United Utilities Group PLC

Half year results

Six months ended 30 September 2012

CHIEF EXECUTIVE

Steve Mogford

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

The first half of this financial year has been a very busy period for us. I will be talking about political and regulatory developments later in the presentation, but will first update you on what has been another good six months operationally.

Throughout this period we have maintained focus on our objective of being a leading North West service provider and one of the best UK water and wastewater companies. I am pleased to report that in the first six months of this year we have built upon the significant improvements we made last year.

Customer satisfaction with our service has grown and we have made good progress in delivering our capital programme. We are maintaining or improving water quality and environmental performance whilst delivering operational efficiency. We are also addressing the developing retail market for industrial and commercial customers in England and Scotland.

This morning we will highlight our progress thus far and, looking ahead, we do feel there is plenty of scope to deliver further improvements.

Agenda

- Overview
- Operational performance
- Financial performance
- Political and regulatory developments
- Summary
- Q&A

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This is the agenda for this morning's presentation.
I'll start by providing an overview of our recent progress.

Overview
Continuing to deliver our promises

- Continued SIM progress following marked shift in customer satisfaction
- Strong performance on Ofwat's overall KPIs assessment
- Effective delivery of capex programme: expect to invest c£750m in 2012/13
- Confident of meeting regulatory outperformance targets
- Bad debts contained at 2.2% of revenue, despite tough economic climate
- Robust financing: RCV gearing stable and strong pension position
- Sustainable dividend policy with growth target of RPI+2% p.a.

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Improving customer satisfaction remains a key focus area for us. Last year we delivered the highest sector improvement in our overall SIM score – Ofwat's measure of customer satisfaction. This took us to 16th place in the sector.

We have built on this momentum and at the half year have moved up again – to joint 13th place on our qualitative SIM score. Customer complaints have also reduced and this will benefit the quantitative SIM score that we receive at the year end.

This year Ofwat shifted the emphasis in company reporting to a simplified set of KPIs, providing visibility of performance across a broad front. Sector performance against those KPIs was recently published by Ofwat and we were pleased to note that we were a strong performer.

We continue to make good progress on our capital programme, investing £354 million in the half year. We now expect to invest around £750 million for the full year.

Progress during the first half underpins our confidence in delivering our regulatory outperformance targets.

We remain on track for at least £50 million of opex outperformance in this regulatory period, expecting cumulative opex outperformance of at least £30 million by the end of this financial year. Russ will say more about this in his part of the presentation.

We have contained bad debts at 2.2 per cent of revenue despite a tougher economic environment, particularly in the North West.

We continue to benefit from a robust financing position, with stable gearing, comfortably in the middle of Ofwat's range, very little term debt to repay in the current regulatory period, and a healthy pension position with a small surplus at 30 September.

We are confident that our dividend policy of targeting growth of two per cent per annum above RPI inflation, to at least 2015, remains sustainable.

Operational performance

- **Best service to customers**
- Lowest sustainable cost
- Responsible manner

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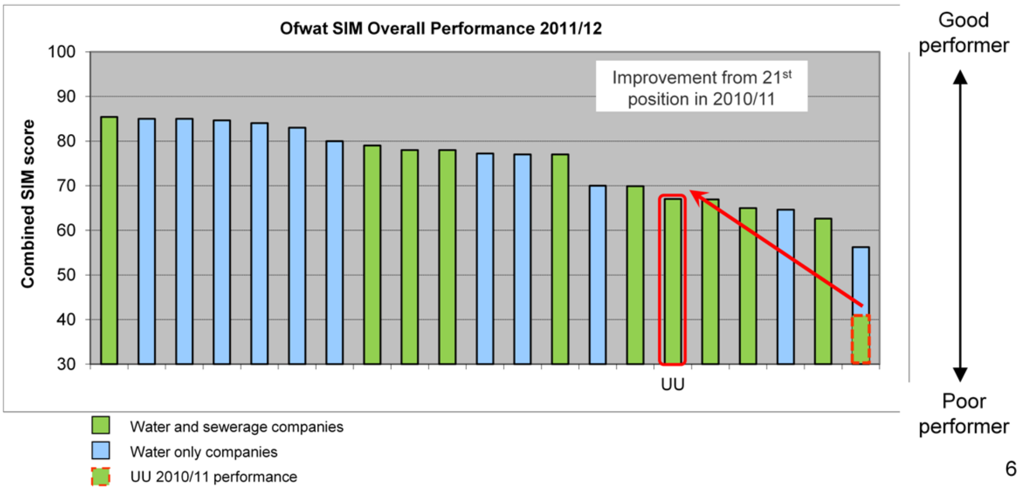
Our aim is to deliver long-term shareholder value by providing the best service to customers, at the lowest sustainable cost and in a responsible manner.

So, starting with customer performance.

