United Utilities Group PLC
Full year results
Year ended 31 March 2014

helping life flow smoothly

United Utilities
helping life flow smoothly

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

This is the third anniversary of Russ and me presenting our results and I am very pleased with the company's progress over this period. We are ahead of the targets we outlined three years ago, giving us the sound platform we want as we move into AMP6.

Customer satisfaction needed to be much better than our starting point, and it is. Our water quality and environmental performance has also improved significantly and this is a reflection of our attention to detail and targeted investment. All of this has reduced our costs and contributed to operational efficiency. Our strong performance in this AMP has enabled us to reinvest around £280 million of outperformance, which we will discuss later.

For our people this has meant significant change. Our senior leadership team is today a very different mix of youth and experience – bringing hunger for success and knowledge from other sectors. I am delighted with the manner in which our workforce has engaged and contributed to our progress.

The passion, dedication and commitment of our staff was evident in the recent BBC2 documentary "The Watermen", a six part series which provided an insight into the day-to-day activities of our business. A clip was playing as you came into the room this morning and on your chair you will have found a DVD of the series. The programme has had a very positive response from viewers and demonstrates why I am really proud of our people.

We are pleased with progress but we know that we can do more. In April last year, we organised our business into three key operating areas: domestic retail, business retail and wholesale. This has given us an early start on performing in an AMP6 environment.

Agenda

- Operational performance
- Financial performance
- AMP6 business plan
- Summary
- Q&A

3

This is the agenda for this morning's presentation.

We will provide you with an overview of our operational and financial progress over the last year.

And, although we are still in detailed dialogue with Ofwat regarding our AMP6 business plan, we will also provide you with an overview of the key areas under discussion before briefly summarising.

Operational performance
Highlights

- Further improvements in customer satisfaction
- Substantial capital spend of £836m delivered effectively
- Improving water quality and environmental performance
- Leakage target met for eighth consecutive year
- Leading new entrant in competitive retail water market
- New operating model to drive performance improvement
- Regulatory outperformance across opex, capex and financing
- Dividend up 5% in line with our policy

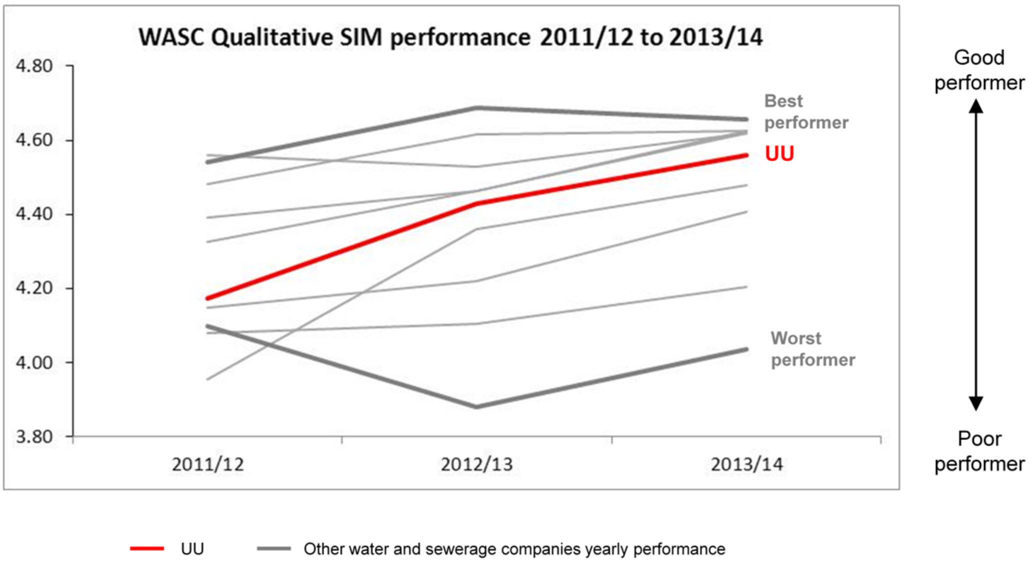
4

Here are the highlights:

- We have delivered further improvements in customer satisfaction, as measured under Ofwat's Service Incentive Mechanism (SIM)
- At £836 million, capital expenditure this year is the largest we have delivered in a decade and our time, cost and quality performance, at 98 per cent, was our best ever
- Water quality performance is our best for many years. Last year we were rated by the Environment Agency as an upper quartile performer and we have improved again in the last 12 months
- We have met our annual leakage target for the eighth consecutive year
- We have continued to grow our share in the Scottish business retail market, where we are the biggest new entrant by a significant margin
- We have developed a new operating model for our wholesale business which employs technology and new work processes to deliver improved customer satisfaction and operational efficiency in AMP6 and beyond. More of this in future presentations
- We are delivering or exceeding our regulatory outperformance targets
- And we are pleased to increase our dividend by 5 per cent, in line with our policy

Starting with retail.

Service Incentive Mechanism – qualitative
Above average performer



5

You will know that the sector uses the SIM score as its principal measure of customer satisfaction.

Ofwat will use companies' SIM scores over a three-year period in AMP5 to determine whether each company will receive an incentive or penalty and 2013/14 is the last year of measurement for this purpose.

Qualitative SIM measures customers' satisfaction with how their contact with a company was handled and this chart shows how both our absolute and relative performance has improved over the three measurement years. We are one of the most improved companies over the period.

