastewater treatment works, this will lead to a lower Overall Performance Assessment (OPA) score from Ofwat for the year. However, through existing price limits, we are currently investing to improve performance at this site.

Overall we are pleased with what we have achieved and are confident that there are further improvements to come.

Customer satisfaction Improving performance



Overall customer satisfaction (in response to enquiries)



- Strong focus on first time resolution of customer enquiries

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

Now, looking at customer satisfaction in a bit more detail.

We have a strong focus on first time resolution of customer enquiries and this chart shows the progress we have made and demonstrates an improving trend, although there is more to do.

I will now discuss some of the initiatives that have helped deliver this improvement.

Improving customer service *A range of initiatives in place*

ALTERNATIVE



- Reduce reasons for customer enquiries
 - clearer bills
 - increase customer self-service
- Improve productivity
 - better recruitment process and improved training
 - new system enables better planning and use of staff resources
- Enhance customer experience
 - better understanding of customer priorities
 - standardised call structures



22

Reducing unnecessary customer contacts is critical to both improving service and reducing costs.

Many customer queries arise when they receive their bills. We have redesigned our bills, making them clearer and easier to understand and they now contain answers to frequently asked questions. Increasing self-service options provides customers with more choice and can help reduce costs. We are redesigning our web site and improving our automated telephone service. During the main billing cycle over the last few months, customer calls to our automated payment lines increased by 83 per cent, payments via our website were up 87 per cent and the number of customers setting up a direct debit online increased by 68 per cent.

We are working towards improving productivity and are recruiting better people, improving the training we provide and managing and coaching our staff more effectively to positively influence the way they behave. A second element of productivity improvement is to make sure we have the right people available at the right time and that we are able to get the right work to them. To support this, our new scheduling system allows more dynamic and greater planning of staff resources linked to their skills.

We now have a deeper understanding of what drives customer satisfaction, based on comprehensive research and analysis which includes a monthly customer survey. We have recently introduced more standardised call structures and quick reference guides, which allow our staff to find answers more quickly, thus reducing call times and improving first time resolution of customer queries.

Business update

- Operational performance
- **Delivery of 2005-10 regulatory contract**
- 2009 water price review
- Non-regulated activities
- Summary and outlook

Turning to our regulatory contract.

Business improvement initiatives
On track to meet regulatory efficiency targets



- **Integrated performance management** - improving treatment works' efficiency
- **Asset improvement** - cost savings from increasing pump efficiency
- **Combined heat & power** - sustainable strategy with cost benefits
- **Workforce management** – more efficient customer operations
- **Supply chain management**¹ - procurement economies of centralisation
- **Customer service transformation** - to deliver further benefits
- Increasing cost pressures in areas such as property rates, power & bad debts

24

¹ will contribute to both the company's capital and operating efficiency targets

We have a number of business improvement initiatives which are progressing well and we are confident of meeting our regulatory efficiency targets.

We are improving efficiency at our treatment works, through our integrated performance management project, which increases remote operational site management and optimises chemical and power usage.

Our asset improvement programme is delivering cost savings by improving the efficiency of our operational pumps.

Our combined heat and power programme uses energy generated from our wastewater treatment processes to reduce power consumption and helps mitigate our impact on climate change.

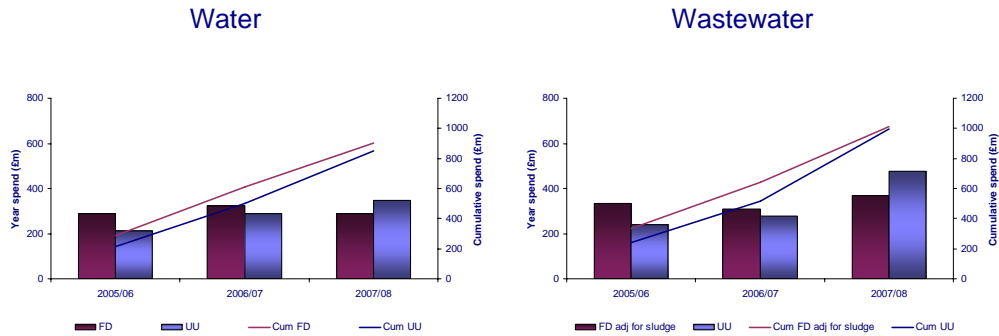
Our workforce management initiative is designed to deliver benefits through improved data systems, more efficient field operations and enhance the service we provide.