Service Incentive Mechanism - combined
Significant progress in 2011/12

Combined assessment (quantitative and qualitative)

- 27 point improvement in 2011/12 - best of all 21 water companies
- Improving trend – up from 21st to 16th position for 2011/12



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As a reminder, Ofwat's service incentive mechanism comprises a quantitative assessment, based upon complaints and other customer contact measures, and a qualitative assessment that seeks to measure our customers' perceptions of how we handle their enquiries.

This chart shows the significant improvement we made on both the qualitative and quantitative SIM measure in 2011/12.

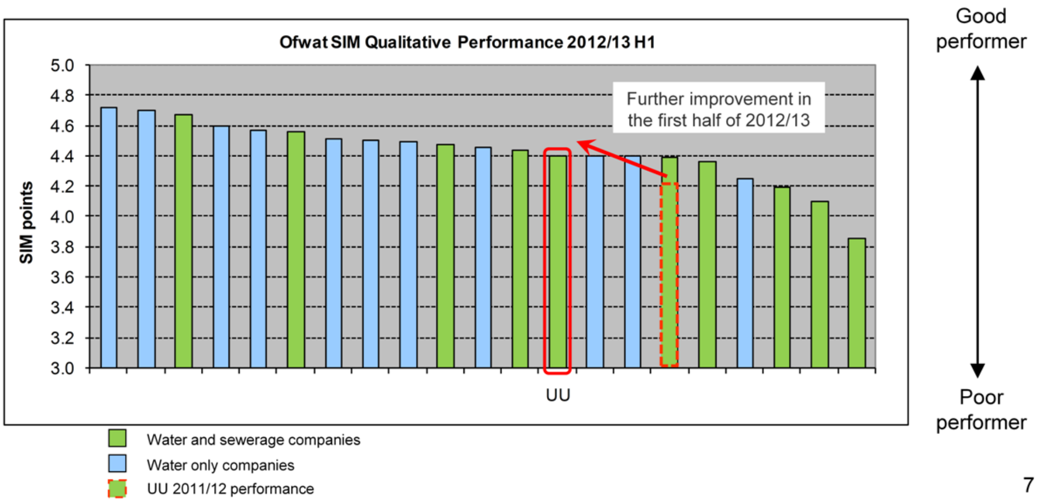
Clearly our starting point, being an outlier and last among the 21 water companies for 2010/11, was simply not good enough. However, we were pleased to achieve the best sector improvement in overall SIM score, moving us up five places to 16th position on a combined basis.

We have continued this momentum, as outlined on the next slide.

Service Incentive Mechanism - qualitative
Further improvements in the first half

Qualitative

- Improving trend continues – up from 16th in 2011/12 to joint 13th position for H1 2012/13



This chart shows our qualitative SIM score for the first half of this financial year. UU has moved up a further three places to joint 13th position in the sector and 5th position among the ten water and sewerage companies.

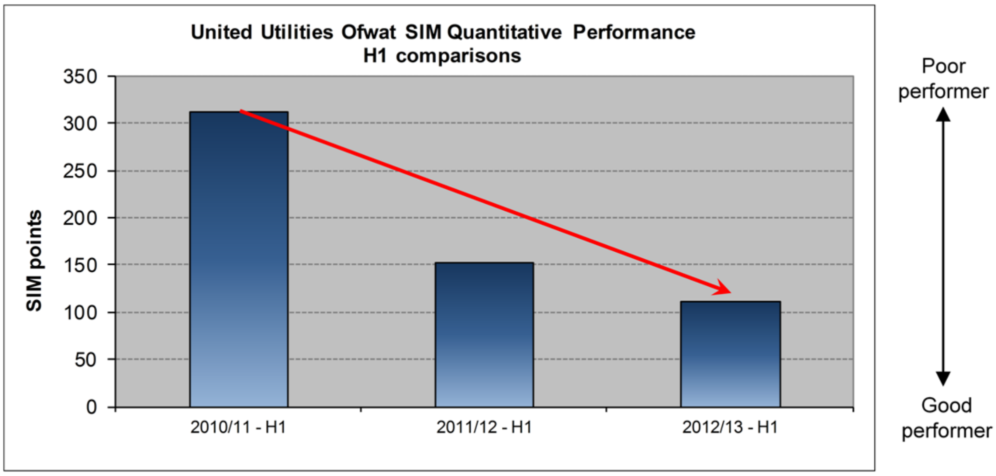
2012/13 is the second year of the three years over which companies' SIM scores will be measured for the purpose of assessing penalties and rewards at the next price review. Every company is working to improve its score and we can and must do better. Our target is to attain at least a sector average score measured over the three years to 2013/14. This is ambitious, but achievable, given our performance to date.

Turning to our quantitative SIM performance.

Service Incentive Mechanism - quantitative
Continuous improvement

Quantitative

- 49% improvement in 2011/12 vs 2010/11 score
- Further improvement in first half of 2012/13



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Quantitative SIM scores are not available for the sector until after year end, but we have provided this chart to indicate the improvement we have made in the first half.