For 2013/14, we were sixth out of the ten water and sewerage companies and seventh out of the nineteen water companies in the sector. Encouragingly, for quarter four of 2013/14 we were fourth out of nineteen. This is excellent progress, given our position at the start of the AMP when we were an industry outlier.

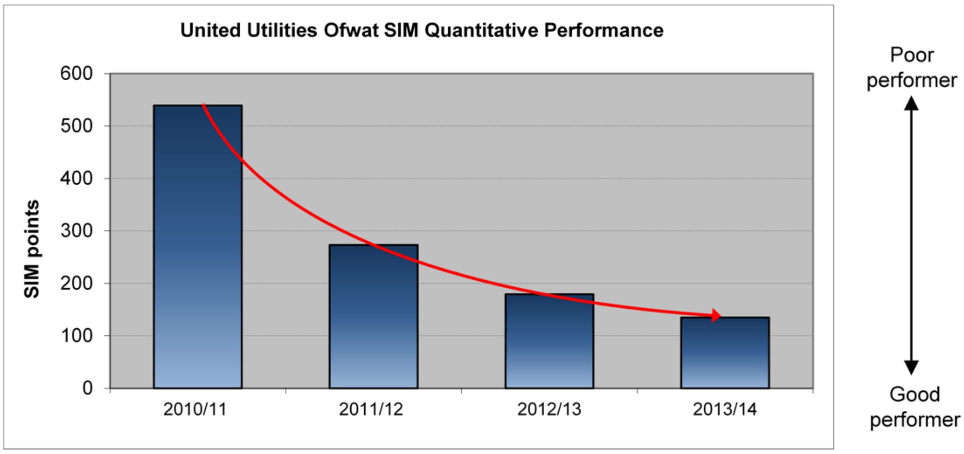
As you can see on the chart, high performing companies are now clustered with very few SIM points between them.

Ofwat intends to change the SIM methodology for AMP6. The emphasis will change, with qualitative SIM representing 75 per cent of the total score, up from 50 per cent. Also, Ofwat will change the individual parameters making up the score and so this may result in a re-ordering of companies' relative positions in AMP6.

Service Incentive Mechanism - quantitative
Continuous improvement

<u>Quantitative</u>

- Year-on-year improvements: 49% in 2011/12; 34% in 2012/13
- Further 25% improvement in 2013/14 score



6

Quantitative SIM measures the avoidable contacts companies receive from customers. Although these scores are not available for the sector until later this summer, this chart shows our continued improvement.

For this score, the lower the points the better the performance. We have been the most improved company on this measure and have delivered another year-on-year reduction; this year by a further 25 per cent, compared with 2012/13.

Companies have recently submitted their SIM results for 2013/14 to Ofwat and we expect to learn the final outcome later this summer, when the three-year combined SIM results are published.

I have mentioned before that we complement SIM with other measures of customer satisfaction and we benchmark our performance against other leading organisations in our region. We are pleased to have again been ranked by our customers as third, behind the well respected brands John Lewis and Marks and Spencer, and ahead of other leading brands in retail, telecoms and financial services.

Moving on to Business Retail.

Business Retail
Continuing growth in Scotland

United Utilities Business

- Rapidly secured position as the second largest water retailer in Scotland
- Now gained c150 customers covering c2,000 sites & annual revenue of >£10m
- Significant pipeline of opportunities being pursued
- Continuing to offer and develop range of value-added services
- Strong focus on customer satisfaction
- Good preparation for full opening of English market in 2017

7

The opening of the English market to business retail competition in 2017 heralds a significant change for the sector. We have one of the largest business customer communities and we have a strong focus on this developing area.

We recruited an experienced retail team and have concentrated on the Scottish market as our first target market. Our proactive approach, combined with competitive pricing and the retail sales experience of the key people we have recruited, has helped us make rapid progress.

We've had a licence to trade in Scotland for around eighteen months and since then won around 150 customers, covering around 2,000 sites and representing future annual revenue of over £10 million. This places us as the second largest water retailer in Scotland after the incumbent, Business Stream, with a significant and growing pipeline of further opportunities.

We recognise that price is not the only important factor for customers and our retail business is underpinned by a range of value-added services and flexible service offerings, which we provide to customers both in and out of our region. Although we are expanding our retail business, providing good service to customers in the North West remains a top priority.

We tailor our services to the needs of each customer. For example, we offer flexible billing options, so customers can choose the frequency and timing of bills, and we also offer consolidated billing options for multi-site customers. Our value-added services include waste to energy consultancy, engineering advice on the design, build and operation of on-site treatment plants and advice on rainwater harvesting and grey water recycling.

This, combined with our strong focus on customer satisfaction, has helped us grow rapidly.

Competing in the Scottish market is broadening our experience of competitive retail, ahead of the full opening of the English business market in 2017.

Now, looking at our wholesale business.

Wholesale – capital delivery
Continued good progress

- Sustained focus on delivering commitments on time and within budget
  - invested £836m in 2013/14, up £49m on prior year
  - Time: Cost: Quality index (TCQi) performance of 98% for 2013/14
- Private sewers progressing well: required expenditure at lower end of estimates
- Cumulative capex in AMP5 of c£2.9bn: much improved delivery of outputs
- Remain on track to meet 2010-15 regulatory allowance[1]
- Expect to invest a similar amount in 2014/15 compared with prior year
  - includes transitional investment of around £40m

[1] Excluding costs associated with private sewers, transitional investment and non-regulated investment

8

I'll cover capital delivery and Russ will discuss our opex performance later in the presentation.

