United Utilities Group PLC
Full year results
Year ended 31 March 2015

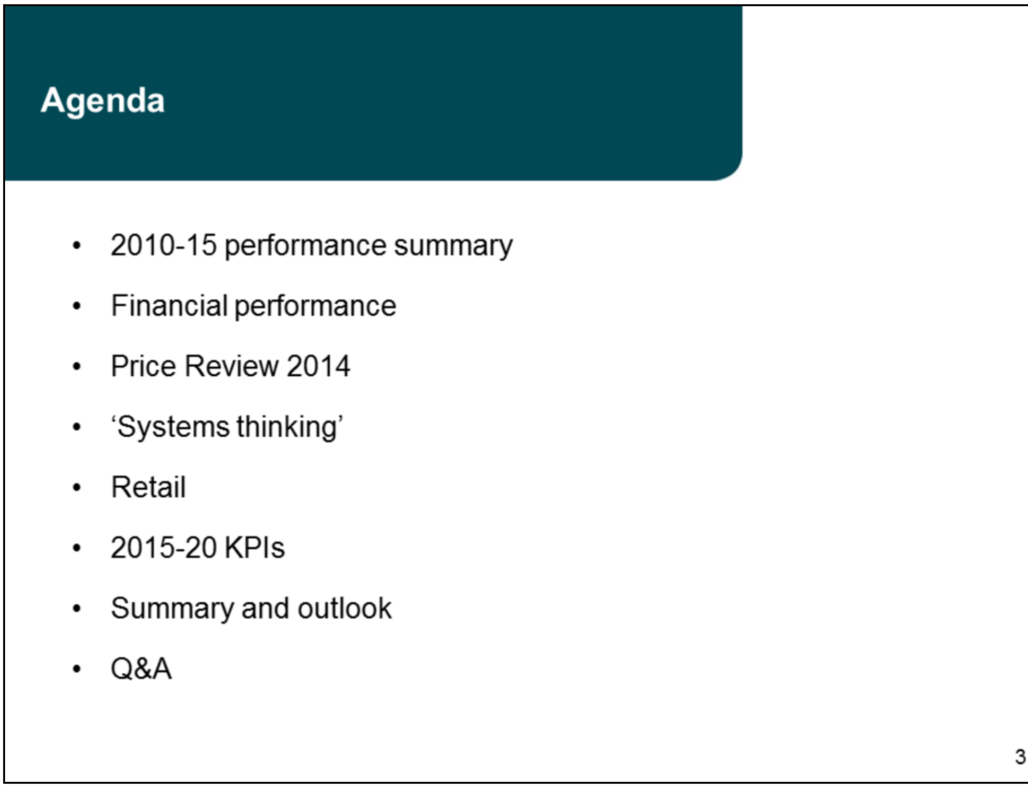
United Utilities
helping life flow smoothly

Good morning ladies and gentlemen and welcome to our full year results presentation.

Russ and I gave our first of these in 2011 – only a few months after I joined the company. We set out our objectives for AMP5, with a view to becoming one of the best water and wastewater companies in the UK and, as we draw a line under the period with this year's results, we can reflect upon four years of substantive progress in achieving that vision. Customer satisfaction is much improved, operational performance places us amongst the top companies in our sector and our regulatory outperformance targets have all been exceeded.

Our AMP5 performance has given us a good platform for the next regulatory period, but we know we can do even better. So as well as driving performance during AMP5 we have also been changing the way we run the business – applying learning from other sectors and using technology to give us better, real time information about our assets to drive further improvements. Today I plan to take a little more time than in previous presentations to tell you about some of the changes we have made and those in hand.

We expected the AMP6 pricing round to be tough and it was but the changes in the way we are running the business underpin our confidence in accepting our final determination and in setting a dividend growth target of at least RPI each year through to 2020. I will give you a brief overview of our final determination and our future KPIs, but we will not be setting outperformance targets for the next regulatory period today. We intend to review the position after at least a year of performance in this AMP and will then update you in a future presentation.



This is the agenda.

I’ll briefly cover our AMP5 achievements and then hand over to Russ to take you through our financial performance.

I’ll touch on some of the key points from the price review before covering the changes to the way we run the business – we refer to it as ‘systems thinking’ – and then provide an update on our retail businesses.

I’ll finish with a look at our KPIs for the 2015-20 period, before providing a summary and outlook.

2010-15 performance highlights
Delivered on our promises

SIM: best improved water company	✓
Capex: £3.8bn programme delivered effectively	✓
EA and Ofwat KPIs: closed AMP with upper quartile performance	✓
Regulatory outperformance; opex, capex and financing	✓
Asset serviceability: all 4 services rated at least stable; avoided penalty	✓
Debt to RCV: comfortably within Ofwat's assumed AMP5 range	✓
Credit ratings: retained ratings throughout AMP5; stable outlook for all	✓
Dividend: delivered AMP5 growth rate target of RPI+2% p.a.	✓
Reinvested £280m of outperformance for the benefit of customers	✓

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In AMP5, we set out to significantly improve performance and give ourselves a good platform for the 2015-20 period. I will pick out just a few of the key achievements from this slide.

We were the most improved water company for customer satisfaction and ended last year with another upper quartile performance on both Ofwat KPIs and the Environment Agency assessment.

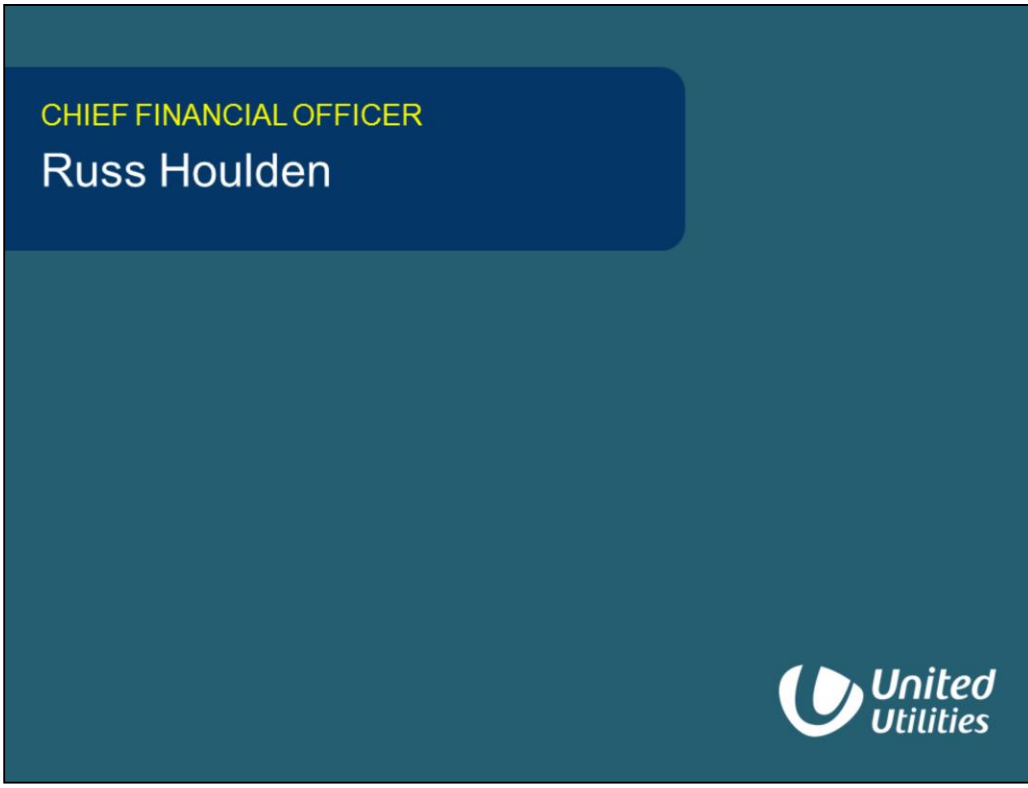
We exceeded our regulatory outperformance targets.

Our asset serviceability ratings meant that we avoided any related performance penalties in PR14.

Our good performance enabled us to reinvest around £280 million for the benefit of customers.

I'm pleased to say that we ended AMP5 as a very different company to the one that started it.

Now, over to Russ.



Thank you, Steve.

Good morning.

Agenda

- 2010-15 performance summary
- Financial performance
- Price Review 2014
- 'Systems thinking'
- Retail
- 2015-20 KPIs
- Summary and outlook
- Q&A

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So, looking at the financials.

Financial performance

Another good set of results

- Underlying operating profit of £664m, up £30m or 5%
- Underlying profit before taxation of £447m, up £59m or 15%
- Underlying EPS of 51.9 pence, up 16%
- Final dividend of 25.14 pence per ordinary share, up 4.6%
- Responsible financing and dividend policies

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This is another good set of results.

A 2 per cent increase in revenue along with tight cost control contributed to a 5 per cent increase in underlying operating profit. This is after the impact of the previously announced special one-off customer discount, which is part of our responsible approach to business and our sharing of outperformance with customers.

Underlying profit before tax and underlying EPS were up 15 per cent and 16 per cent respectively, benefiting from the effect of lower RPI inflation on our index-linked debt.

We have proposed a final dividend of 25.14p per share, up 4.6 per cent. This increase comprises RPI inflation of 2.6 per cent for the year to November 2013, which is the rate included within our price limit for 2014/15, plus two per cent in line with our stated dividend policy.

We also have responsible financing policies, with RCV gearing at 59 per cent which is in the middle of our target range of 55 per cent to 65 per cent. And our dividend policy for AMP6, targeting growth of at least RPI each year, will keep dividends growing at a sustainable rate.