On an absolute SIM points basis, the lower the points the better the performance. As you can see, we have delivered continuous improvement in our quantitative SIM score over the last three years.

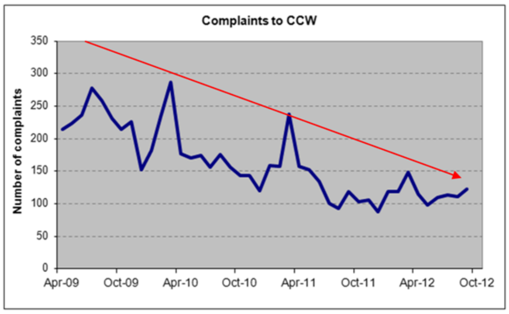
In the first half of last year, we halved our quantitative score compared with the first half of 2010/11.

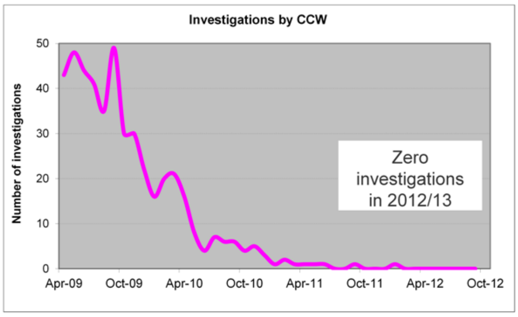
In the first half of this year we have reduced our SIM points by around 27 per cent compared with the corresponding period last year.

So we have made significant progress, but we have more to do.

Reduction in customer complaints
Improving trend continuing

- Substantial reduction in escalated CCW[1] complaints and investigations
- Zero contacts in H1 2012/13 considered by CCW to warrant investigation
- Further reduction of 12% in complaints to CCW in H1 2012/13 vs H1 2011/12





[1] Consumer Council for Water

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A significant driver of quantitative SIM performance is the number of customer complaints escalated to the Consumer Council for Water (CCW) which can score heavily under the SIM framework.

These two charts show how our revised customer handling arrangements are delivering a significant and sustained reduction in complaints escalated to CCW.

The left hand chart shows the number of customer contacts the CCW received about UU. Although we expect a 'spike' each year associated with our main billing cycle, we have continued to build on the significant improvements achieved over the last couple of years, with a further reduction of 12 per cent in the number of complaints made to the CCW in the first half of 2012/13, compared with the first half of last year.

The right hand chart shows the number of customer complaints considered by CCW to warrant investigation. We have more than sustained the marked improvement delivered in 2010/11, with zero investigations over the last six months. This is the first time we have achieved this.

These scores reflect our strong focus on providing first time resolution to customer issues and listening carefully to our customers' needs.

Ofwat's assessment

UU delivers another strong overall performance

	Customer experience			Environmental Impact						Reliability and availability					
	SIM Score	Internal sewer flooding incidents	Water supply interruptions - hours per total properties served	Greenhouse gas (GHG) emissions	Pollution incidents sewerage	Serious pollution incidents sewerage	Pollution incidents (water)	Discharge permit compliance	Satisfactory sludge disposal	Serviceability water non-infrastructure	Serviceability water infrastructure	Serviceability for sewerage non-infrastructure	Serviceability sewerage infrastructure	Leakage	Security of supply index (SoSI)
Water and sewerage companies															
A	G	—	—	G	A	A	A	A	G	G	G	G	A	G	G
B	G	G	G	G	R	A	A	A	G	G	G	A	G	G	G
C	G	G	G	G	A	R	G	G	G	G	G	G	G	G	G
D	G	G	R	G	A	A	A	A	A	G	A	G	G	G	A
E	G	G	G	G	R	R	A	R	G	G	G	G	G	G	G
F	G	G	A	G	R	R	A	A	G	G	G	G	G	G	G
G	G	A	G	G	G	A	A	G	G	G	G	G	G	G	A
United Utilities	G	G	G	G	A	G	A	G	A	G	G	G	A	G	G
I	G	G	G	G	G	G	A	G	G	G	G	G	G	G	G
J	G	G	G	G	A	R	R	A	G	G	A	G	G	G	G

Source: Ofwat's "Companies' key performance indicators 2011-12" publication

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Turning to overall operational performance.

This table shows Ofwat's overall KPIs assessment for the ten water and sewerage companies for the year 2011/12.

As you can see, UU has eleven areas highlighted as 'Green', four as 'Amber', and, importantly, no areas highlighted as 'Red'. This indicates an above average performance level.

So, we are making good progress towards our medium-term goal of being a first quartile company on a consistent basis.

Retail competition for business customers
UU actively competing

- UU welcomes the expansion of retail competition for business customers
- Aim to provide further value-added services for business customers
- UU now has a water supply licence to compete in Scotland
- Won first business customer in Scotland
- Actively pursuing further opportunities

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UU, and the industry, welcomes the expansion of retail competition for business customers and I'd now like to update you on the progress we have made in this area.