We have completed another good year in delivering our capital programme, benefiting from the improvements we have made in our project and risk management capability. We have delivered an investment programme of £836 million, an increase of £49 million compared with the previous year.

Our internal measure of performance, our Time, Cost and Quality index, or TCQi, measures how effectively we deliver our capital programme. Our score for this year was 98 per cent. This has beaten our internal target of 95 per cent by the end of this AMP. This is an improvement on the prior year and significantly better than our score, of around 50 per cent, three years ago.

Our challenge now is to sustain this performance in the final year of AMP5 and through the transition into AMP6.

We have focused strongly on improving our capital delivery performance in this period, mindful of the shortfalling revenue penalty of over £80 million we incurred at the last price review. We believe that our much improved performance should significantly reduce the penalty risk at PR14.

Management of private sewers continues to progress well, with expenditure at the lower end of our cost estimates.

Our cumulative investment across the first four years of AMP5 is now £2.9 billion and we remain on track to deliver the five-year capex programme within the regulatory allowance.

Looking ahead to this year, we expect to invest a similar amount to last year, including transitional investment of around £40 million and private sewers spend. Transitional investment is a new feature, which will aid a smoother and more effective start to AMP6 and the investment will be recovered within the forthcoming price determination.

This would take our total regulated capital investment for the 2010-15 period to at least £3.7 billion, delivering benefits for customers, the environment and shareholders.

Operating in a responsible manner
Strong environmental & sustainability performance

- UU an upper quartile company based on Environment Agency assessment
- Met leakage target for eighth consecutive year
- Rated ‘World Class’ in Dow Jones Sustainability index for sixth consecutive year
- Increased renewable energy production with plans to increase further

9

Water quality and environmental performance are key focus areas for us. Compliance with new performance requirements from our regulators drives a significant component of our capital expenditure, alongside maintenance of our existing assets. Our attention to detail in these areas is delivering results.

Last year, we were an upper quartile performer based on the Environment Agency’s assessment. This represents a significant improvement on our position three years ago, and we made more progress in the last twelve months.

Water quality performance has also improved, resulting in our best performance for many years.

We have met or outperformed our leakage target for eight consecutive years, reflecting our strong year round focus.

And, we have retained our ‘World Class’ rating in the Dow Jones Sustainability Index, an award we have now held for six consecutive years.

We continue to focus on minimising our energy consumption and have increased our renewable production in the year, something I will touch on in more detail on the next slide, and we have plans to increase this further.

In addition to renewable energy we obtain from our sludge processing activities, we are piloting opportunities in the areas of solar and wind power.

Davyhulme wastewater treatment site
Innovative recycling centre up and running

- Sludge arrives from 7 feeder treatment works and is converted to energy and fertiliser
- Contributor to our highest ever renewable energy production of 133 GWh in 2013/14
- Annual Institution of Chemical Engineers award winner for innovation

10

We are focused on embracing innovation to improve our work processes and this also involves looking outside of the water sector to enhance our knowledge and generate new ideas. We have links to other organisations around the world, as we aim to build up a comprehensive understanding of best practices and latest techniques, which we can then use and evolve to help improve our performance.

I'd just like to highlight one such example and outline the innovative enhancements we have made to our Davyhulme wastewater treatment site near Manchester.

We recently completed an advanced digestion facility at this 100-year old site and, this year, we generated over 50 GWh of renewable energy from this works. This contributed to our highest ever annual renewable energy production of 133 GWh, representing around 17 per cent of our total electricity consumption. This is enough energy to power the equivalent of over 30,000 homes. The power generated has helped us save energy purchase costs of around £10 million, as well as attracting renewable incentives of around £5 million.

And we were pleased that this project won the Annual Institution of Chemical Engineers award for innovation.

Energy represents a significant cost for UU and such projects provide benefits not only for customers and shareholders, but also the environment.

Sharing benefits with customers
Responsible approach to sharing outperformance

- Reinvesting c£200m of capex outperformance for customer & environmental benefits
- Reinvesting c£40m of financing outperformance in private sewers costs
- c£20m special customer discount; offsetting allowed real price increase for 2014/15
- c£17m of further support for customers struggling to pay
- Customer bills in AMP6 to benefit from c£90m of tax savings

11

In what continues to be a difficult time for customers in the North West, we are pleased to share our outperformance with customers, whilst still keeping our promises to shareholders.

As we outlined previously, we are reinvesting £200 million of capex outperformance for the benefit of customers and the environment and this programme is progressing well.

We are reinvesting £40 million of our financing outperformance in private sewers costs and we announced last year that we would provide a special customer discount of around £20 million to offset the real price increase for 2014/15.

We are also committing a further £17 million to our trust fund, which helps customers struggling to pay their bills. And around 70 per cent of customers receiving assistance from the fund return to regular payment.

Going forward, the recent revised tax arrangements we agreed with HMRC will save customers a further £90 million over the 2015-20 period.

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

Now, over to Russ to present the financials.

CHIEF FINANCIAL OFFICER

Russ Houlden

Thank you, Steve.

Good morning.

Financial highlights
Another good set of results

- Underlying operating profit of £641m, up £37m or 6%
- Underlying profit before taxation of £390m, up £38m or 11%
- Underlying EPS of 44.7 pence, up 16%
- Responsible financing and dividend policies
- Final dividend of 24.03 pence per ordinary share, up 5.0%

13

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

An increase in revenue, tight cost control and a lower tax rate combined to increase underlying operating profit by 6 per cent, underlying profit before tax by 11 per cent and underlying EPS by 16 per cent.