We have centralised our supply chain management and this is delivering procurement economies.

We are also expecting further benefits to come from our customer service transformation initiative.

Overall, we are a more efficient business and this is helping to mitigate increasing cost pressures in other areas such as property rates, power and bad debts.

Regulatory capital expenditure Spend and outputs broadly in line



- Investment re-profiled for revised sewage sludge programme
- Outputs broadly in line with regulators' expectations

25

The chart on this slide shows our capital expenditure profile for water and wastewater.

We have now agreed a revised sludge strategy and expenditure profile with Ofwat and, adjusting for this, our capital spend is now broadly in line with regulatory assumptions at the year end. Our outputs are also in line with Environment Agency expectations.

Unsatisfactory Intermittent Discharges (UIDs) *Potential for further investment*

- 3,000 intermittent discharges in the region - c.10% are unsatisfactory¹
- Funding submission (Change Protocol) made to Ofwat
- Further submissions being considered following appeals
- Funding requirement estimated at approximately £700m
- Statutory obligations to deliver environmental benefits
- Large proportion of these projects likely to roll into 2010-15 period

¹ an Unsatisfactory Intermittent Discharge is an overflow on the sewer network that requires to be improved so as to meet environmental standards for the water body into which it discharges or which it affects

It is likely that there will be additional investment, mainly regarding unsatisfactory intermittent discharge, or UID, projects, that were not part of our 2005-10 regulatory contract.

We estimate that the funding likely to be required to complete these UID projects, which are designed to deliver environmental benefits, could be approximately £700 million.

A large proportion of this investment, if endorsed by Defra and Ofwat, is expected to fall into the 2010-15 period and be considered as part of the forthcoming price review.

Business update

- Operational performance
- Delivery of 2005-10 regulatory contract
- **2009 water price review**
- Non-regulated activities
- Summary and outlook

That brings us on to the 2009 water price review.

2009 water price review *UU's preparations well advanced*

- UU is well advanced in its preparations for the 2009 price review
 - due to submit draft business plan in August 2008
- Ofwat published methodology document in March 2008
 - benefit of similar transparent methodology to previous price review
- We commend Ofwat for increased focus on climate change
- Cost of capital – important to consider short and long-term economic data
- Targeting an A3 credit rating for United Utilities Water PLC



“...we welcome Ofwat’s focus on climate change and are actively involved in deliberations with our regulators ahead of the next price review...”

28

Our preparations for the forthcoming review are well advanced and we are in active deliberations with our regulators and other key stakeholders.

Our Strategic Direction Statement considers the needs of the North West through to 2035 and aids longer-term asset planning, allowing us to work back to the implications for the 2010-15 period.

In March, Ofwat published its methodology for this review. In many respects the methodology is similar to that used in previous price reviews, but we are pleased to note the increased focus on the issues of climate change and sustainability.

We have been consistent in our approach that the regulator should consider both short and long-term economic data in the price review. It is imperative that both equity and credit investors receive an acceptable return on their investment. In particular, raising debt finance will remain vital in supporting the water industry’s future investment requirements which will include addressing flooding risk and climate change. Maintaining a solid investment grade credit rating is therefore essential.

We will be targeting an A3 credit rating for United Utilities Water PLC and believe that Ofwat should ensure that water companies can at least maintain this rating. I am sure that Ofwat will also consider recent developments in the credit markets.

Climate change and sustainability Driver of future capital investment and growth



- Mitigation - good progress on carbon action plan
- Adaptation to climate change essential
 - strong influence on investment in the water sector in future
 - longer term investment planning
 - combat flooding to protect assets, water supplies and properties
 - counter increasing water supply volatility
 - importance recognised by Ofwat and HM Treasury

“...we would expect significant levels of capex to continue beyond 2010, driving further growth in our regulatory capital value...”

29

Sustainability is a key issue, particularly for the water sector which is a heavy user of electricity and provides essential services to customers.

Our approach to sustainability involves both climate change mitigation and adaptation.

We announced our carbon action plan last year and we are making good progress against our target of achieving a 26 per cent reduction in carbon emissions by 2012. Our plans to mitigate our impact on climate change are cost-effective and have relatively short payback periods.

Adaptation to climate change is also key and long term investment planning is required to combat flooding and ensure the protection of essential assets, water supplies and customer properties.