Following the publication of the Water White Paper in December 2011, the government reduced the threshold at which industrial and commercial customers can compete for their provider of retail water services. The threshold reduced from 50 to 5 megalitres per annum, which means that competition for retail services is now available to medium size businesses with significant water consumption.

The Government also declared a desire to create an Anglo-Scottish market for retail competition, building upon the opening of the Scottish market some years ago.

Both governments have established a high level steering group overseeing implementation of the market opening and have declared an objective of opening the industrial and commercial market fully in 2017. The government does not currently intend to open the domestic retail market to competition.

Although the financial benefits from retail activities are relatively small at this stage, the market will evolve and we are building our capability to ensure we are in a strong position to compete.

Business customers are looking for services over and above meter reading and billing and we aim to provide a range of value-added services, such as on-site engineering solutions and water efficiency advice.

We have secured a licence to enable us to also compete and operate in Scotland and have built a team with a deep retail background in the utility and commercial sectors.

And I am pleased to report that we have secured our first business customer outside of our region and are actively pursuing further opportunities.

Operational performance

- Best service to customers
- **Lowest sustainable cost**
- Responsible manner

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Moving on to the area of lowest sustainable cost.

Capital delivery
TCQi performance consistently over 80%

- Continued focus on delivering commitments on time and within budget
- TCQi performance up from c50% in 2010/11 to over 80% currently
- Capital programme de-risking accelerates spend
- Good progress to date: now expect capex of c£750m in 2012/13
- Over £1.6bn of capex delivered in first half of regulatory period

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

We continue to drive efficient delivery of our capital programme, with a strong focus on delivering our commitments on time and within budget.

This is reflected in a sustained high score in our performance measure, the Time: Cost: Quality index or TCQi, which supports our enhanced capital investment governance process.

We have improved our TCQi score from around 50 per cent 18 months ago to consistently over 80 per cent. We are targeting achievement of over 90 per cent in the longer term.

We now expect to invest around £750 million in this financial year, up from a projection of around £700 million at the start of the year. This is because we have accelerated our capital programme activity in recent months to help optimise capital delivery and reduce risk towards the end of the regulatory period.

Our cumulative investment at the mid-point of this five-year regulatory period is now over £1.6 billion, reflecting a smoother and more effective investment profile than the previous five year cycle.

We remain on track to deliver the five-year programme within the regulatory allowance of around £3.5 billion.

Adoption of private sewers
Expenditure at lower end of estimates

- Activity levels and expenditure a little below expectations
- Mix of work related more to enhancement capex than opex
- Operating model evolved over the last year
- Half year expenditure: opex £3m, IRE £6m, enhancement capex £8m
- No change to total 2011-15 cost estimates at this stage
  - opex £40m, IRE £60m, enhancement capex £60m
- Will continue to review activity levels and update cost estimates as appropriate

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Turning to private sewers.

The volume of work and the level of expenditure continues to be a little below our expectations for this year.

The mix of work is related more to enhancement capex than opex, compared with our initial expectations, and our operating model has evolved to reflect the work scope and volumes.

We continue to obtain better asset information and, in addition to routine jetting and cleaning activity, we are undertaking remedial work to renew and, where appropriate, enhance the quality of the infrastructure. This will bring private sewer infrastructure more in line with UU's asset standards and will reduce the risk of future problems for our customers.

In the half year, we have spent £3 million on opex, £6 million on infrastructure renewals expenditure and £8 million in relation to enhancement capex.

Although spend rates are currently a little lower than we anticipated, we are not changing our 2011-15 total cost estimates at this stage as we are still fairly early into the transfer. However, we will continue to review activity levels and provide an update at the full year.

Nonetheless, this lower rate of spend and the mix of work continues to be good news for both our customers and our investors.

Operational performance

- Best service to customers
- Lowest sustainable cost
- **Responsible manner**

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Operating in a responsible manner is fundamental to the way we do business.

We play a key role in public health and the environment across the North West and take our role in the wider regional community very seriously.

Dow Jones Sustainability Index
UU rated World Class for 5th consecutive year

- Attained our highest ever score in Dow Jones Sustainability Index
- Hold Business in the Community Platinum Plus ranking
- Awarded membership of FTSE 350 Carbon Disclosure Leadership Index
- One of only four FTSE 100 companies to hold all three awards