We have responsible financing policies with RCV gearing down to 58 per cent and comfortably within Ofwat's AMP5 range. And our dividend policy, targeting growth of RPI+2 per cent each year, keeps dividends growing in line with RCV.

We have proposed a final dividend for the year of 24.03p per share, up 5.0 per cent. This increase comprises RPI inflation of 3.0 per cent for the year to November 2012, which is the rate included within our price limit for 2013/14, plus two per cent in line with our stated dividend policy.

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

£m Year ended 31 March *Continuing operations*	2014	2013 (Restated[1])
Reported profit after tax	**738.6**	**287.8**
Adjustments:		
One-off items[2]	4.4	2.6
Net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Interest on swaps and debt under fair value option	8.1	8.3
Net pension interest (income)/expense	(1.3)	1.5
Capitalised borrowing costs	(19.4)	(14.3)
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)	(53.0)
Agreement of prior years' UK taxation matters	(154.3)	(0.7)
Taxation in respect of adjustments to underlying profit before tax	32.6	(9.5)
Underlying profit after tax	**304.9**	**264.2**
Basic earnings per share (pence)	**108.3**	**42.2**
Underlying earnings per share (pence)	**44.7**	**38.7**

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

14

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 £129 million fair value gain in the year, largely due to gains on the regulatory swap portfolio, resulting from a significant increase in medium-term sterling interest rates during the period. This compares with a fair value loss of £42 million last year.

Our tax charge in the year benefited from a £157 million deferred tax credit, reflecting the substantive enactment of changes to reduce the corporation tax rate from 23 to 20 per cent by 2015/16. This compares with a £53 million credit last year, which reflected a one per cent reduction in that period. We also benefited from a one-off tax credit of £154 million, largely as a result of an agreement with HMRC in the first half of the year.

And so, whilst reported profit after tax was up significantly, the more meaningful underlying measure was up just £41 million to £305 million.

Income statement – underlying
Another good financial performance

£m Year ended 31 March *Continuing operations*	2014	2013 (Restated[1])	Movement
Revenue	1,704.5	1,636.0	*+4.2%*
Operating expenses	(724.0)	(702.6)	*+3.0%*
EBITDA	**980.5**	**933.4**	***+5.0%***
Depreciation and amortisation	(339.2)	(329.2)	*+3.0%*
Operating profit	**641.3**	**604.2**	***+6.1%***
Net finance expense	(251.8)	(252.8)	*(0.4)%*
Profit before tax	**389.5**	**351.4**	***+10.8%***
Tax	(84.6)	(87.2)	*(3.0)%*
Profit after tax	**304.9**	**264.2**	***+15.4%***
Earnings per share (pence)	**44.7**	**38.7**	***+15.5%***
Total dividend per ordinary share (pence)	**36.04**	**34.32**	***+5.0%***

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

15

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

Revenue for the year of £1.7 billion was up £69 million, or 4.2 per cent, similar to the allowed regulated price increase of 4.0 per cent nominal (3.0 per cent RPI inflation plus a 1.0 per cent real price increase).

Underlying operating profit of £641 million was up £37 million as a result of the increase in revenue and tight cost control.

Underlying profit before tax of £389 million was £38 million higher than last year, due to the £37 million increase in underlying operating profit and a £1 million decrease in underlying net finance expense.

The underlying tax charge of £85 million was slightly lower than last year, as the tax impact from higher profit was more than offset by a fall in the total tax rate.

Operating costs
Good cost control

£m **Year ended 31 March** *Continuing operations*	**2014**	**2013**	**Movement**
Revenue	**1,704.5**	**1,636.0**	
Employee costs[1]	(131.7)	(130.4)	*+1.0%*
Power	(64.6)	(62.1)	*+4.0%*
Property rates	(86.2)	(81.3)	*+6.0%*
Bad debts[2]	(37.1)	(35.5)	*+4.5%*
Regulatory fees	(36.2)	(34.3)	*+5.5%*
Other expenses	(203.1)	(197.8)	*+2.7%*
	(558.9)	**(541.4)**	***+3.2%***
Infrastructure renewals expenditure (IRE)	(165.1)	(161.2)	*+2.4%*
Depreciation and amortisation	(339.2)	(329.2)	*+3.0%*
Total underlying operating expenses	**(1,063.2)**	**(1,031.8)**	***+3.0%***
Underlying operating profit	**641.3**	**604.2**	
Adjustments:			
One-off costs[3]	(4.4)	(2.6)	
Reported operating profit	**636.9**	**601.6**	

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

16

Our cost performance in this period has again been good.

We have managed to keep employee costs at a similar level to last year.

Power costs rose by £3 million, as expected, reflecting the upward-sloping forward power price curve at the time we locked in prices.

Property rates were up £5 million, mainly because of an inflationary increase, asset growth and the fact last year's charge benefited from a significant rebate.

Bad debts increased by less than £2 million, broadly in line with the four per cent growth rate in revenue.

Regulatory fees increased by £2 million and other expenses increased by £5 million.

Overall, our cost control measures have helped us keep growth in operating costs slightly below our allowed price rise of four per cent, despite cost pressures in a number of areas.

Infrastructure renewals expenditure was slightly higher than last year, as our maintenance programme continues to progress well.