Profit after tax reconciliation

Prior year profit benefits from one-off tax credits

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])
Reported profit after tax	**271.2**	**738.6**
Adjustments:		
One-off items[2]	11.0	4.4
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value option	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Adjustment for release of tax interest accrual	-	(13.3)
Adjustment for interest receivable on tax settlement	-	(4.5)
Deferred taxation credit - change in taxation rate	-	(156.8)
Agreement of prior years' UK taxation matters	(0.7)	(154.3)
Taxation in respect of adjustments to underlying profit before tax	(22.2)	32.6
Underlying profit after tax	**354.1**	**304.9**
Basic earnings per share (pence)	**39.8**	**108.3**
Underlying earnings per share (pence)	**51.9**	**44.7**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] 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 £105 million fair value loss in the year, largely due to losses on the swap portfolio which fixes rates for the regulatory periods. This resulted from a decrease in medium-term sterling interest rates during the period, partly offset by a gain from the unwinding of our derivatives hedging interest rates to 2015. This £105 million fair value loss compares with a fair value gain of £129 million last year.

We had no large one-off tax adjustments this year, whereas last year we had two large one-off tax credits.

These factors resulted in reported profit being significantly lower this year. However, the more meaningful underlying measure was up £49 million to £354 million.

Income statement – underlying
Another good financial performance

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])	Movement
Revenue	1,720.2	1,688.8	*+1.9%*
Operating expenses	(703.3)	(717.3)	*(2.0)%*
EBITDA	**1,016.9**	**971.5**	***+4.7%***
Depreciation and amortisation	(352.6)	(336.9)	*+4.7%*
Operating profit	**664.3**	**634.6**	***+4.7%***
Net finance expense	(222.0)	(251.5)	*(11.7)%*
Share of profits of joint ventures	5.1	5.0	*+2.0%*
Profit before tax	**447.4**	**388.1**	***+15.3%***
Tax	(93.3)	(83.2)	*+12.1%*
Profit after tax	**354.1**	**304.9**	***+16.1%***
Earnings per share (pence)	**51.9**	**44.7**	***+16.1%***
Total dividend per ordinary share (pence)	**37.70**	**36.04**	***+4.6%***

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'

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

Revenue for the year of £1.72 billion was up £31 million, or 1.9 per cent, after adjusting for the special customer discount of £21 million.

Underlying operating profit of £664 million was up £30 million as a result of the increase in revenue and tight cost control, alongside a planned reduction in IRE as we transition from this regulatory period to the next.

Underlying profit before tax of £447 million was £59 million higher than last year. This was due to the increase in underlying operating profit of £30 million, alongside a decrease in underlying net finance expense of £29 million which mainly reflects the impact of lower RPI inflation on our index-linked debt.

The underlying tax charge of £93 million was £10 million higher than last year, due to the tax impact of higher underlying profit partly offset by a fall in the total tax rate.

Operating costs
Tight cost control

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])	Movement
Revenue	**1720.2**	**1688.8**	
Employee costs	(134.1)	(129.3)	(4.8)
Power	(68.2)	(63.3)	(4.9)
Property rates	(80.5)	(86.2)	5.7
Bad debts[2]	(52.9)	(37.1)	(15.8)
Regulatory fees	(29.2)	(36.2)	7.0
Other expenses	(190.2)	(200.1)	9.9
	(555.1)	**(552.2)**	**(2.9)**
Infrastructure renewals expenditure (IRE)	(148.2)	(165.1)	16.9
Depreciation and amortisation	(352.6)	(336.9)	(15.7)
Total underlying operating expenses	**(1,055.9)**	**(1,054.2)**	**(1.7)**
Underlying operating profit	**664.3**	**634.6**	
Adjustments:			
One-off costs[3]	(11.0)	(4.4)	
Reported operating profit	**653.3**	**630.2**	

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Includes bad debts relating to non-regulated businesses
[3] Relates to restructuring costs within the business

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We have continued to manage our cost base tightly.

Overall, our total operating expenses, including IRE and depreciation, was virtually unchanged.

As you can see on the slide, there were a number of offsetting cost movements between the two years. I will not focus on each item individually, but I would like to discuss the increase in bad debt in a bit more detail.

Bad debts and cash collection
Challenging environment

- North West is the most deprived region in England
- Bad debt increased by £16m from 2.2% to 3.1% of regulated revenue
  - cumulative impact of economic factors
  - impact of ‘help-to-pay’ initiatives under IFRS accounting
  - business retail provision review ahead of full market opening
  - domestic retail debt processes and provisions review in preparation for AMP6
- Bad debt expected to fall to c2.5% of regulated revenue in 2015/16

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We highlighted in May 2014 that debt collection was likely to become more challenging for UU, particularly as our region suffers from high levels of income deprivation. Notwithstanding our industry-leading debt management processes and wide-ranging schemes to help customers struggling to pay, deprivation remains the principal driver of our higher than average bad debt.

In the year, bad debt expense has increased by £16 million, from 2.2 per cent to 3.1 per cent of regulated revenue, as a result of four main factors:

- first, the cumulative impact of economic factors on customers’ ability to pay;
- second, an increase in the number of customers re-commencing payment through our help-to-pay initiatives, which has resulted in additional revenue recognition and associated bad debt under IFRS accounting;
- third, a review of bad debt provisions for business customers in preparation for systems upgrades, ahead of full market opening; and
- fourth, a review of operational debt processes and bad debt provisions in domestic retail in preparation for the 2015-20 period.

Although bad debt will continue to be challenging for us, we do expect the level to fall to around 2.5 per cent of regulated revenue in 2015/16, as our recent reviews have resulted in an additional current year charge which is not expected to continue at the same level.

Financial position
Robust capital structure

At 31 March *Continuing operations*	2015	2014 (Restated)[1]
Property, plant and equipment	9,716.3	9,318.5
Retirement benefit surplus	79.2	-
Other non-current assets	187.7	155.1
Cash	244.0	115.8
Other current assets	393.8	370.2
Total derivative assets	682.6	512.9
Total assets	**11,303.6**	**10,472.5**
Gross borrowings	(6,645.4)	(6,041.5)
Other non-current liabilities	(1,603.8)	(1,501.4)
Retirement benefit obligations	-	(177.4)
Other current liabilities	(414.8)	(433.2)
Total derivative liabilities	(205.2)	(103.1)
Total liabilities	**(8,869.2)**	**(8,256.6)**
TOTAL NET ASSETS	**2,434.4**	**2,215.9**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,610.7	1,230.3
Other reserves	321.0	482.9
SHAREHOLDERS' EQUITY	**2,434.4**	**2,215.9**
NET DEBT[2]	**(5,924.0)**	**(5,515.9)**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Net debt includes cash, borrowings and derivatives (slide 45)

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Turning now to the statement of financial position.

Property, plant and equipment was up £398 million in the year to £9.7 billion, reflecting our large capital programme.

Cash and short term deposits of £244 million were £128 million higher than last year, mainly as a result of our new £100 million index-linked loan and drawdowns on our £500 million loan from the EIB.

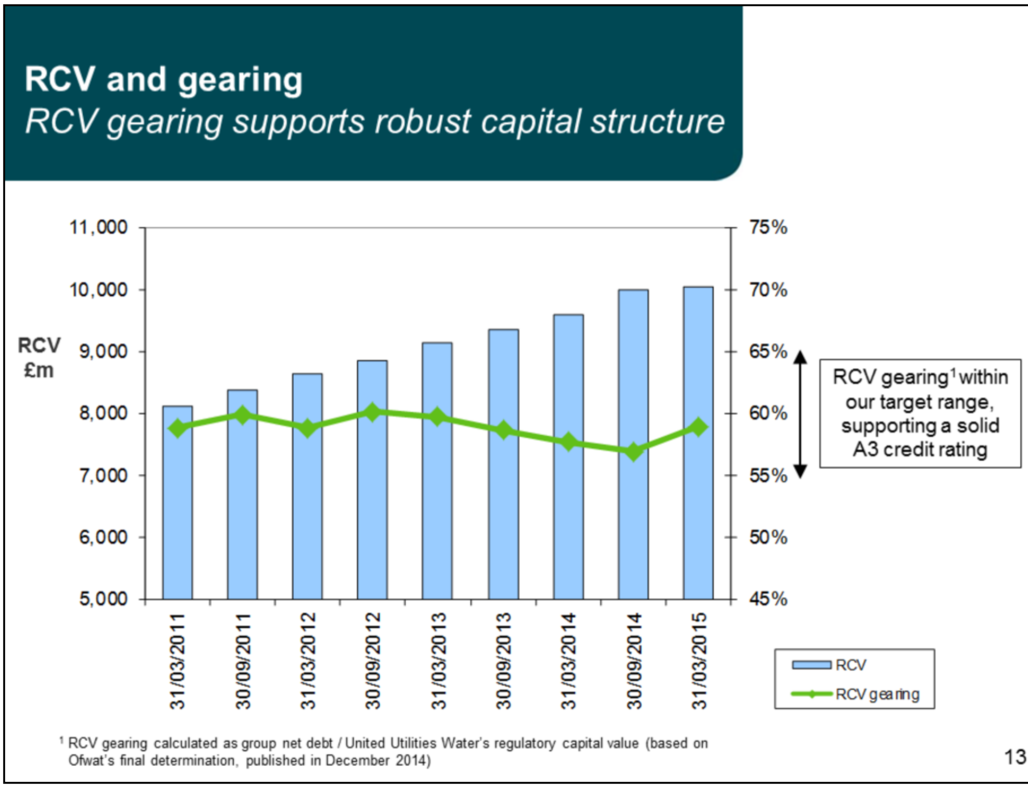
Gross borrowings increased by £604 million, to £6.6 billion, mainly resulting from these debt drawdowns as well as a significant decrease in market interest rates during the year.

Total derivative assets have increased by £170 million, to £683 million and total derivative liabilities increased by £102 million to £205 million, both movements also reflecting this decrease in market interest rates.

As at March 2015, the group had an IAS 19 retirement benefit surplus of £79 million shown in total assets, compared with a deficit of £177 million at March 2014 shown in total liabilities. This £256 million favourable movement mainly reflects the accounting remeasurement effect under IFRS of a decrease in inflation expectations and an increase in corporate credit spreads. More importantly, on a funding basis, our de-risking and hedging activities over the last three years have resulted in a relatively stable pensions position.