In addition, we need to counter the increasing volatility of water supplies caused by weather pattern changes and we welcome Ofwat's and the Treasury's recognition of the importance of sustainability.

We will continue to work with our regulators and other key stakeholders to develop longer term climate change and funding strategies. We expect significant levels of capital expenditure to continue beyond 2010, driving further growth in our regulatory capital value.

Business update

- Operational performance
- Delivery of 2005-10 regulatory contract
- 2009 water price review
- **Non-regulated activities**
- Summary and outlook

I'll now give you an update on our non-regulated activities.

Non-regulated activities Successful contract renewals



- In addition to first time inclusion of electricity outsourcing contract:

Southern Water

- Currently managing part of 2005-10 regulatory capital investment programme
 - worth £700m to 4D consortium in which UU has a 40% share
- Contract extension secured for 2010-15 period
 - builds on strong performance

British Gas Trading¹

- Secured 18-month extension to metering contract
- Adds a further £45m to order book
- Added benefit of higher meter rental income

“...these contract renewals consolidate our position as the leading utility infrastructure outsourcing company in the UK...”

31

¹ a division of Centrica plc

In addition to the first time inclusion of our contract with Electricity North West, we have extended two of our key contracts over the last six months which builds on our strong performance in the UK utility outsourcing sector.

The 4D consortium, in which we have a 40 per cent share, recently extended its contract with Southern Water for a further five years through to 2015.

The original contract commenced in 2005 with responsibility for managing part of Southern Water’s regulatory capital investment programme through to 2010 and was valued at around £700 million to the 4D consortium.

As you would expect, clarity of the size and value of the 2010-15 contract cannot be determined until the outcome of the forthcoming price review is known.

In January, we secured an 18-month extension to our meter installation contract with British Gas Trading which adds a further £45 million in revenue to our order book. We also benefit through our 50 per cent stake in the Meterfit joint venture, which owns the meters once they have been installed, and earns rental income over their working life.

These key contract renewals consolidate our position as the leading utility infrastructure outsourcing company in the UK.

Business development progress
New UK utility connections contract
Preferred bidder in Australia



UK utility connections

- New three-year connections contract with Greater Manchester Waste Disposal Authority
 - UU to provide water, electricity and gas connections to 27 sites in the Manchester region

Australia

- UU preferred bidder for water supply upgrade project in Townsville, Australia
 - part of AUD\$300m water and sewerage infrastructure programme
 - upgrade existing water facilities
 - design, build and operate two 40 ml/d water treatment plants
- Facilities due to be operational by mid-2010
 - UU expects to have a 20-year O&M contract
 - minimal equity investment requirement from UU

32

Now, looking at our business development progress.

Last month, we were pleased to be awarded a new three-year connections contract with the Greater Manchester Waste Disposal Authority. We will provide water, electricity and gas connections to 27 sites in the Manchester region.

We are also pleased to have been selected as preferred bidder by Townsville City Council in Australia to undertake its water supply upgrade project. There were a total of six bidders in the selection process.

This project is part of Townsville's AUD\$300 million water and sewerage infrastructure programme. We will upgrade existing water facilities in Townsville and design, build and operate two new water treatment plants each with a capacity of 40 mega litres per day.

The facilities are due to be operational by mid-2010 and we expect to have a 20-year operations and maintenance contract, with minimal equity investment required.

Whilst both of these contracts are relatively small, they are positive indicators of the progress we are making.

Business update

- Operational performance
- Delivery of 2005-10 regulatory contract
- 2009 water price review
- Non-regulated activities
- **Summary and outlook**

So, to sum up.

Summary and outlook



Good results for 2007/08 & confident of further strong financial performance

Operational performance

- Efficiency initiatives delivering benefits
- Outperformed leakage target
- Focus on customer satisfaction

2005-10 regulatory contract

- Ofwat agreement on new sewage sludge strategy
- Spend and outputs broadly in line
- On track to meet efficiency targets

2009 water price review

- Significant investment required to improve services and adapt to climate change, driving growth
- We welcome Ofwat's position on climate change

Non-regulated growth

- Southern Water and British Gas contract extensions consolidate position as UK market leader
- Asset-light strategy based on core skills in selected markets

Our vision: to be a world class operator of utility infrastructure

34

As I said at the start of the presentation, we have had a successful year. We were very pleased to sell UUE for a substantial premium to the regulatory asset value and we have now addressed the portfolio and capital structure of the group and announced a new dividend policy. We have again delivered a strong set of results, underpinned by a good financial performance in our regulated business.