Depreciation was £10 million higher, as expected, mainly as a result of an increase in the commissioned asset base.

And so our total operating expenses, including IRE and depreciation, increased by around three per cent.

Bad debts and cash collection
Good performance despite tough economy

- Benefits of initiatives offset economy and early welfare reform changes
- External recognition of best practice in debt management
- Bad debt held at 2.2% of regulated revenue
- Impact of welfare reform expected to intensify

17

On to our bad debt performance.

As you may be aware, we operate in deprived region. Unemployment rates in the North West have fallen by less than the UK average in 2013/14 and, in any event, evidence suggests that even when the North West economy recovers it is unlikely to have much impact on deprivation, which is the principal driver of our higher than average cost to serve.

We balance our approach to debt collection, mindful of our customers' circumstances. For those who can pay but don't, we adopt a very robust approach. For those who genuinely cannot afford to pay, we provide help and guidance through a variety of schemes. As a result, we have received external recognition for best practice in debt management and debt collection.

Despite the tough economic conditions and the recent welfare reform changes, we have delivered another good performance, maintaining bad debts at 2.2 per cent of regulated business revenue for 2013/14.

However, looking ahead, bad debts will continue to be challenging for us as the impact of welfare reform is expected to intensify, with the North West affected more than other regions due to the high levels of deprivation. We will remain focused on this important area as we aim to contain bad debts, despite the difficult economic and welfare climate.

Financial position
Robust capital structure

£m At 31 March	2014	2013
Property, plant and equipment	9,361.7	8,990.7
Retirement benefit surplus	-	15.1
Other non-current assets	128.3	112.8
Cash	127.2	201.7
Other current assets	378.0	366.5
Total derivative assets	512.9	721.2
Total assets	**10,508.1**	**10,408.0**
Gross borrowings	(6,069.3)	(6,173.5)
Other non-current liabilities	(1,502.6)	(1,642.2)
Retirement benefit obligations	(177.4)	-
Other current liabilities	(439.8)	(520.4)
Total derivative liabilities	(103.1)	(200.0)
Total liabilities	**(8,292.2)**	**(8,536.1)**
TOTAL NET ASSETS	**2,215.9**	**1,871.9**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,230.3	885.1
Other reserves	482.9	484.1
SHAREHOLDERS' EQUITY	**2,215.9**	**1,871.9**
NET DEBT[1]	**(5,532.3)**	**(5,450.6)**

[1] Net debt includes cash, borrowings and derivatives (slide 33)

18

Turning now to the statement of financial position.

Property, plant and equipment was up £371 million in the year to just under £9.4 billion, as we continue to make good progress on our capex programme.

Cash and short term deposits of £127 million were £75 million lower than the position at March last year, mainly as a result of capex spend.

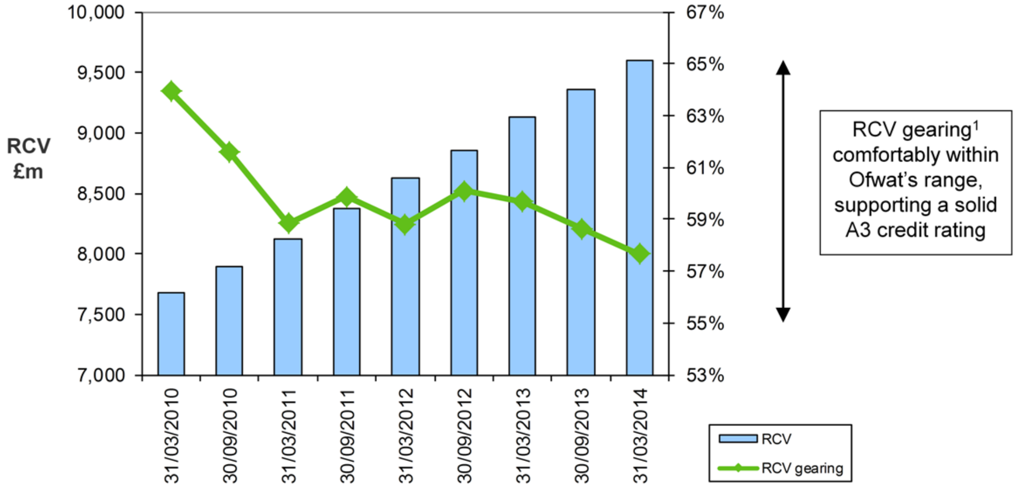
Total derivative assets have decreased by £208 million, to £513 million, mainly due to a significant increase in market interest rates during the period. This has been partly offset by a decrease of £97 million in derivative liabilities, to £103 million, for the same reason.

As at March 2014, the group had an IAS 19 pension deficit of £177 million, compared with a net pension surplus of £15 million at March 2013. This £192 million adverse movement reflects the movement of long-term market rates during the period, particularly the significant reduction in corporate credit spreads, as discussed at the half year results.

Retained earnings have increased by £346 million, mainly as a result of the impact of the tax credits and fair value gains, partly offset by actuarial losses on our defined benefit pension schemes.

Net debt was only £82 million higher than last year end, despite our substantial capital investment programme, as we benefited from a one-off cash tax rebate of £96 million along with fair value gains on our debt and derivative instruments.

RCV and gearing
RCV gearing supports robust capital structure



- Including pensions deficit, gearing would be c60%

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

19

This chart shows our RCV and gearing level.