Retained earnings have increased by £380 million, the largest single factor being remeasurement gains on our defined benefit pension schemes.

Net debt was £408 million higher than last year, mainly reflecting expenditure on our substantial capital investment programme along with fair value losses on our debt and derivative instruments.



This chart shows our RCV and gearing level.

The blue bars show the growth in our RCV.

The green line shows the movement in RCV gearing since we completed our non-regulated disposal programme. Our gearing has increased by around one per cent over the course of the year and is now 59 per cent, reflecting a larger increase in net debt compared with the modest growth in the RCV in the current low inflationary environment.

Our responsible approach to financing means that gearing, at 59 per cent, is in the middle of our target gearing range of 55 to 65 per cent, supporting a solid A3 credit rating.

Cash flow statement
Cash from operations covers investing activities

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated)[1]
Net cash generated from operating activities	706.5	797.2
Net cash used in investing activities	(704.9)	(678.6)
Net cash generated from/(used in) financing activities	139.2	(211.5)
Net movement in cash	**140.8**	**(92.9)**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'

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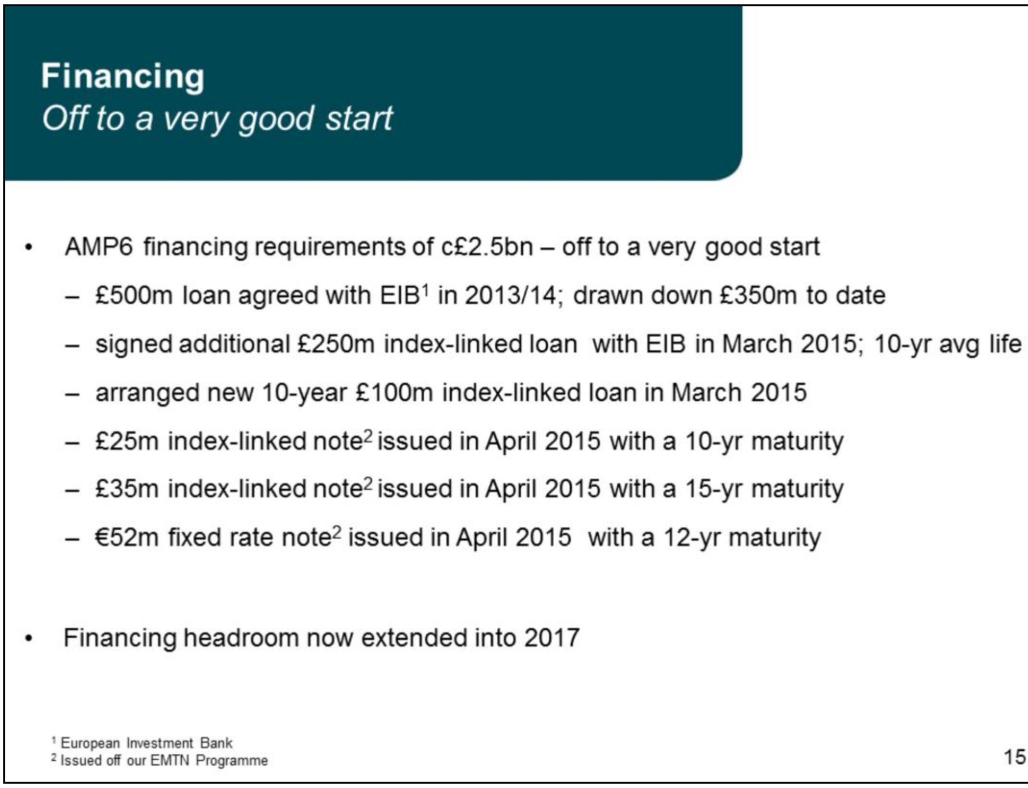
Moving on to cash flow.

Net cash generated from operating activities was £707 million, a reduction of £91 million compared with last year. This decrease mainly reflects the one-off tax rebate received in the prior year.

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

Net cash generated from financing activities was £139 million, compared with £212 million used last year. This difference was mainly the result of £250 million of drawdowns from our £500 million EIB loan facility and our new £100 million index-linked loan.

Now, onto financing.



Over AMP6 we have financing requirements totalling around £2.5 billion, to meet a combination of refinancing and incremental debt, to help fund our 2015-20 investment programme. We are already off to a very good start.

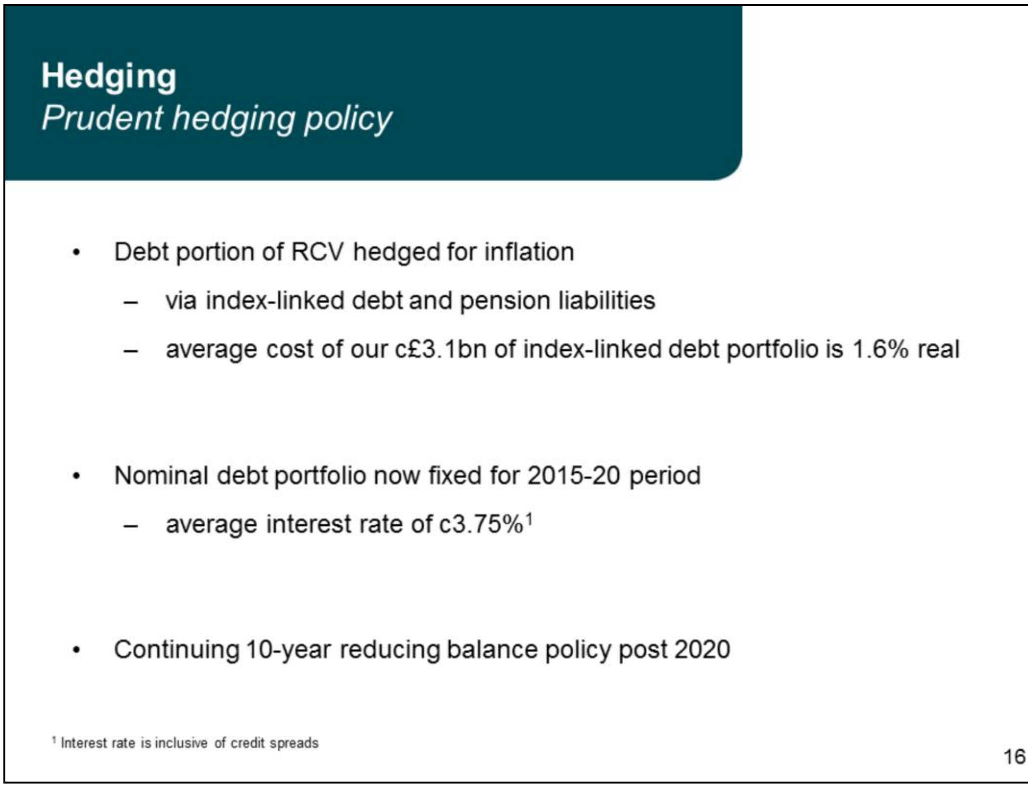
During 2014/15, we drew down an additional £250 million on our £500 million EIB loan facility, agreed in December 2013, bringing our total drawdowns to date to £350 million, all in floating rate form.

We have bolstered our, already, robust financing position with an additional £250 million loan with the EIB, which we signed in March 2015. This new £250 million loan is in index-linked form. It is an amortising loan with an average life of 10 years and a final maturity of 18 years. We intend to draw down the new loan in a number of tranches over the next year or so, after we have drawn down the remaining £150 million of our £500 million loan.

We also added to our index-linked financing portfolio by arranging a new £100 million loan with an existing relationship bank in March 2015. This loan has a bullet maturity in 10 years time.

Since the financial year-end we issued two sterling index-linked notes, totalling £60 million, along with a 52 million Euro note. These issues were all transacted as private placements off our EMTN programme, exploiting a window of opportunity to obtain rates below public bond market rates.

Our recent loans and debt issuances have helped extend our financing headroom into 2017.



And finally, an update on our hedging.

As a reminder, we leave the equity portion of the RCV exposed to RPI inflation by hedging the debt portion of the RCV for inflation through index-linked debt and the effect of our pension scheme liabilities.

Reflecting our strength in treasury management over many years, the average cost of our £3.1 billion, long-term, index-linked debt portfolio is 1.6 per cent real.

With regard to nominal debt, we have now fixed virtually all of our floating rate exposure across the 2015-20 period, at an average interest rate of around 3.75 per cent. This rate is expected to be slightly higher in 2015/16 as we transition between the two regulatory periods.

In preparation for AMP7, we intend to continue with our 10-year reducing balance policy, for the post 2020 period, to help manage our exposure to the cost of debt to be allowed at PR19.