We now have four key priorities, the first of which is delivering further improvements in operational performance.

Our second priority is the successful delivery of our current regulatory contract and we remain confident of meeting our efficiency targets.

Third is the 2009 water price review and we are well advanced in our preparations and are in active negotiations with our regulators and other key stakeholders.

And fourth is delivering growth in our non-regulated business. We have a clear non-regulated growth strategy based on utilising our core skills, in selected markets, on an asset-light basis.

Looking ahead, we remain confident of delivering a strong financial performance over the remainder of this regulatory period.



Questions

35

That concludes our presentation.

Thank you for listening and we will be pleased to take questions.

Supporting information

Re-representation of historical results
£1.5bn return to shareholders & new dividend policy
Financing and liquidity
Debt structure

Re-representation of historical results Year ended 31 March 2007



£m	As reported	Discontinued operations	Re-presented
Regulated activities (formerly included within United Utilities North West)	750.1	(169.1)	581.0
Non-regulated activities (formerly included within United Utilities Contract Solutions)	69.1	(6.5)	62.6
Other activities	8.3	(9.8)	(1.5)
Operating profit from continuing operations	827.5	(185.4)	642.1
Investment income and finance expense	(170.2)	30.4	(139.8)
Share of results of associated company	18.7	(18.7)	-
Profit before taxation	676.0	(173.7)	502.3
Taxation	(175.3)	31.4	(143.9)
Profit after taxation from continuing operations	500.7	(142.3)	358.4
(Loss)/profit for the period from discontinued operations	(67.2)	142.3	75.1
Profit for the year	433.5	-	433.5

Return components

Proposed total return to shareholders

	£m	p/share ¹
Net equity proceeds from sale of UUE	1,050	119
Additional return of value – more efficient capital structure	450	51
Total return to shareholders	1,500	170

- Proposed return to shareholders by way of redeemable B share scheme

“...the B share scheme provides shareholders² with a choice of receiving the return as capital or income and the option to spread the return over two financial years...”

¹ based on 880m shares in issue at the time the sale of UUE was agreed
² other than shareholders in certain overseas jurisdictions



Net equity proceeds from sale of United Utilities Electricity

	£m	p/share ²
Total enterprise value	1,782	-
Less UUE net debt at fair value ¹	(732)	-
Proposed net equity proceeds to return to shareholders	1,050	119

¹ at time of agreed sale of UUE, including United Utilities' group debt apportioned to the electricity business and transaction costs
² based on 880m shares in issue at the time the sale of UUE was agreed

Capital structure and dividend policy



- Capital structure and target credit rating to mirror regulatory assumptions
 - target credit rating of A3 for United Utilities Water PLC
 - more efficient capital structure
- Additional proposed return of £450m or 51 pence per share¹
- Dividend per share for 2007/08 based on current dividend policy
- In light of revised composition and earnings profile of the group
 - rebased dividend per share for 2008/09 forecast to be 32.67 pence
 - real dividend growth target of RPI+2% per annum thereafter

¹ based on 880m shares in issue at the time the sale of UUE was agreed

Revised dividend policy - illustrative example¹



Current policy	2007/08	2008/09	2009/10	3 year total	Pence per existing share
Estimated dividend per share (pence) ²	46.67	47.95	49.27		
Number of shares (m)	880	880 ³	880 ³		
Distributions to shareholders (£m)	411	422	434	1,267	144
New policy	2007/08	2008/09	2009/10	3 year total	Pence per existing share
Estimated dividend per share (pence) ²	46.67	32.67 ⁴	34.22 ⁵		
Number of shares (m)	880	673 ⁶	673 ⁶		
Dividends to be paid (£m)²	411	220	230	861	98
Additional return (£m)	-	450	-	450	51
Distributions to shareholders (£m)	411	670	230	1,311	149

¹ the figures set out in these tables are subject to a number of uncertainties and are therefore illustrative and do not constitute a forecast

² assumes RPI of 2.75% p.a. for 2008/09 and 2009/10

³ simplified analysis excluding the share reduction effect from return of net equity proceeds