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

The green line shows the movement in RCV gearing since the start of this regulatory period. Our gearing has reduced by around two per cent over the course of the year and is now 58 per cent, reflecting only a modest increase in net debt compared with the growth in the RCV.

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

Cash flow statement
Increase in cash from operations

£m Year ended 31 March *Continuing operations*	2014	2013
Net cash generated from operating activities	805.3	631.1
Net cash used in investing activities	(685.1)	(643.8)
Net cash used in financing activities[1]	(211.6)	(115.5)
Net movement in cash	**(91.4)**	**(128.2)**

[1] Includes £(0.1)m of FX movements in 2013/14, £0.0m in 2012/13

20

Moving on to cash flow.

Net cash generated from operating activities was £805 million, up £174 million compared with last year. This increase was mainly as a result of the one-off tax rebate, lower pension contributions and an increase in operating profit.

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

The £212 million net cash used in financing activities this year mainly reflects dividend payments. The increase of £96 million, compared with last year, principally relates to a reduction in collateral held in relation to cross-currency swaps.

Financing and hedging
Robust financing position

- £500m loan agreed with the European Investment Bank
  - can be taken in fixed or floating form
  - average term to maturity of 10 years
  - drawn down £100m in floating form
- Financing headroom into 2016
- Prudent hedging policy
  - debt portion of RCV hedged for inflation by index-linked debt and IFM[1]
  - nominal debt portfolio to be fixed for AMP6
  - over half already fixed; remainder to be fixed during 2014/15
  - continuing 10-year reducing balance policy post 2020

[1] Inflation funding mechanism relating to defined benefit pension schemes

21

We have bolstered our, already, robust financing position with a £500 million loan with the EIB, which we agreed in the second half of the year. Unlike the first £400 million, which we borrowed from the EIB earlier in AMP5, we have chosen not to take this loan in index-linked form as we are already appropriately hedged for inflation, in line with our policy. The new £500m loan can be taken in fixed or floating form and has an average term to maturity of around 10 years. We intend to draw down the loan in a number of tranches and, so far, we have drawn down £100 million in floating form.

This loan has extended our financing headroom into 2016.

Now, looking at our hedging policy, 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 inflation funding mechanism on our pension schemes. With regard to nominal debt, we have already fixed just over half of our floating rate exposure across the 2015-20 period. And, during 2014/15, we intend to fix the remainder through to 2020. This follows Ofwat's cost of debt guidance in January, which provided more clarity for AMP6.

In preparation for AMP7, we intend to continue with our 10-year reducing balance policy, for the post 2020 period, to help mitigate the uncertainty over movements in the future cost of debt.

So, overall, we have a robust financing position with debt locked in at attractive rates.

Outperformance
Ahead of schedule and customers benefiting

- Already delivered >£50m of opex outperformance across 2010-15
  - customers will benefit from this in 2015-20
- Reinvesting c£200m of capex outperformance and still meeting regulatory allowance
  - providing further customer and environmental benefits
- Expect to deliver financing outperformance of >£300m across 2010-15
  - reinvesting part of this in private sewers costs not included in AMP5 price limits
- Strong performance benefits both shareholders and customers
  - below inflation growth in average household bills for decade to 2020

22

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

We are ahead of schedule and have already delivered over £50 million of cumulative opex outperformance over the 2010-15 regulatory period and would expect to exceed our initial £50 million target.

In respect of capex, we are delivering significant efficiencies and, excluding private sewers and transitional investment, expect to meet Ofwat's revised allowance, as adjusted for COPI. This good performance is allowing us to reinvest around £200 million of savings.

On financing outperformance, we expect to deliver over £300 million across the 2010-15 period and, as previously reported, we are reinvesting some of our financing outperformance in private sewers costs not included in our current price limits.

Our strong performance across these areas has added value for shareholders and at the same time enabled us to propose below inflation growth in average household bills for the decade to 2020.

Now, back to Steve.

Thank you, Russ.

I know you are all interested in how our AMP6 business plan is progressing, so I'll provide a brief update on that before summarising our performance for the year.

AMP6 business plan
Working through the detail

- Detailed feedback on our plan provided by Ofwat
- Discussing methodology for any deprivation adjustment
- Producing further evidence to support wastewater total expenditure submission
- Testing customer support for greater symmetry in Outcome Delivery Incentives
- Enhancing supporting evidence for AMP5 adjustments
- Constructive dialogue with CCG[1], Ofwat and other stakeholders
- Plan revisions due 27 June 2014 and draft determinations due 29 August 2014

[1] Customer Challenge Group

24

As you know, we submitted our business plan last December.

Ofwat provided an initial view on our plan through its pre-qualification decisions publication in March and subsequently shared detailed feedback with us. We are working through this feedback and are closely engaged with Ofwat, our Customer Challenge Group and our other stakeholders, as we consider revisions to our business plan.

When we released details of our plan last December we identified two areas which we recognised would need discussion with Ofwat. These are a deprivation adjustment to retail average cost to serve and wastewater total expenditure, or totex.

Average cost to serve had been the subject of extensive discussion with Ofwat in the run up to plan submission and we are currently in dialogue about the methodology for calculation of any deprivation adjustment.

On wastewater totex, we had proposed a £1 billion exclusion from Ofwat's totex model as we believed that it might be difficult to replicate our plan using an industry generic model. Ofwat's initial assessment of our wastewater totex generated a £1.1 billion difference between the model output and our plan. The transparency Ofwat has provided of its assessment has helped us understand the model and why the difference arises and we are working through the detail with Ofwat, including providing additional evidence where necessary to support our submission.