Summary
Key financial takeaways

- Another good set of results
- Exceeded 2010-15 regulatory outperformance targets
- Strong balance sheet
- Financing – off to a very good start
- Debt portfolio locked in for 2015-20 period at attractive interest rates
- Well positioned for AMP6

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So, in summary:

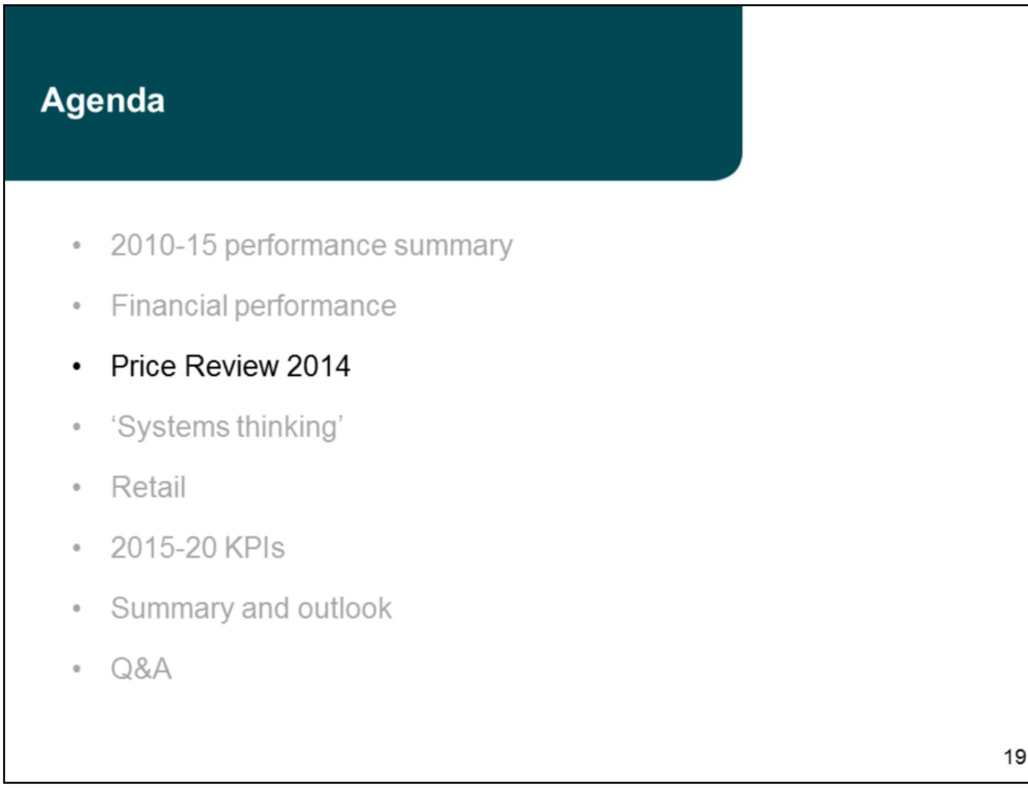
- this is another good set of results;
- we have exceeded our 2010-15 regulatory outperformance targets;
- we have a strong balance sheet and solid credit ratings;
- we have a made a very good start on our financing requirements for the next regulatory period;
- we have locked in a low cost of debt for 2015-20, with an appropriate mix of index-linked and nominal debt; and
- we are well positioned for AMP6, both operationally and financially.

Now, back to Steve.

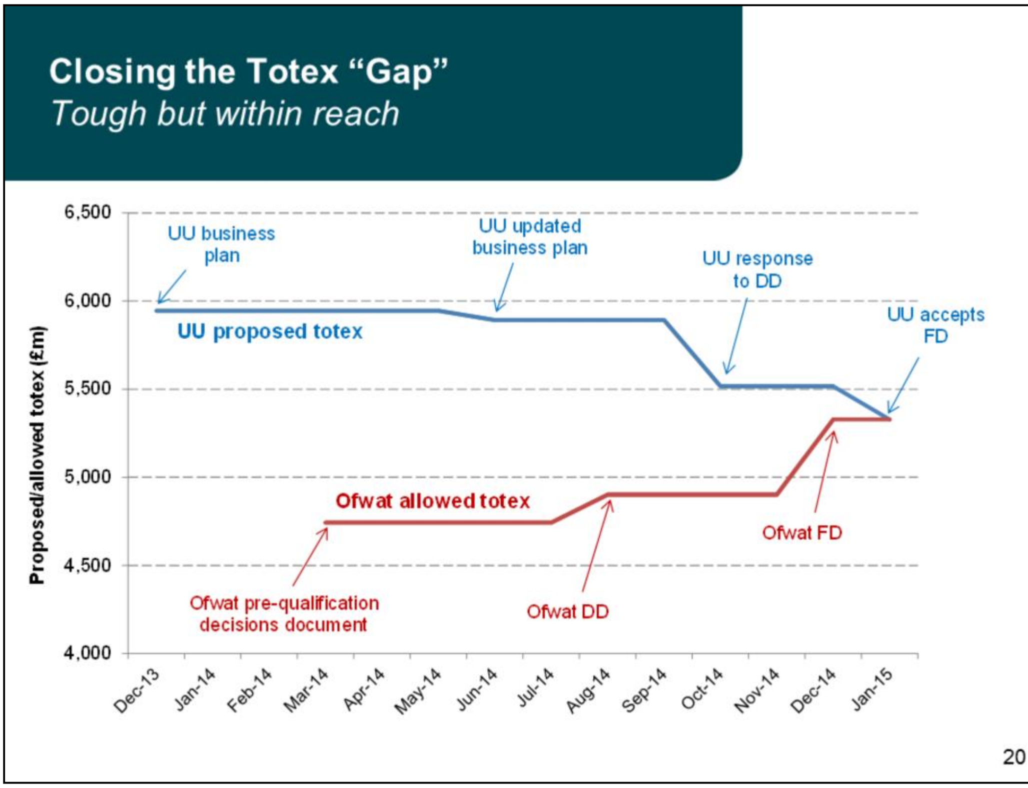
CHIEF EXECUTIVE

Steve Mogford

Thanks, Russ.



Before looking at the changes in the way we are running the business, I will give you a brief overview of our final determination.



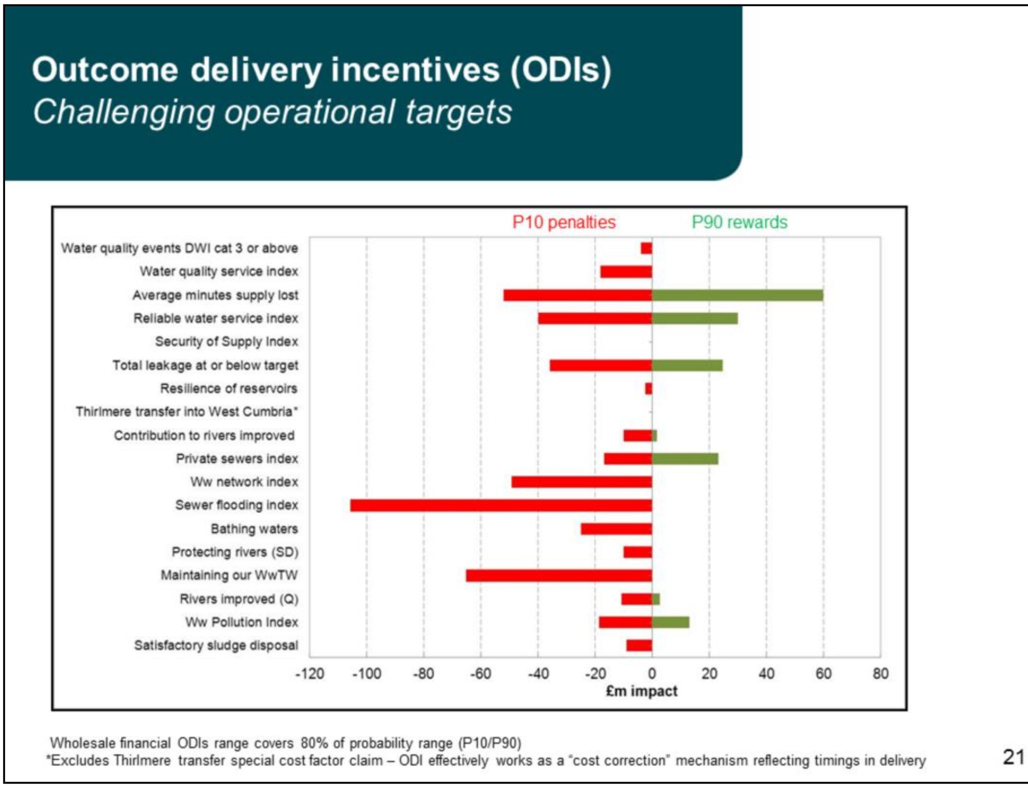
This picture illustrates the steps toward our AMP6 totex allowance.

Our original business plan, submitted in December 2013, proposed water and wastewater totex of approximately £5.9 billion. Ofwat responded with an initial assessment of around £4.7 billion – a gap of £1.2 billion – and identified those areas where it required more evidence to support further consideration of our proposals.

Throughout the following months we engaged constructively with Ofwat, addressing efficiency challenges by tightening cost estimates and providing more evidence and assurance to support our proposals.

As a consequence, when Ofwat published its final determination last December, the gap had closed to £188 million. This was mainly because Ofwat did not accept our representations that the operating environment in the North West necessitates a higher level of base totex than the typical water company. Whilst we were disappointed that Ofwat did not accept this evidence as compelling on this occasion, we nevertheless decided to accept the final determination in the round.

We have taken a further look at our efficiency plans in order to close this remaining gap. Our capital delivery plans will help us achieve this and I'll talk more about this a little later.



Another new development for this regulatory period is Outcome Delivery Incentives or ODIs.