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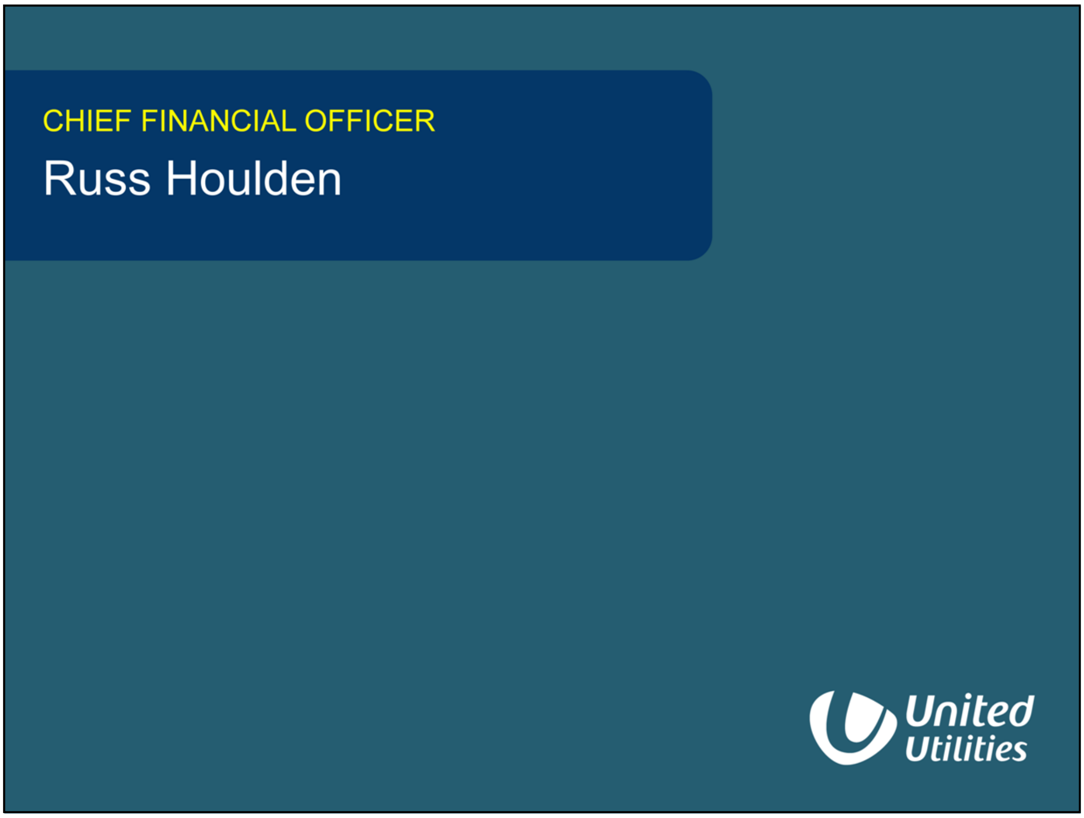
We are therefore delighted to have retained the ‘World Class’ rating in the Dow Jones Sustainability Index for the fifth consecutive year, recording our highest ever score.

We have also retained the top Platinum Plus ranking in Business in the Community’s Corporate Responsibility Index. In addition, we have been awarded membership of the FTSE 350 Carbon Disclosure Leadership Index and are the top UK utility in this index by some margin.

There are only four FTSE 100 companies to hold all three awards.

We aim to meet high social and environmental standards and so we are delighted that our efforts are externally recognised. As a provider of essential services, our performance in this area really does count.

Now, over to Russ to present the financials.



Thank you, Steve. Good morning and onto the numbers.

Financial highlights
Good results in a tough economic climate

- Underlying operating profit of £316m, down £8m
- Underlying profit before taxation up £5m at £190m
- Underlying EPS of 20.9 pence, up 5%
- Interim dividend of 11.44 pence per ordinary share, up 7.2%

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This slide shows the financial highlights for the half year – a good set of results in a tough economic climate.

Underlying operating profit was down £8 million at £316 million. This is after absorbing an increase of £12 million in IRE investment and the opex impact of private sewers of £3 million, which, of course, did not feature in the first half of last year.

Underlying profit before tax was up £5 million, or three per cent, at £190 million, as we benefited from our RPI inflation hedging.

Underlying EPS was 20.9p, a 5 per cent increase on the first half of last year.

And we have declared an interim dividend of 11.44p per share, up 7.2 per cent. This increase comprises RPI inflation of 5.2 per cent for the year to November 2011, which is the rate included within our price limit for 2012/13, plus two per cent in line with our stated dividend policy.

Profit after tax reconciliation
Similar adjustments in 2011 and 2012

£m **Six months ended 30 September** *Continuing operations*	**2012**	**2011**
Reported profit after tax	**153.9**	**140.8**
Adjustments:		
One-off items[1]	0.6	1.6
Net fair value losses on debt and derivative instruments	49.4	55.9
Interest on swaps and debt under fair value option	3.0	3.8
Net pension interest expense	6.5	3.2
Capitalised borrowing costs	(5.4)	(4.0)
Deferred taxation credit - change in taxation rate	(52.8)	(49.7)
Taxation in respect of adjustments to underlying profit before tax	(13.0)	(15.7)
Underlying profit after tax	**142.2**	**135.9**
Basic earnings per share (pence)	**22.6**	**20.7**
Underlying earnings per share (pence)	**20.9**	**19.9**

[1] Principally relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

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This table shows the reconciliation between reported profit after tax of £154 million and underlying profit after tax of £142 million. As usual, we have adjusted for the items shown in the table, to provide a more representative view of underlying performance. Overall, the adjustments were similar in both half years.