In addition, it's worth mentioning two other areas from Ofwat's assessment of our plan.

Ofwat has shown a strong preference for greater symmetry in reward and penalty Outcome Delivery Incentives, or ODIs, than we and a number of other companies included in our original submissions. We did not have sufficient evidence of customer support for rewards and so we are currently conducting another wave of testing on this area. Subject to the results, we will pursue a number of ODI amendments through our Customer Challenge Group before submitting them to Ofwat.

And finally, AMP5 adjustments. We are working on enhancing our supporting evidence for the range of adjustment claims which companies would typically make at the price review.

Overall, we feel that the dialogue with Ofwat is constructive. We are making good progress in understanding where any plan revisions may be necessary and are on track to submit these at the end of June.

Ofwat expects to issue draft determinations on 29 August this year.

Summary
Operational focus delivering benefits

- Another good financial performance
- Customer service improvements continue
- Strong operational and environmental performance
- Effective delivery of capital investment programme
- Ahead of schedule in delivering outperformance targets
- Sharing benefits with customers and shareholders

25

So, in summarising the year, we have delivered another good financial performance.

Customer service has again improved over the year, building on the significant achievements made over the last few years.

We have continued to deliver strong operational performance, having performed well on Ofwat's KPIs, and are an upper quartile company based on the Environment Agency's assessment.

Our capital delivery performance has improved significantly over the last few years and we have improved further in 2013/14, achieving our highest ever TCQi score.

We are ahead of schedule in delivering our outperformance targets.

We are taking a responsible approach and sharing the benefits of our outperformance with customers and shareholders.

We have made significant and sustained performance improvements in AMP5 and are building solid foundations for the future.

That concludes our results presentation.

Thank you for listening.

We'll now be pleased to take questions.

Supporting information

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

United Utilities

Income statement – reported
Tax credits enhance reported earnings

£m Year ended 31 March *Continuing operations*	2014	2013 (Restated[1])
Revenue	1,704.5	1,636.0
Operating expenses	(728.4)	(705.2)
EBITDA	**976.1**	**930.8**
Depreciation and amortisation	(339.2)	(329.2)
Operating profit	**636.9**	**601.6**
Investment income and finance expense	(92.2)	(289.8)
Profit before tax	**544.7**	**311.8**
Taxation	193.9	(24.0)
Profit after tax	**738.6**	**287.8**
Basic earnings per share (pence)	**108.3**	**42.2**
Total dividend per ordinary share (pence)	**36.04**	**34.32**

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

Underlying operating profit
Statutory to regulatory reconciliation

£m **Year ended 31 March** *Continuing operations*	2014	2013
Group underlying operating profit	**641.3**	**604.2**
Underlying operating profit not relating to United Utilities Water	(7.1)	(0.8)
Infrastructure renewals accounting	46.8	32.6
Other differences	2.1	1.9
United Utilities Water statutory underlying operating profit	**683.1**	**637.9**
Revenue recognition	(0.2)	1.7
Infrastructure renewals accounting	6.1	5.1
Non-appointed business	(7.4)	(6.2)
United Utilities Water HCA[1] regulatory underlying operating profit	**681.6**	**638.5**

[1] Historical cost accounting

Underlying profit before tax
Increase on last year

£m Year ended 31 March *Continuing operations*	2014	2013
Operating profit[1]	636.9	601.6
Investment income and finance expense[2]	(92.2)	(289.8)
Profit before tax[1,2]	**544.7**	**311.8**
Adjustments:		
One-off items[3]	4.4	2.6
Net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Interest on swaps and debt under fair value option	8.1	8.3
Net pension interest (income)/expense[2]	(1.3)	1.5
Capitalised borrowing costs	(19.4)	(14.3)
Release of tax interest accrual	(13.3)	-
Interest receivable on tax settlement	(4.5)	-
Underlying profit before tax[1]	**389.5**	**351.4**

[1] 2013 comparator restated to include pension administration costs under the revised IAS19 accounting standard applied retrospectively
[2] 2013 comparator restated to include pension interest expense under the revised IAS19 accounting standard applied retrospectively
[3] Principally relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

Finance expense
Underlying interest charge similar to last year

£m **Year ended 31 March** *Continuing operations*	2014	2013
Investment income	7.0	2.3
Finance expense[1]	(99.2)	(292.1)
	(92.2)	**(289.8)**
Less net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Adjustment for interest on swaps and debt under fair value option	8.1	8.3
Adjustment for net pension interest (income)/expense[1]	(1.3)	1.5
Adjustment for capitalised borrowing costs	(19.4)	(14.3)
Release of tax interest accrual	(13.3)	-
Interest receivable on tax settlement	(4.5)	
Underlying net finance expense	**(251.8)**	**(252.8)**
Average notional net debt	**5,418**	**5,142**
Average underlying interest rate	**4.6%**	**4.9%**
Effective interest rate on index-linked debt	4.5%	4.9%
Effective interest rate on other debt	4.8%	5.0%

[1] 2013 comparator restated to include pension interest expense under the revised IAS19 accounting standard applied retrospectively