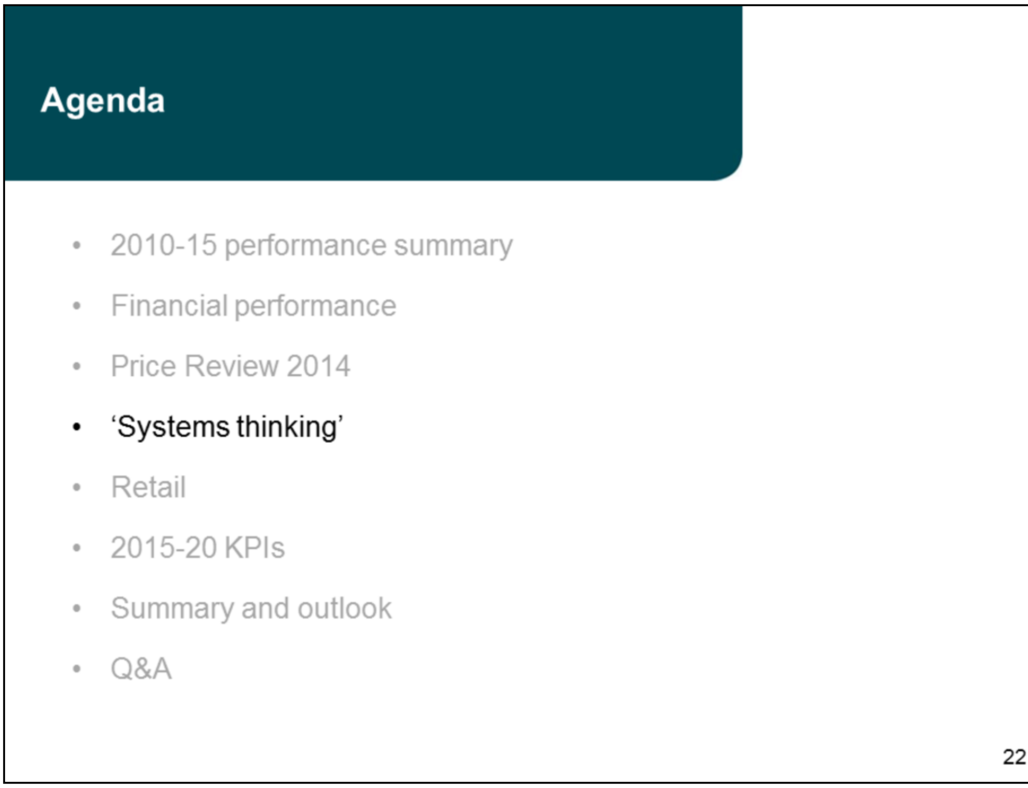
Our final determination includes 18 wholesale ODIs. This chart identifies the potential outturn range for each ODI, covering 80 per cent of the probability range.

You can see that the risk is skewed to the downside, with nine ODIs attracting a penalty only. As with a number of other companies, Ofwat tightened some of the ODIs to reflect upper quartile sectoral performance.

The nature of the ODIs means that, throughout this regulatory period, we will be regularly reviewing the trade-off between cost and benefit for particular levels of performance, recognising that ODI targets generally become tougher as we progress through the five-year period.

It's worth noting that our ODIs accumulate on an annual basis over AMP6 and will take effect as an adjustment to revenue or RCV in AMP7.

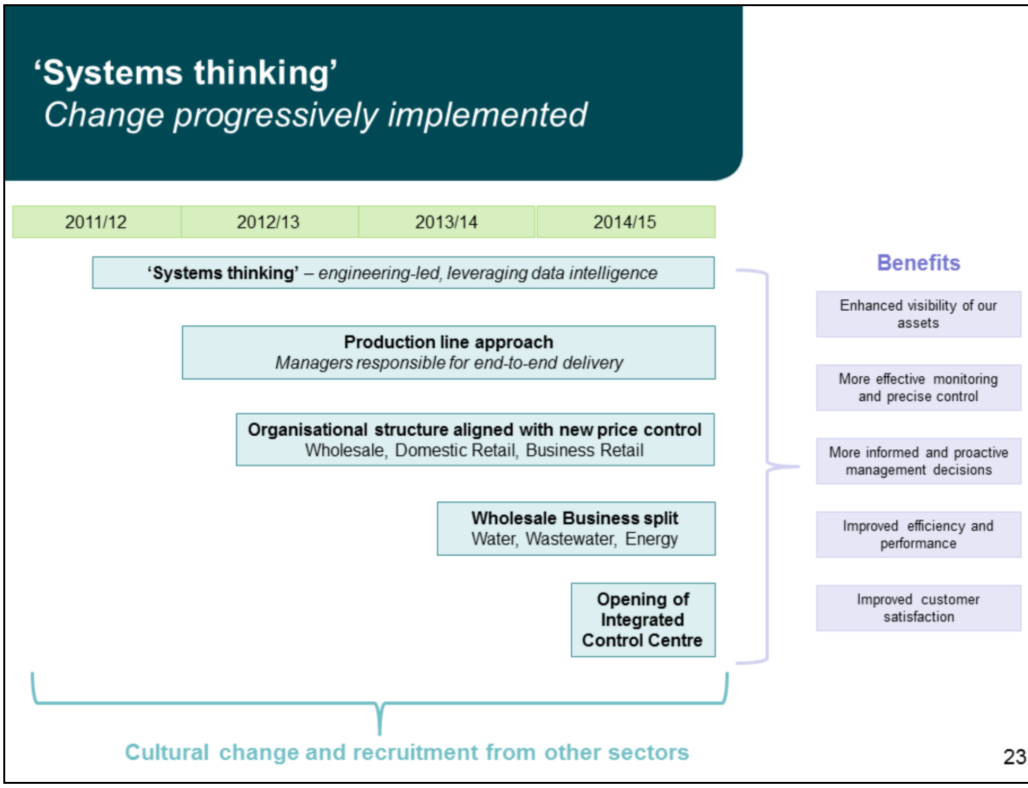
I will touch on how we will report progress later in the presentation.



The turnaround of the business in AMP5 has its origins in good management practice – constancy of purpose, clear objectives, attention to detail, good people and performance management. But it was also clear to us that we could be even better if we transformed the way we run the company, breaking away from historic practices and adopting an engineering led approach to improve performance. So whilst delivering AMP5 we have also been transforming the way we run the company and it is through this work that we hit the ground running for AMP6.

I'd like to take a few minutes to give you some examples of the benefits we are either now delivering or expect in each of our wholesale areas of water, wastewater and energy. Our business plan includes the benefit of over £100 million of savings across the 2015-20 period and our confidence in delivery of these savings underpins our acceptance of our tough final determination.

Changes in our approach to engineering and capital delivery are also key to delivery of efficiencies and so I will touch on these areas.



As I mentioned earlier, we have been progressively transforming the way we work over the last four years. This slide shows five of the key areas of focus.

The first is to think of the assets across our region as components in a big system. This '**systems thinking'** drives out benefits from integration of our assets, leverages technology – telling us how our systems are performing – and is changing working practices. We continue to build enhanced visibility of our assets and more effective monitoring and control, enabling us to make more informed and proactive management decisions.

The second is our **production line approach**. Our treatment works are our factories, each with its own production line. We have over 600 of these factories – small and large – producing clean water, bio waste and energy. Our production managers are responsible for the performance of their factories including totex necessary to optimise operational performance, to deliver environmental or water quality requirements and to maximise energy production. The benefits are significantly improved ownership of factory performance and totex savings.

Third, we recognised that we would best address the regulatory reform agenda by aligning our **organisational structure with the new price control**, with three business areas: wholesale, domestic retail and business retail. Three years ago we recruited a business retail team experienced in competitive utility markets.

Fourth, we further **subdivided our wholesale business** into three business areas - water, wastewater and energy. I will provide more detail on these areas in the next few slides.

And fifth, underpinning our 'systems thinking' is our **newly opened integrated control centre** in Warrington. This acts as the 'digital brain' of our systems approach and provides visualisation of our performance and the quality of service we are delivering throughout the region.

Supporting all of this, is cultural change. In any organisation, this takes several years and UU now feels like a very different place. A critical enabler has been our people and we continue to invest in attracting talent from different sectors and in developing our best people – giving us a powerful mix of water experience and knowledge of other sectors.

‘Systems thinking’
Proactive asset management

- Production line approach created empowered multi-disciplined teams
- Proactive management of asset base
  - reactive work can be expensive and disruptive
  - reduction in unplanned events
  - preventing or fixing problems before they impact customers

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Our people have responded positively to our production line approach, embracing the focussed responsibility and empowerment it has conveyed on production teams. Rather than simply operating the assets they were given, teams are now focussed on optimising the cost of delivery of our services at prescribed levels of water quality and environmental performance.

But in the past, like many companies in our sector, we have had little visibility in real time of how this gigantic system is performing. Too often we relied upon our customers telling us when the service has failed and then we react. Our heroes were those that manage big bursts or clean up environmental spills. But incidents are expensive to fix, disruptive for us and more importantly for our customers.

With ‘systems thinking’, our heroes are the people that identify a problem and where possible fix it before a customer’s service is disturbed.

‘Systems thinking’
Improving asset availability

- Invested in digital network, with over 3,000 interconnected facilities
- Better modelling and prediction of events before they occur
- Change in approach to maintenance
- Audited our asset base
- New enterprise management system and field force scheduling system

One of our process controllers takes part in a trial of a new custom-built phone application, which aims to makes us an industry leader in how we manage our assets

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Our new integrated control centre, or ICC, opened last month.

We’ve been driving this hard over the last couple of years, investing in a new digital network with over 3,000 facilities now able to talk to each other and the ICC over our data highway. We are now beginning to share real time information about the performance of our assets.

To optimise system performance we need our assets to be reliable and available and so we are implementing a significant change in the way we support and maintain them.

We have strengthened our engineering leadership team to lead this cultural change and we have enhanced the engineering support to our production lines to provide know how at the coal face. This is having a significant impact on production line performance and generating new options for asset availability within the AMP6 totex regime.