There were £49 million of fair value losses on our debt and derivative instruments largely due to losses on the regulated swap portfolio resulting from a further decrease in sterling interest rates in the period.

Our tax charge benefited from a £53 million deferred tax credit, reflecting the enactment of changes to reduce the corporation tax rate from 24 per cent to 23 per cent from 1 April 2013.

There is also a £13 million tax adjustment which reflects the fact that underlying profit before tax is £54 million higher than the reported profit before tax measure.

So overall, as you can see on the slide, we have seen growth in both measures of EPS.

Income statement – underlying
Good financial performance

£m Six months ended 30 September *Continuing operations*	2012	2011
REVENUE	822.9	792.7
Underlying operating expenses	(347.0)	(321.9)
UNDERLYING EBITDA	475.9	470.8
Depreciation and amortisation	(160.2)	(146.6)
UNDERLYING OPERATING PROFIT	315.7	324.2
Underlying net finance expense	(126.0)	(139.3)
UNDERLYING PROFIT BEFORE TAX	189.7	184.9
Underlying taxation	(47.5)	(49.0)
UNDERLYING PROFIT AFTER TAX	142.2	135.9
BASIC UNDERLYING EARNINGS PER SHARE (pence)	20.9	19.9
INTERIM DIVIDEND PER ORDINARY SHARE (pence)	11.44	10.67

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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 half year of £823 million was up £30 million or 3.8 per cent on the first half of last year. The allowed regulated price increase for 2012/13 was 5.8 per cent nominal (5.2 per cent RPI inflation plus a 0.6 per cent real price increase).

The revenue increase was around £15 million or two per cent lower than our allowed regulatory price rise. Of this, lower commercial volumes accounted for around £10 million and non-regulated revenue was lower by £5 million (mainly property sales).

We would expect to recover the majority of any regulated revenue shortfall through the regulatory methodology.

Underlying operating profit was down £8 million on last year, as total operating expenses increased by slightly more than revenue, as I will explain on the next slide.

However, underlying profit before tax was up £5 million as we benefited from a reduction of £13 million in net financing expense as a result of the effect of the reduction in RPI inflation.

The underlying tax charge of £48 million was lower than the same period last year mainly because of the two per cent reduction in the mainstream rate of corporation tax.

Operating costs
IRE up as planned, controllable costs on track

£m Six months ended 30 September *Continuing operations*	2012	2011
Revenue	**822.9**	**792.7**
Employee costs	(69.7)	(66.0)
Power	(29.8)	(24.4)
Property rates	(38.8)	(37.6)
Bad debts[1]	(18.5)	(18.0)
Other expenses	(111.4)	(109.5)
	(268.2)	(255.5)
Infrastructure renewals expenditure (IRE)	(78.8)	(66.4)
Depreciation and amortisation	(160.2)	(146.6)
Total underlying operating expenses	**(507.2)**	**(468.5)**
Underlying operating profit	**315.7**	**324.2**
Adjustments:		
One-off costs[2]	(0.6)	(1.6)
Reported operating profit	**315.1**	**322.6**

- Increase in IRE reflects good progress on capex programme

[1] Includes bad debts relating to non-regulated businesses
[2] Principally relates to restructuring costs within the business

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Now, let's look at our costs in a bit more detail.

Reflecting further progress on the capital investment programme, infrastructure renewals expenditure was up £12 million with a £6 million increase in line with the planned phasing of the programme and a further £6 million in relation to private sewers costs.

Depreciation was £14 million higher, as expected, principally as a result of an increase in the commissioned asset base. The increase also includes additional depreciation resulting from our investment in a new wastewater treatment plant in Liverpool, which we highlighted at our results in May.

Employee costs have increased by £4 million, mainly reflecting the impact of the transfer of private sewers and the on-shoring of collections activities in August 2011.

Power costs have increased by £5 million, partly due to higher prices and partly due to volumes. As outlined previously, we have substantially locked in the price of electricity through to 2015 via forward contracts, securing outperformance.

All other costs were well controlled, supporting the delivery of our opex outperformance targets.

Bad debts and cash collection
Good performance despite tough economy

£m	2009/10[1]	2010/11	2011/12	H1 2012/13
Regulated revenue	1,521	1,477	1,527	809
Regulated bad debt expense	38	31	34	18
Bad debt / regulated revenue	2.5%	2.1%	2.2%	2.2%

- Ten point plan progressing well
- Bad debts level contained despite ongoing tough economic climate
- Overall, another good performance – continued strong focus

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

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Now, on to our bad debt performance.

The North West faces a particularly tough economic environment with unemployment having increased at a faster rate than any other UK region in 2011/12, particularly in the second half, resulting in an adverse impact on ability to pay in the first half of this year.

We estimate the impact of the economy has increased our bad debt percentage by 0.1 per cent, compared with the 2011/12 full year position.

