

United Utilities Group PLC
Final results
Year ended 31 March 2010



CHIEF EXECUTIVE

Philip Green



Agenda

- Overview
- Financial performance
- Business update
- Questions

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Overview *Well positioned for 2010-15*

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

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CHIEF FINANCIAL OFFICER

Tim Weller



Financial highlights

Sound underlying financial performance

- Underlying operating profit¹ up 3% to £756m
- Underlying profit before taxation¹ down 6% to £500m
- Significant benefits from changes in pension provision
- Regulated underlying operating profit² up 3% at £701m
- Non-regulated underlying operating profit³ marginally down at £59m
- Total dividend for 2009/10 of 34.3p per share, an increase of 5.0%

¹ as described on slide 13 ² as described on slide 6 ³ as described on slide 8

Regulated activities *Profit growth delivered*

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

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

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

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

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

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Non-regulated activities

Good financial performance, adjusting for disposals

£m	2010	2009	
Revenue	890.2	911.8	-2%
Operating profit¹	63.1	63.4	0%
<u>Adjustments:</u>			
Pensions credit	(8.9)	-	
Restructuring costs	4.9	(1.0)	
Underlying operating profit	59.1	62.4	-5%
Dividends from NGN and Manila Water	(2.4)	(12.3)	
Adjusted for disposals	56.7	50.1	+13%

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

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Changes to defined benefit pension schemes

Sustainable, lower risk approach

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

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Impact of changes to pension schemes

£92m operating profit benefit and deficit reduction

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

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

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Finance expense

Continuing to outperform regulatory assumptions

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

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Finance expense: index-linked debt

Benefit from indexation on 8 month lag

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

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

¹ affected by movement in RPI between January 2009 and January 2010
² affected by movement in RPI between July 2008 and July 2009

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Profit before tax

Sound underlying performance

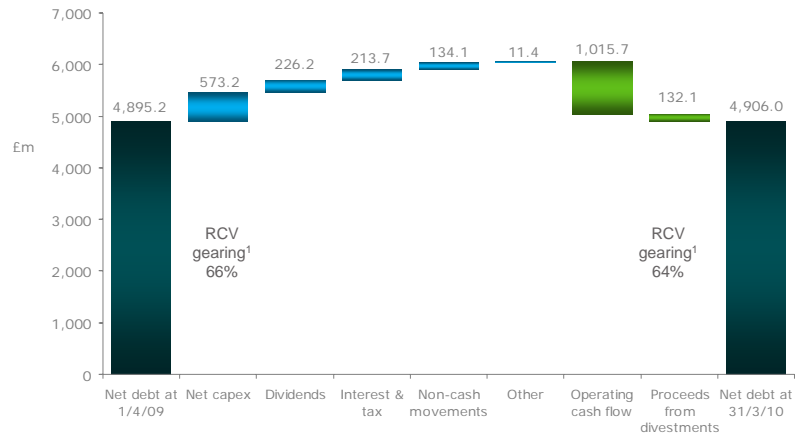
£m	2010	2009	
Operating profit	817.9	729.5	+12%
Profit on disposal of investments	36.6	-	
Evaluation and disposal costs relating to non-regulated businesses	(10.8)	-	
Investment income and finance expense	(369.5)	(200.2)	
Profit before tax	474.2	529.3	-10%
<u>Adjustments:</u>			
Pensions credit ¹	(92.3)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

¹ added to operating profit to obtain underlying operating profit

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

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Movement in net debt *Reduction in RCV gearing*



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

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

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Financial summary *Robust financial position*

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

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CHIEF EXECUTIVE

Philip Green



Business update

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

2010-15 regulatory period

Well prepared and confident of outperformance

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

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2009 water price review

Summary of final determination proposals

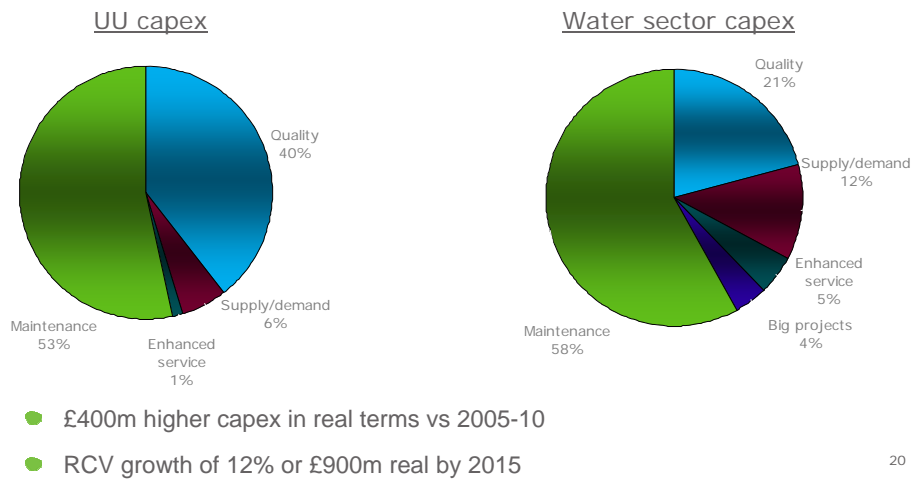
- £3.6bn capital investment programme (2007/08 prices)
 - £1.4bn water and £2.2bn wastewater
 - CIS¹ ratios of 94 for water (most efficient in sector) and 108 for wastewater
- Improvement in underlying operating efficiency
 - 1.2% p.a. improvement for water and 2.4% p.a. for wastewater
- 4.5% cost of capital (fully post-tax, real)
- Average annual real price decrease of 0.4%