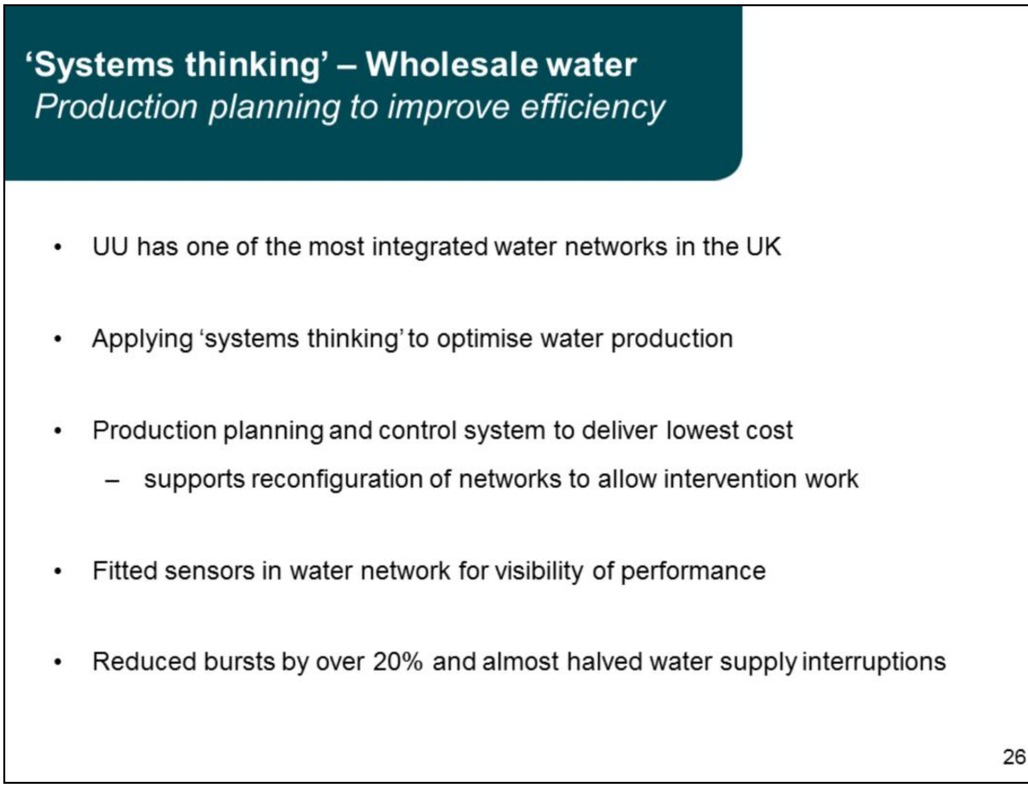
We have audited our asset base and are investing in a new enterprise asset management system.

We have used rapid prototyping techniques to develop a new field force scheduling system.

And we are engaging our supply chain to encourage them to contribute their innovation, product knowledge and experience from other sectors.

This will all deliver improved reliability and availability of our assets, reduce service interruption for customers and reduce the cost of failure.

I’ll now talk about some of the things we are doing in our water, wastewater and energy business areas.



First, our wholesale water business area.

I have previously said that we have one of the most integrated water networks in the UK. This provides an excellent opportunity to apply systems thinking.

In water we have implemented a new planning and control system across our 93 water factories. This brings on-stream our lowest cost production facilities to meet demand and supports re-configuration of our networks to support major network interventions – such as taking out our Haweswater aqueduct to effect inspection and repairs whilst keeping the 2 million customers served by this aqueduct on supply.

We are transforming our real time knowledge of our water network performance using sensors to provide intelligent network event management. This capability is showing positive results. Since the start of AMP5, we have reduced bursts by over 20 per cent and over the last three years we have almost halved supply interruption times for customers.

‘Systems thinking’ – Wholesale wastewater
Data intelligence to improve performance

- Piloting projects to manage production from control centres
  - increasing unmanned sites
  - data being collected helps process optimisation
  - information to support ‘lowest cost to treat’
- Development of systems to optimise performance across catchment
  - reduce sewer flooding
  - reduce environmental impact
  - reduce cost
- Increase in energy production from sludge

Davyhulme sludge recycling centre

Treats the wastewater sludge from half of the North West’s population, with the potential to generate up to 80GWh of electricity each year

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Next our wholesale wastewater business.

Here we have undertaken pilot projects to manage production across a catchment from control centres on large sites. This has proven to be particularly effective in our rural catchments where we have large numbers of small remote sites that would otherwise require manned presence. This year we will roll out this approach across our region.

The data that we are now collecting is supporting process optimisation in our factories – giving managers the information to support delivery of lowest cost to treat performance.

Our next step is the development of systems to optimise performance across our wastewater catchment. The benefits will be reduced sewer flooding, reduced environmental impact and reduced cost.

Sludge to energy is another key focus for us.

Our wastewater production facilities produce bio waste, or sludge. This ‘black gold’ is the prime source of our renewable energy. With around 570 sites across our region we must trade off sludge transport costs against optimised bio gas production. So we have developed another production control system – our regional sludge optimisation management system, or RSOMS – which directs sludge to the best digester location.

One of our key assets is an advanced digestion facility located at our biggest wastewater site, Davyhulme in Manchester. This is now fully commissioned and has the potential to generate up to 80 GWh of electricity each year, making the site self sufficient in power. Bio gas production has proved to be so good that we are now reviewing latest gas to grid technology.

‘Systems thinking’ – Energy
Significant increase in self-generation

- Energy business supplements our sludge generation programmes
- Three strategic objectives
  - generate more
  - consume less
  - use our assets smarter
- Increased solar installations
- Approvals for wind generation facilities
- Substantially locked in 2015-20 power commodity costs

Solar panels at our Fleetwood works

Fleetwood treatment works, with 5,281 panels, is home to one of the biggest solar panel installations in the North West

Targeting c35% energy self-generation by 2020

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Energy is the third of our wholesale business areas.

Supplementing the electricity we generate from sludge, we created an energy business to exploit other opportunities using the company’s land and assets.

Including our sludge to energy programmes, we have increased energy production from our facilities by around a third over the last two years which is equivalent to around 18 per cent of our total electricity consumption. Subject to good projected returns, we are targeting a significant increase in energy self-generation to around 35 per cent by 2020.

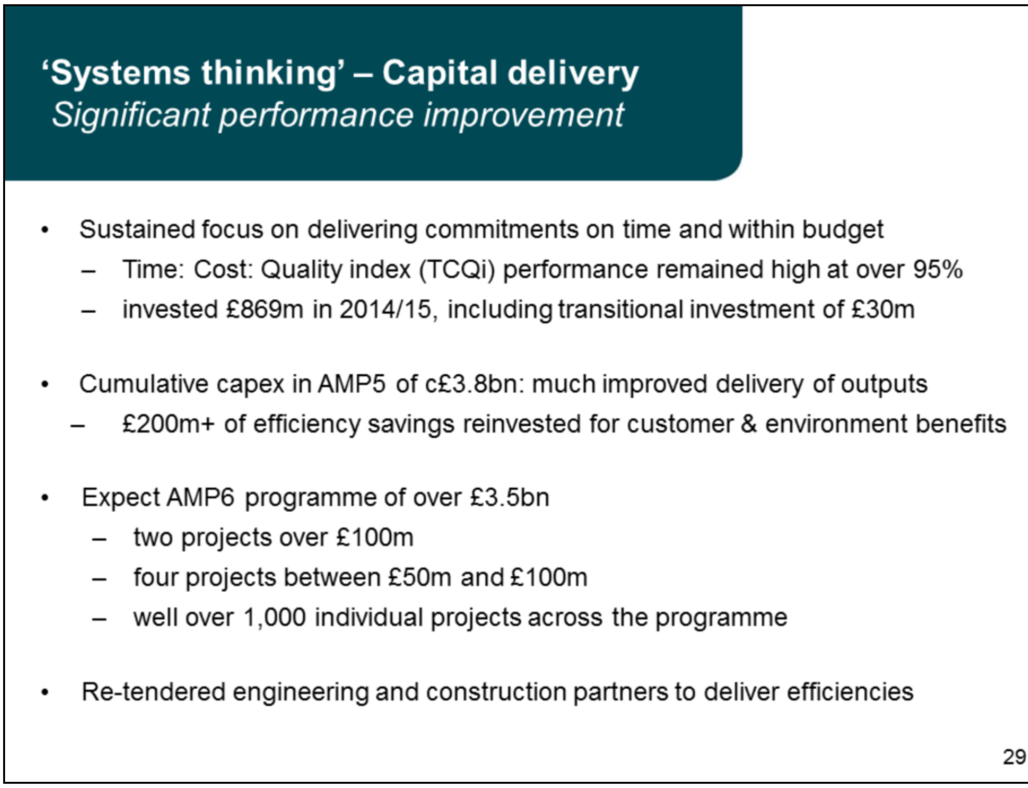
Energy is one of our biggest costs at around £65 million a year. In AMP5 we recruited a team with experience in renewables and energy management to pursue three strategic objectives – generate more, consume less and use our assets smarter.

Our team conducted a root and branch review of our energy practices.

We were the first water company to sign up to National Grid’s Dynamic Frequency Response scheme and have plans to install 30 megawatts of solar arrays by the end of this financial year – enough to power 8,000 homes. We have also secured planning approvals for two 500kW wind generation facilities with more to come.

And, we have now substantially locked in the power commodity costs for 2015-20, providing greater cost certainty.

Now, moving onto engineering and capital delivery.



The improvements in our project management capability in the last regulatory period were a key factor in delivering our asset serviceability commitments without penalty – reversing the historic trend.

Our time cost and quality index, TCQi, for 2014/15 was again very good at over 95 per cent, across a year in which we invested capital of £869 million. This included £29 million on private sewers and £30 million on early start of projects to be delivered in AMP6 – we refer to this as 'transition investment'.

This slide gives you an indication of the number and size of the projects to be delivered across the 2015-20 period. Total capital investment is planned to be over £3.5 billion and comprises well over 1,000 individual projects, alongside renewals expenditure on ageing assets. A small number of our biggest schemes will extend into AMP7 – such as our Thirlmere pipeline project.

Our learning in AMP5 has been used to evolve our approach for AMP6.

We have re-tendered our engineering and construction partners and selected a single engineering partner and four new design and construction partners. As we expand engineering presence in the field, we are reducing our detailed design capability to leverage the innovation and competitiveness of our partners.

We are involving our partners much earlier in project definition and packaging projects by type, geography and timing to deliver efficiencies. Projects will be allocated to partners on an incentive cost basis or competed between the partners and where appropriate third parties.

Already our partners are coming forward with solutions and innovations that we would not have created ourselves and pricing is building our confidence that the targets we have accepted are tough but within reach.

Agenda

- 2010-15 performance summary
- Financial performance
- Price Review 2014
- ‘Systems thinking’
- Retail
- 2015-20 KPIs
- Summary and outlook
- Q&A

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Now, looking at our retail businesses.