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

£m **Year ended 31 March** *Continuing operations*	2014	2013
Cash interest on index-linked debt	(49.0)	(46.9)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(52.6)	(57.1)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(29.9)	(29.1)
Finance expense on index-linked debt	**(131.5)**	**(133.1)**
Interest on other debt (including fair value option debt and swaps)	(120.3)	(119.7)
Underlying net finance expense	**(251.8)**	**(252.8)**

- Cash interest payment of £49m on c£2.9bn of index-linked debt
- Slight decrease in indexation charge due to lower RPI on 3 month lagged debt
- RPI benefit on RCV exceeds RPI impact on debt principal

[1] Affected by movement in RPI between January 2013 and January 2014
[2] Affected by movement in RPI between July 2012 and July 2013

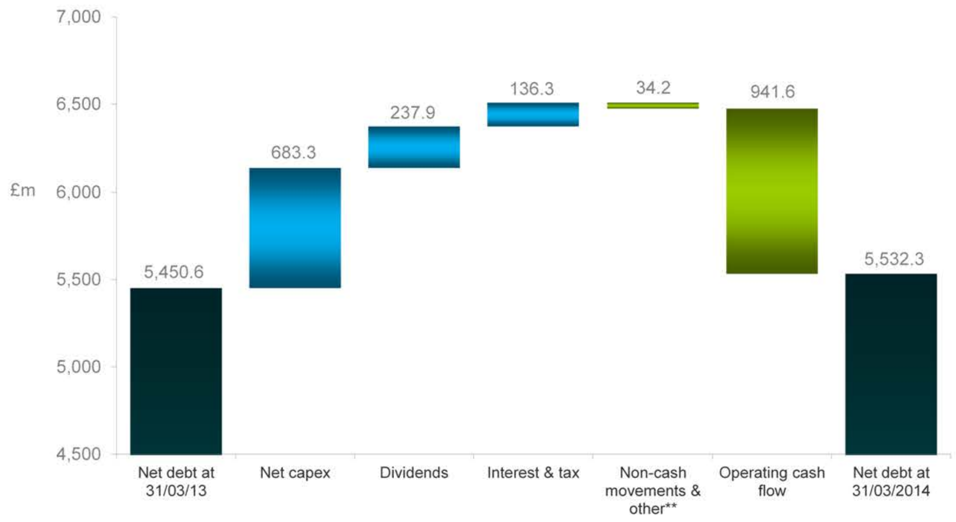
Derivative analysis
Derivatives intrinsically linked to debt

£m At 31 March	2014	2013
Derivatives hedging debt	482.5	719.0
Derivatives hedging interest rates to 2015	(59.3)	(120.9)
Derivatives hedging interest rates beyond 2015	(3.1)	(70.8)
Derivatives hedging commodity prices	(10.3)	(6.1)
Total derivatives assets and liabilities (slide 18)	**409.8**	**521.2**

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

33

Movement in net debt*
Small increase in line with expectations



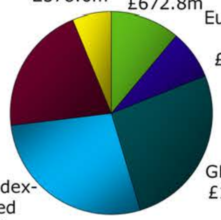
* Net debt includes derivatives which incorporate regulatory swaps

** Includes net fair value gains on debt and derivative instruments of £129.2m and indexation of index-linked debt £82.5m

34

Financing & liquidity at 31 March 2014

Gross debt = £6,069.3m

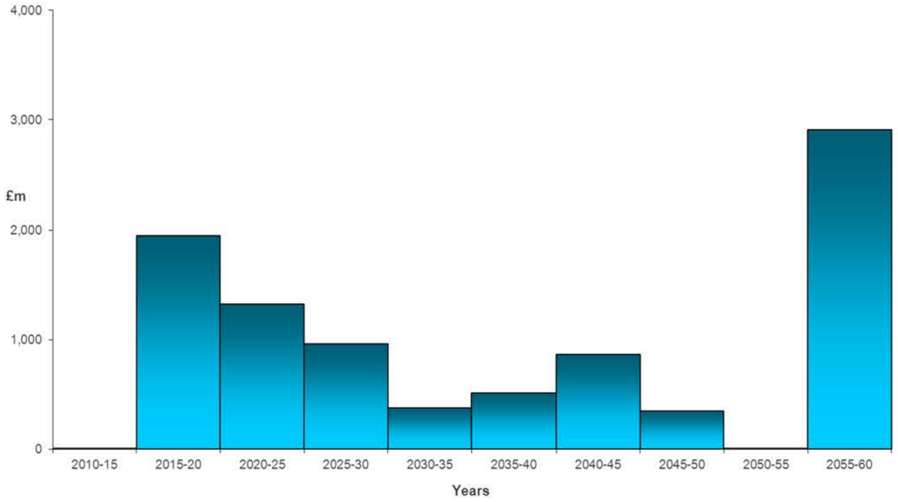


Headroom / prefunding = £864.3m

	£m
Cash and short-term deposits	127.2
Medium-term committed bank facilities[2]	450.0
Undrawn EIB term loan facility	400.0
Short-term debt	(112.5)
Term debt maturing within one year	(0.4)
Total headroom / prefunding	**864.3**

[1] Includes amounts relating to joint ventures of £27.8m
[2] Excludes £50m facilities maturing within one year

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



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

36

Debt structure at 31 March 2014

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- positive outlook

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

Other debt:
- Short-term loans £47m

United Utilities Water PLC
A3 stable; BBB+ positive outlook
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 £100m[1]
- Other EIB loans £100m
- Short-term loans £28m
- Other loans £109m

[1] Index-linked finance

Cautionary statement

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

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