We have continued with our proactive approach to debt collection and our ten point plan continues to progress well. Our dispute management programme, which focuses on identifying root causes of problems and resolving them quickly, has been a key contributor to this plan.

In addition, we have continued to increase the number of customers who pay their bills via DWP Water Direct deductions which has also improved our bad debt performance.

This action plan has delivered a further underlying improvement of 0.1 per cent, offsetting the adverse impact of the economy.

So overall, we have sustained bad debts at 2.2 per cent of regulated revenue for the first half of 2012/13, consistent with the full year position in 2011/12.

Financial position
Robust capital structure

£m	30 Sep 2012	31 Mar 2012
Property, plant and equipment	8,785.4	8,644.5
Retirement benefit surplus	39.3	-
Other non-current assets	101.3	98.9
Cash	152.5	321.2
Other current assets	408.5	348.8
Total derivative assets	712.5	617.4
Total assets	**10,199.5**	**10,030.8**
Gross borrowings	(5,979.3)	(5,855.2)
Other non-current liabilities	(1,611.0)	(1,627.2)
Retirement benefit obligations	-	(92.0)
Other current liabilities	(579.1)	(532.0)
Total derivative liabilities	(208.5)	(159.8)
Total liabilities	**(8,377.9)**	**(8,266.2)**
TOTAL NET ASSETS	**1,821.6**	**1,764.6**
Share capital	499.8	499.8
Share premium	2.9	2.4
Retained earnings	837.1	778.9
Other reserves	481.8	483.5
SHAREHOLDERS' EQUITY	**1,821.6**	**1,764.6**
NET DEBT[1]	**(5,322.8)**	**(5,076.4)**

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

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Turning now to the statement of financial position.

Property, plant and equipment is up £141 million over the six month period to just under £8.8 billion, as we continue with our good progress on our capital investment programme.

Cash and short term deposits of £153 million were £169 million lower than at 31 March 2012. This decrease comprises the payment of £65 million in respect of accelerated, previously agreed, pension deficit repair contributions, and a further net reduction in cash of £104 million which was used to help fund our capital investment programme. Given our robust financing position, we did not require any new term borrowings in the period.

Total derivative assets have increased by £95 million to £713 million primarily due to a significant reduction in market interest rates during the period. This has been partly offset by a £49 million movement in derivative liabilities, to £209 million, for the same reason.

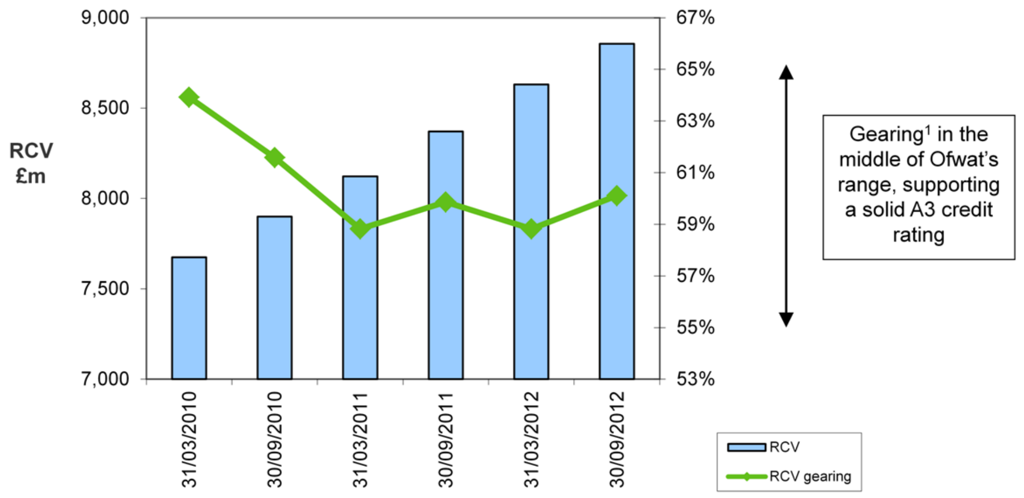
The group’s pension position under IAS 19 has improved by £131 million and we now have a small surplus of £39 million as at 30 September 2012.

Retained earnings have increased by £58 million, largely as a result of the impact of the deferred tax credit.

Net debt is £246 million higher than last year end, reflecting the cash used to help fund the capital investment programme and the accelerated pension payments, alongside an increase in the principal of our index-linked debt.

RCV and gearing

RCV gearing supports robust capital structure



- Small pension surplus – no adjustment to gearing

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

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This chart shows our RCV and gearing level.

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

The green line shows the movement in gearing since the start of this regulatory period.

Following the non-regulated disposals, which we completed in 2010/11, gearing has been fairly stable ranging between 59 and 60 per cent. The small increase of one per cent in our gearing level since March 2012 mainly reflects the accelerated pension payment.

Our gearing remains in the middle of Ofwat's assumed range, of 55 per cent to 65 per cent, supporting a solid A3 credit rating, providing efficient access to the debt capital markets.