We made enormous strides in the last regulatory period to improve domestic retail customers' experience of doing business with us. As a result, customer complaints are down by approximately 75 per cent across the 2010-15 period, enabling us to reduce headcount in our domestic retail area by around 15 per cent over the last three years. Our SIM score in AMP5 reflects this progress, placing us as the most improved company in the sector and taking us out of SIM penalty territory.

Notwithstanding this improvement, deprivation in the North West continues to be a significant cost driver for our domestic retail operation and its implications for our cost to serve were a key feature of our PR14 submission. We were pleased that Ofwat recognised these issues through a deprivation adjustment of around £20 million per annum to UU's average cost to serve calculation.

We will continue to offer a range of schemes to help customers struggling to pay to return to regular payment.

Also part of our AMP6 plan is investment in a new suite of customer relationship management systems to further improve the customer experience and reduce our cost to serve. We included the cost of this investment in our PR14 submission and were pleased to receive Ofwat's support for our plans.

And last but not least, business retail.

Our early preparation for opening of the business retail market places us in a strong position.

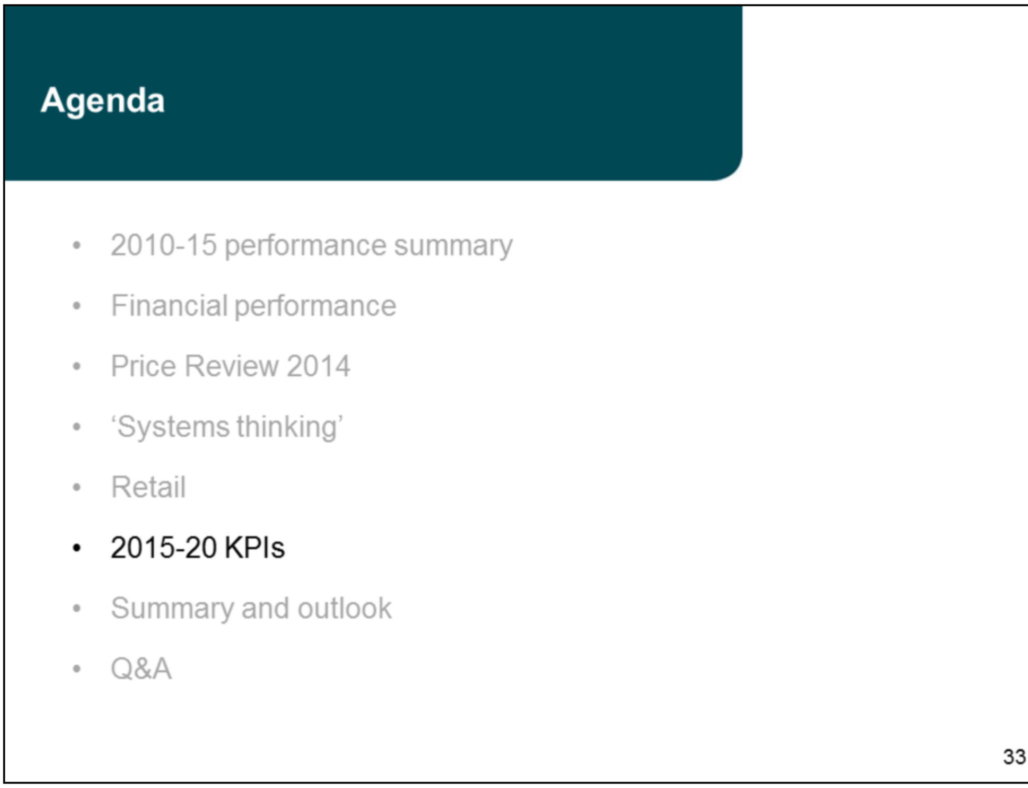
We continue to win business in the Scottish market having secured over 200 customers covering over 2,800 sites across Scotland and representing future annual revenue of around £15 million.

There are now 18 companies licensed to compete in Scotland and competition is becoming more intense. We remain a leading new entrant and continue to bid selectively, pursuing business at attractive margins over growing market share. Value added propositions continue to be a competitive differentiator.

We have strengthened our account management in our own region and have created UU Total Solutions which provides value added propositions for customers. The business has secured a number of contracts for leak detection and repair, waste digestion and wastewater system optimisation.

Cost to serve will be critical to success in a competitive market and we successfully implemented a new customer account management system for business retail at the end of 2014.

We are one of the founders of the market operator in England and are actively engaged in the establishment of this capability ahead of full market opening in England from April 2017.



Before finishing I’d like to take you through the KPIs we plan to use to provide you with transparency of our performance across 2015-20. We’ll be using a mix of existing and new measures, which reflect the revised structure, features and value drivers of this price control.

We have again categorised KPIs against our strategic themes of ‘best service to customers’, ‘lowest sustainable cost’ and ‘responsible manner’ and, as stated previously, we will not set outperformance targets this early in the new AMP. We would expect to advise you of our outperformance targets when we have had more operational experience under this new regulatory regime.

2015-20 KPIs
Best service to customers

KPI	Definition
Wholesale ODI composite	Net reward or penalty across UU's wholesale ODIs
Service Incentive Mechanism	Quantitative measure
Service Incentive Mechanism	Qualitative measure
Business customer retail growth	Net revenue gain or loss

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Here is the first set of KPIs.

For our ODIs, to keep things simple, we will report one aggregate number each year, which represents our composite performance, providing a net reward or penalty position. This supersedes the previous serviceability KPI.

SIM will remain a KPI and will be measured for the sector over the first four years of the 2015-20 period. This is a change from last time, as you will recall that SIM was measured over the middle three years only of AMP5.

Ofwat is amending its SIM methodology for the 2015-20 period, based on domestic retail only and with more emphasis on qualitative performance, and Ofwat and the water companies have been piloting the new process. This revised methodology is based on a different data set and quarterly results may well produce wider fluctuations compared with the last regulatory period.

There is now a separate business retail price control and, with the expansion of competition, we are including a new KPI measuring the impact of customer gains and losses. We will be reporting on net revenue gain or loss, as margin information will be commercially sensitive.

Now, onto lowest sustainable cost.

2015-20 KPIs
Lowest sustainable cost

KPI	Definition
Totex outperformance	Cumulative 2015-20 wholesale water and wastewater totex performance
Financing outperformance	Cumulative 2015-20 financing performance
Domestic retail cost to serve	Average cost to serve measure

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Our KPIs have evolved to reflect the opportunities under the new totex price control. Totex outperformance measures for water and wastewater will replace the previous separate opex and capex outperformance measures. The targets we set will be based around a five-year cumulative position, similar to how we reported in the last regulatory period.

The financing outperformance KPI will be similar in concept to the last regulatory period and will be considered in the context of the allowed industry cost of debt.

With the retail household price control now being separate, we are introducing a new KPI to measure our costs in this area which will be an average cost to serve measure.

And now, our responsible manner KPIs.

2015-20 KPIs
Responsible manner

KPI	Definition
Leakage	Average annual leakage in megalitres per day
Environment Agency (EA) performance assessment	Industry composite assessment published by the EA
Dow Jones Sustainability Index	Independent composite rating

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Although leakage is included within our ODIs, we will continue to report this separately as it remains a matter of great interest to stakeholders.

Our environmental performance is also of great interest to the communities we serve and we will publish this aspect of our performance as measured by the Environment Agency.

And last but not least, we will continue to use the Dow Jones Sustainability Index as a measure of sustainable performance. We are proud to have been awarded ‘World Class’ status for the last seven consecutive years and we will continue to aspire to this challenging and ever-evolving standard.

Agenda

- 2010-15 performance summary
- Financial performance
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- Retail
- 2015-20 KPIs
- Summary and outlook
- Q&A

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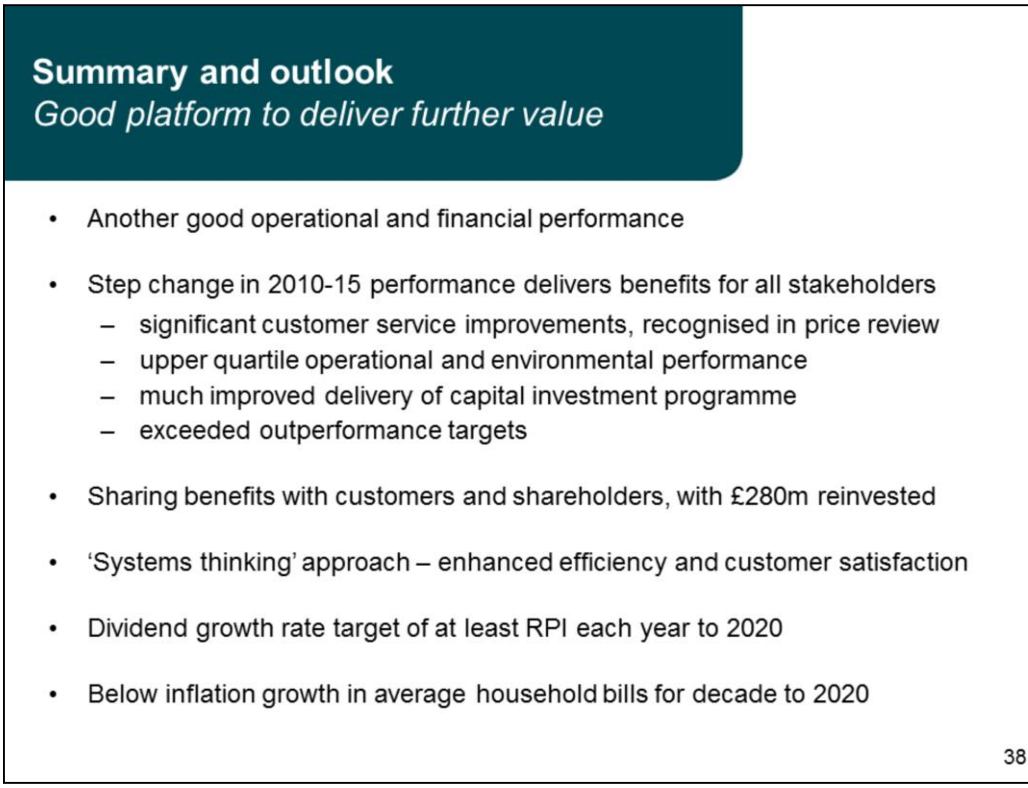
And finally, I’ll now finish with a brief summary and outlook.