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

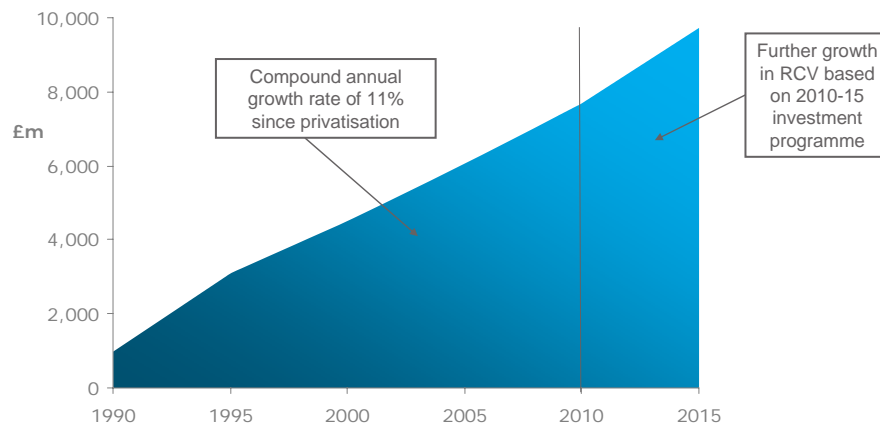
¹ Ofwat's capital expenditure incentive scheme

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2010-15 regulatory period
£3.6bn capex programme drives further growth



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



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

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

Capital structure

Robust and sustainable capital structure

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

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Dividends

Dividend policy targets real growth

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

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Business update

- Price review
- **Operational performance**
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Key operational and service measures *Customer satisfaction at highest recorded levels*

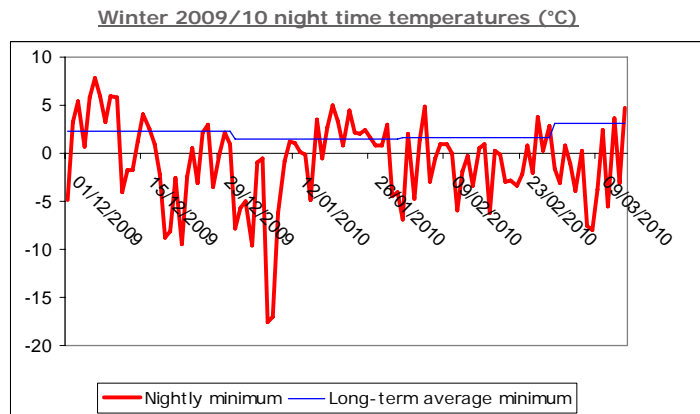
	Start point	Current	Target
Relative efficiency	Below average	Narrowed operating efficiency gaps to most efficient water companies since 2005 ¹ and improved opex position to band B for water and band C for wastewater as assessed by Ofwat – expect to sustain these bandings for 2009/10	Upper quartile in the medium term
Security of water supply	Had not met economic level of leakage rolling target since 2002	Met or outperformed leakage target set by Ofwat for last four years² Achieved despite extreme winter weather conditions No water restrictions anticipated during the year	Meet or outperform rolling leakage targets and avoid the need for water restrictions
Pollution	In 2005/06: 2 water & 21 wastewater incidents ³	One ² water and seven ² wastewater category 1&2 incidents in 2009 - Met or outperformed target for four consecutive years	Reduce incidents by around 50% in the medium term
Sewer flooding	1091 properties on flooding register in 2005/06 ^{2,4}	Continued to remove properties from the register Methodology and processes reviewed and numbers reassessed ² . Net reduction of 63 properties in the four year period from 2005/06 based on reassessed numbers.	Reduce number by around 50% in the medium term
Overall customer satisfaction (In response to enquiries)	<50%	82% for 2009/10 (85% for March 2010) Continuous improvement over last four years Customer satisfaction at highest recorded levels	85% in the medium term Aspiration of 100%

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

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Leakage target met for 4th consecutive year
Achieved despite extreme weather conditions

- Strong management focus and commitment of workforce



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Action taken to improve OPA score
Customer satisfaction important element of SIM

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

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Management actions to meet regulatory targets *Comprehensive review of working practices*

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

Detailed plans being implemented to:

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

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Workforce

Early resource planning - immediate cost reduction

- Group workforce¹ reduced by 500 in 2009/10
- 350 worked in or supported the regulated business
- Represents reduction of 7% of the regulated workforce
- Immediate contribution to achievement of Ofwat efficiency targets