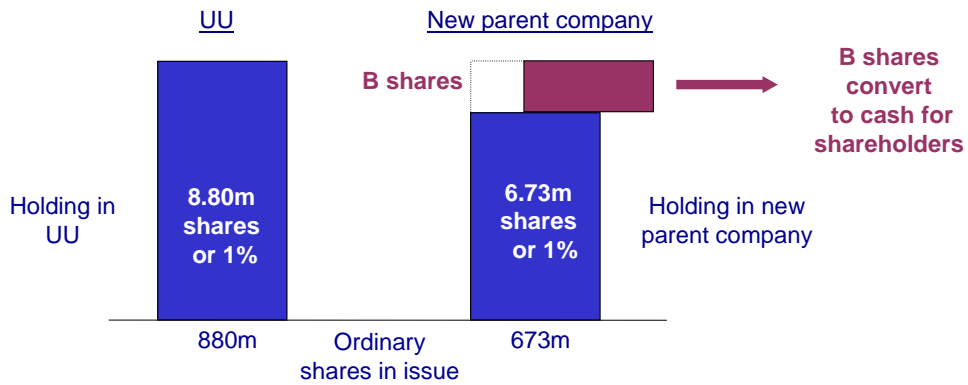
⁴ 30% reduction on 2007/08 dividend per share

⁵ RPI (as per note 2) + 2% growth rate applied to 2008/09 reduced dividend (as per note 4)

⁶ based on assumption of 673m shares in issue from 2008/09 using a closing share price of 724p on 26 November 2007 to calculate the shares in issue assumption

41

Return mechanism – illustrative example Redeemable B share scheme



- Number of ordinary shares issued by new parent company will be lower, commensurate with return of value

“...shareholders retain the same percentage shareholding in the new parent company...”

Timetable for £1.5bn return of value

Date	Event
6 June 08	Circular expected to be posted to shareholders
June/July 08	Court meeting and General Meeting for scheme of arrangement to create new parent company
25 July 08	AGM
July/Aug 08	Issue of redeemable B shares, listing of new parent company and issue of new parent company ordinary shares
8 Aug 08	Payment of 2007/08 final dividend under current policy
Aug 08	Return of value – first option to redeem B shares
Feb 09	Payment of 2008/09 interim dividend under new policy
April 09	Return of value – all remaining B shares redeemed

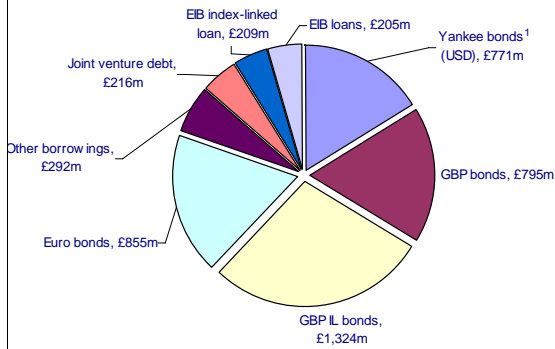
Financing & liquidity as at 31 March 2008

Continuing operations



Gross debt = £4,667.3m

Headroom/prefunding = £2,494.4m



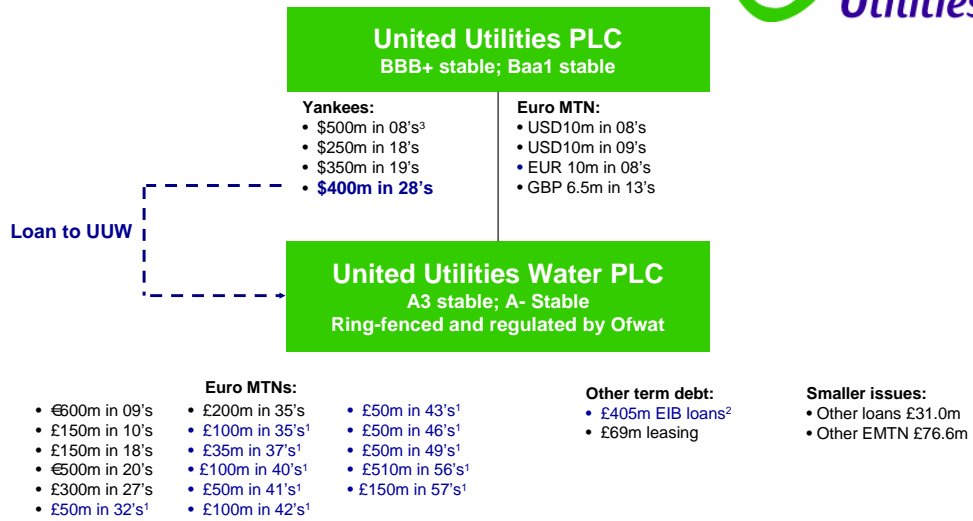
	£m
Cash and short-term deposits ³	1,810.5
Medium-term committed bank facilities ²	1,549.6
Short-term debt	(105.3)
Term debt maturing within one year ³	(760.4)
Total headroom / prefunding	2,494.4