We can report another good year of performance and a pleasing end to AMP5.

We've achieved good progress by any measure over the last regulatory period, with significant improvements in customer satisfaction, upper quartile operational and environmental performance and substantial improvements in capital delivery. We also exceeded our AMP5 outperformance targets.

The last regulatory period represented a turnaround in performance of the company for the benefit of all our stakeholders and we are now a much better run business all round.

But I am also proud to say that we acted responsibly in sharing our success with customers, reinvesting around £280 million in improved service and in helping those struggling to pay.

We have delivered what we set out to do, but we are focussed on being even better. During AMP5 we have made significant progress in transforming the way we run the business and there is more to come in AMP6. Through 'systems thinking' we have created a good platform to deliver our regulatory contract for the next period.

For shareholders, we are pleased to report that our plans support a target annual dividend growth rate of at least RPI inflation through to 2020, all underpinned by a robust capital structure.

For customers, we will continue to deliver benefits through significant levels of investment, improved service and below inflation growth in average household bills for the decade to 2020.

Q&A

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 prior year earnings

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])
Revenue	1,720.2	1,688.8
Operating expenses	(714.3)	(721.7)
EBITDA	**1,005.9**	**967.1**
Depreciation and amortisation	(352.6)	(336.9)
Operating profit	**653.3**	**630.2**
Investment income and finance expense	(316.8)	(91.9)
Share of profits of joint ventures	5.1	5.0
Profit before tax	**341.6**	**543.3**
Taxation	(70.4)	195.3
Profit after tax	**271.2**	**738.6**
Basic earnings per share (pence)	**39.8**	**108.3**
Total dividend per ordinary share (pence)	**37.70**	**36.04**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'

Underlying profit before tax
Increase on last year

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])
Operating profit	653.3	630.2
Investment income and finance expense	(316.8)	(91.9)
Share of profits of joint ventures	5.1	5.0
Profit before tax	**341.6**	**543.3**
Adjustments:		
One-off items[2]	11.0	4.4
Net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Interest on swaps and debt under fair value option	4.0	8.1
Net pension interest expense/(income)	7.0	(1.3)
Capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying profit before tax	**447.4**	**388.1**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

Finance expense
Underlying interest charge lower

£m Year ended 31 March *Continuing operations*	2015	2014 (Restated[1])
Investment income	1.0	6.8
Finance expense	(317.8)	(98.7)
	(316.8)	**(91.9)**
Less net fair value losses/(gains) on debt and derivative instruments	104.7	(129.2)
Adjustment for interest on swaps and debt under fair value option	4.0	8.1
Adjustment for net pension interest expense/(income)	7.0	(1.3)
Adjustment for capitalised borrowing costs	(20.9)	(19.4)
Release of tax interest accrual	-	(13.3)
Interest receivable on tax settlement	-	(4.5)
Underlying net finance expense	**(222.0)**	**(251.5)**
Average notional net debt	**5,580**	**5,418**
Average underlying interest rate	**4.0%**	**4.6%**
Effective interest rate on index-linked debt	3.2%	4.5%
Effective interest rate on other debt	4.8%	4.8%

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'

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

£m **Year ended 31 March** *Continuing operations*	**2015**	**2014** (Restated[1])
Cash interest on index-linked debt	(50.0)	(49.0)
RPI adjustment to index-linked debt principal - 3 month lag[2]	(21.9)	(52.6)
RPI adjustment to index-linked debt principal - 8 month lag[3]	(24.7)	(29.9)
Finance expense on index-linked debt	**(96.6)**	**(131.5)**
Interest on other debt (including fair value option debt and swaps)	(125.4)	(120.0)
Underlying net finance expense	**(222.0)**	**(251.5)**

- Cash interest payment of £50m on c£3.1bn of index-linked debt
- Decrease in indexation charge due to lower RPI, particularly on 3 month lagged debt
- RPI impact on RCV exceeds RPI impact on debt principal

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Affected by movement in RPI between January 2014 and January 2015
[3] Affected by movement in RPI between July 2013 and July 2014

Derivative analysis
Derivatives intrinsically linked to debt

£m At 31 March	2015	2014
Derivatives hedging debt	677.6	482.5
Derivatives hedging interest rates to 2015	(6.7)	(59.3)
Derivatives hedging interest rates beyond 2015	(189.2)	(3.1)
Derivatives hedging commodity prices	(4.3)	(10.3)
Total derivatives assets and liabilities (slide 12)	**477.4**	**409.8**

- **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 is in line with our strategy of fixing interest on a 10 year rolling average basis. This is supplemented by fixing substantially all remaining floating exposure across the future regulatory period around the time of the price control determination**
- **Derivatives hedging commodity prices; fix a proportion of our future electricity prices in line with our policy**
- **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**

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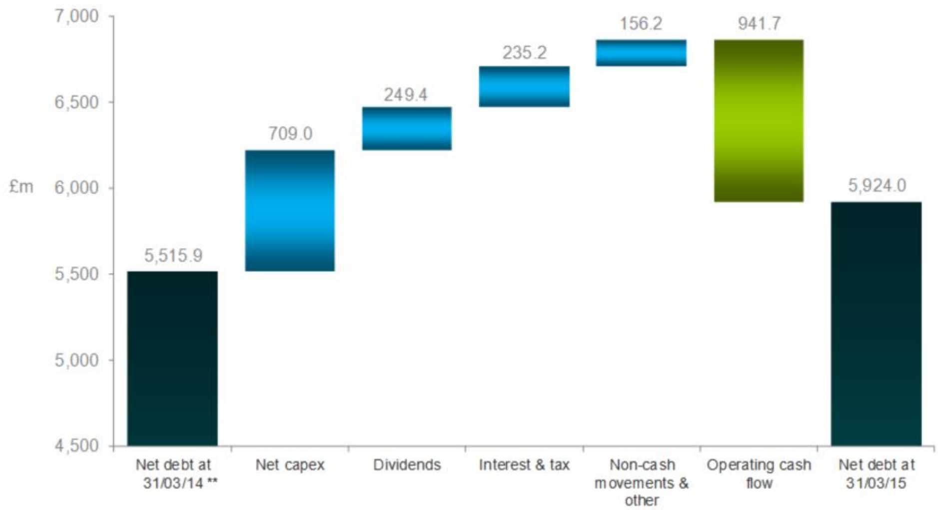
Movement in net debt*
Moderate increase in line with expectations



* Net debt includes derivatives which incorporate regulatory swaps
** The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'

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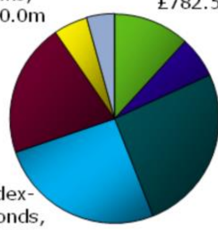
Financing and liquidity at 31 March 2015

Gross debt = £6,645.4m

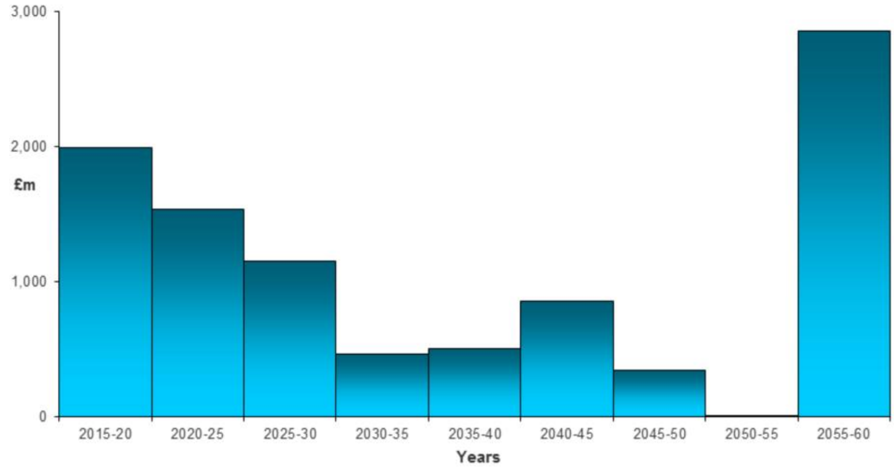


Headroom / prefunding = £615.9m

	£m
Cash and short-term deposits	244.0
Medium-term committed bank facilities[1]	550.0
Undrawn EIB term loan facilities	400.0
Short-term debt	(141.8)
Term debt maturing within one year	(436.3)
Total headroom / prefunding	**615.9**

[1] Excludes £50m facilities maturing within one year

Term debt maturity profile[1]
Average term to maturity of over 20 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 31 March 2015

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable

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

Other debt:
- Short-term loans £71m

United Utilities Water Limited
A3 stable; BBB+ stable
Ring-fenced and regulated by Ofwat

Euro MTNs:
- £425m in 15s
- ¥5bn in 17s
- £150m in 18s
- €500m in 20s
- £375m in 22s
- £300m in 27s
- £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 £200m[1]
- Other EIB loans £350m
- Short-term loans £47m
- Other loans £116m

United Utilities Water Finance PLC[2]
Guaranteed by United Utilities Water Ltd

[1] Index-linked finance
[2] United Utilities Water Finance PLC (UUWF) is a new financing subsidiary of United Utilities Water Limited (UUW) established to issue any new listed debt on behalf of UUW going forward. Notes issued by UUWF will be unconditionally and irrevocably guaranteed by UUW and are therefore expected to be rated in line with UUW's credit ratings

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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.

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