¹ includes United Utilities staff and agency staff

Customer service

Improving customer experience and reducing cost

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

Systems and processes

Streamlining to work more efficiently

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

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Capital delivery contracts

Robust commercial framework

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

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2010-15 capital investment programme

Early planning facilitates smoother delivery profile

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

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Financial

Low cost of debt locks in outperformance

- £2bn index-linked debt (1.8% real) vs allowed cost of debt (3.6% real)
- Remaining debt largely fixed for 2010-15 at 5.0% to 5.5% nominal
- Financing outperformance on existing debt c£300m across 2010-15¹
- Little re-financing required in 2010-15 period

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

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Business update

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Non-regulated activities

Assessing further opportunities to crystallise value

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

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Business update

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Summary *Well positioned for 2010-15*

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

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QUESTIONS



Supporting information

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



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

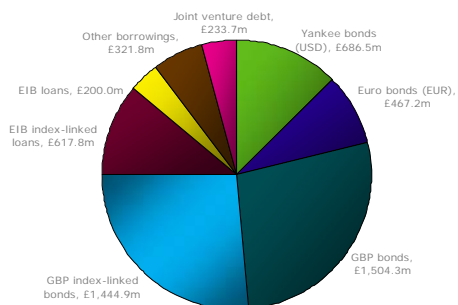
£m	As reported	IFRIC 12 ¹	Restated
Regulated activities	678.4	-	678.4
Non-regulated activities	69.1	(5.7)	63.4
All other segments	(12.3)	-	(12.3)
Operating profit from continuing operations	735.2	(5.7)	729.5
Investment income and finance expense	(205.4)	5.2	(200.2)
Profit before taxation	529.8	(0.5)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

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

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Financing & liquidity as at 31 March 2010

Gross debt = £5,476.2m



Headroom / prefunding = £1,100m

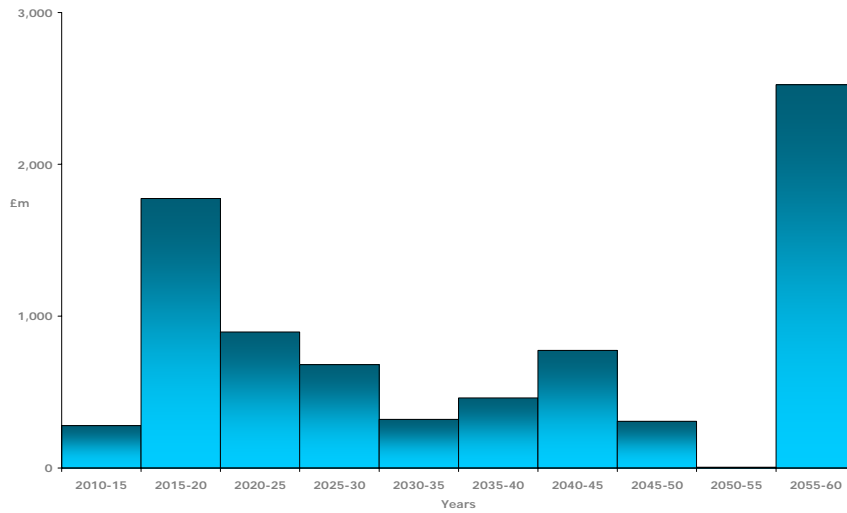
	£m
Cash and short-term deposits	301.5
Medium-term committed bank facilities ¹	966.8
Short-term debt	(101.1)
Term debt maturing within one year ²	(67.2)
Total headroom / prefunding	1,100.0

¹ excludes £100m facilities maturing within one year

² includes amounts relating to joint ventures of £17m

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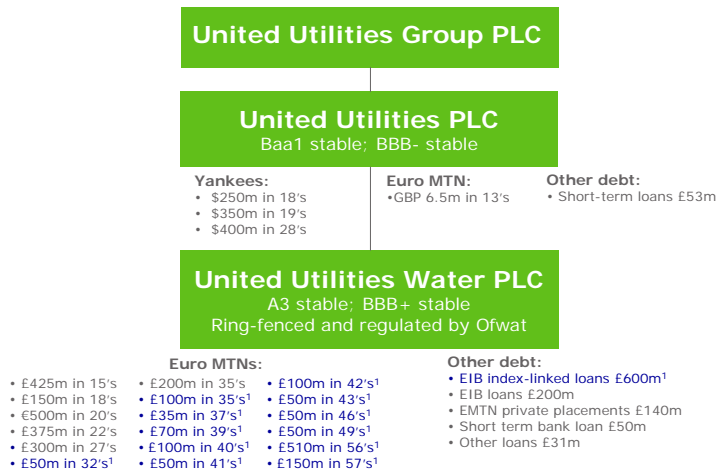
Term debt maturity profile¹ Average term to maturity over 25 years



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

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Debt structure at 31 March 2010



¹ Index-linked finance

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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.

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