Liquidity

The group enhanced its liquidity further by arranging or extending the maturity date of £500m of committed medium-term bank credit facilities since 30 September 2007

¹ includes USD 500m 6.45% bond redeemed on 1 April 2008 ² excludes £50m committed facilities maturing within one year
³ includes amounts relating to joint ventures: cash and short-term deposits of £24.5m and term debt maturing within one year of £17.3m

Debt structure at 31 March 2008

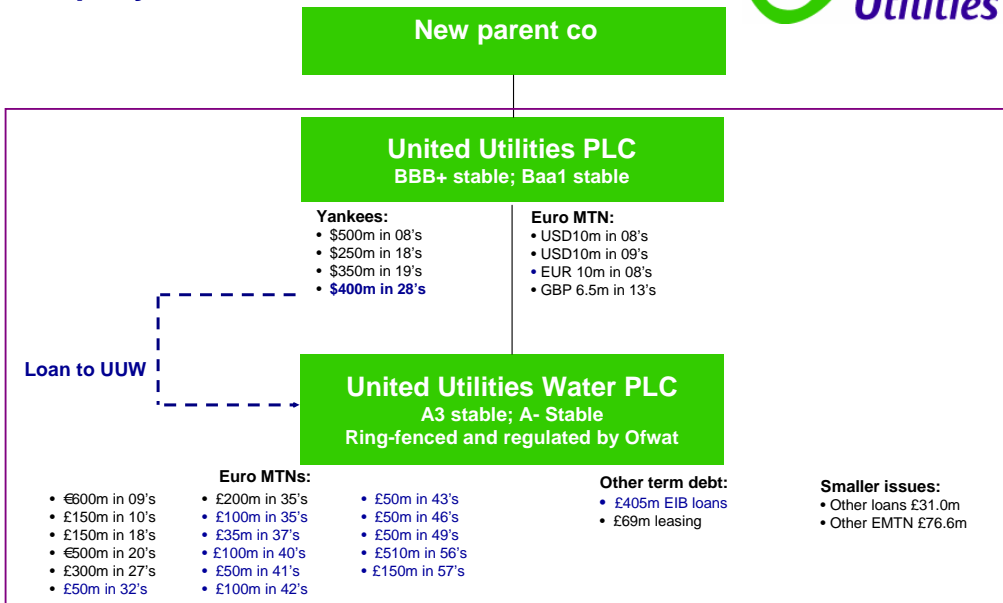


Index-linked debt in UUW at 31 March 2008 was £1,533m including indexation

- The \$500m Yankee loan was repaid on 1 April 2008

¹ index-linked debt ² includes £200m EIB index-linked loan maturing in 2016 ³ repaid on 1 April 2008

Debt structure following new parent company structure



No change to existing debt arrangements on implementation of new parent company structure

Save the date



Edison Electric Institute conference, London 15-17 March 2009

Opportunity to meet CEOs, CFOs, IR directors and treasurers from major European & US utilities in one convenient location in Europe.

US EEI: The 43rd annual EEI US conference will be held this year in Arizona, providing a forum for global utility executives, analysts & investors to meet at a single venue to exchange information. Last year, almost 50 major utility companies gave formal presentations open to all delegates, with a similar number holding table sessions allowing one-to-one contact with senior utility executives.

Europe EEI: Since 1999, the annual EEI Europe conference has been growing in importance and is becoming a major event for global utility analysts & investors. Both credit & equity investors can meet United Utilities' management team there in March 2009. Save the date.

More info available from www.eei.org/meetings

47

CAUTIONARY STATEMENT

The preliminary results contain 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 these preliminary results and the Company undertakes no obligation to update these forward-looking statements. Nothing in these preliminary results should be construed as a profit forecast.