Cash flow statement
Increase in cash from operations

£m Six months ended 30 September *Continuing operations*	2012	Re-presented[1] 2011
Net cash generated from operating activities	265.1	212.1
Net cash used in investing activities	(295.0)	(219.0)
Net cash (used in)/generated from financing activities[2]	(151.2)	80.4
Net movement in cash	**(181.1)**	**73.5**

[1] Re-presented to be consistent with the presentation adopted at 31 March 2012 (grants and contributions received of £6.1m moved from net cash generated from operating activities to investing activities)

[2] Includes £(0.3)m of FX movements in 2012/13 and £0.2m in 2011/12

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Moving on to cash flow.

Net cash generated from operating activities was £265 million, up £53 million compared with the first half of last year. This increase was mainly as a result of total pension contributions in the first half of this year of £84 million, being lower than the corresponding period last year when we paid £136 million.

Cash used in investing activities increased in line with the planned increase in our capital investment programme.

The £151 million cash outflow from financing activities principally reflects payment of the 2011/12 final dividend in August, whereas last year there was a net financing cash inflow due to the European Investment Bank loans.

Financing
Robust liquidity and strong pension position

- Average cost of our £2.7bn index-linked debt portfolio is 1.7% real
- Substantially repaid all term debt due in 2010-15
- Financing headroom into 2014
- Paid early all previously agreed pension deficit repair contributions for 2010-15
- Low risk pension investments: c25% of assets in equities/high risk assets

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We continue to benefit from a robust financing position.

The average cost of our £2.7 billion, long-term, index-linked debt portfolio is only 1.7 per cent real.

We have substantially paid all term debt due in the current regulatory period and have financing headroom into 2014. This provides us with good flexibility as to when and how we borrow in future.

We have paid early all previously agreed pension deficit repair contributions due in the period to March 2015, providing a better return for the group than would have been achieved through short-term deposits and contributing to a pensions surplus of £39 million.

The measures we have taken over the last two years in respect of pensions mean that our risks are well managed, with a lower risk investment strategy, less volatility in funding levels and more prudent longevity assumptions.

And finally, an update on our performance against our regulatory financial targets.

Outperformance
On track to deliver targets

- On track to deliver at least £50m of opex outperformance across 2010-15
  - in addition to c£150m of base opex efficiencies set by Ofwat
  - on course for at least £30m cumulative outperformance for 2010-13
- On track to deliver capex for regulatory allowance (adjusted for COPI)
- Financing outperformance of >£300m at RPI of c2.5% p.a.
  - c£400m outperformance at RPI of c3.5% p.a. 2010-15
  - net of effect of pensions inflation funding mechanism

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Our recent performance has reinforced our confidence in delivering our outperformance targets.

In respect of opex outperformance, we are targeting to deliver a total of at least £50 million, or approximately two per cent of the regulatory allowance, over the 2010-15 period. As a reminder, this is over and above the £150 million challenge implicit within the regulatory contract. We delivered cumulative opex outperformance of over £20 million in the first two years of this regulatory period and we are on track to increase this to over £30 million across the first three years, with the main areas of savings so far being power, overheads and property rates.

In respect of capital expenditure, we are delivering significant efficiencies and expect to meet Ofwat's revised allowance, as adjusted for COPI, reinvesting any efficiency savings for the benefit of customers and shareholders.

We have already secured significant financing outperformance in this regulatory period, ranging from £300 million to £400 million based on the inflation assumptions outlined on this slide.

Overall, we are pleased to have delivered another good financial performance and to be on track with our outperformance targets in this tough economic climate.

Now, back to Steve.

CHIEF EXECUTIVE

Steve Mogford

Thank you, Russ.

Political and regulatory developments
Key areas of ongoing engagement

- Draft Water Bill issued July 2012
- Efra Select Committee scrutiny
- Supportive of retail competition for industrial and commercial customers
- Concerns regarding upstream proposals
- Retention of investor confidence

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The UK Government published a draft Water Bill in July 2012. This proposes the introduction of both retail competition and wholesale, or upstream, competition.

The UK Government is considering the responses it has received from various interested parties to the draft Water Bill and the pre-legislative scrutiny period is expected to close by the end of the 2012 calendar year.

UU supports the introduction of retail competition for industrial and commercial customers, but has responded to the Efra Select Committee that it has concerns with the upstream proposals.

As currently drafted, it is questionable to what extent these proposals are consistent with commitments to protect the existing RCV to secure continued investor confidence needed to support future investment and to allow customers to continue to benefit from low cost RCV funding in the long term.

Now, moving onto Ofwat's licence modification proposals.

Political and regulatory developments
UU's response to Ofwat's licence proposals

- Unable to accept Ofwat's licence modification proposals in their current form
- Decision based on best interests of customers and investors
- Submitted alternative proposals to Ofwat to aid further constructive dialogue
- Proposed licence conditions significantly increase regulatory uncertainty and risk
- Likely to increase cost of capital and adversely impact customer bills
- Supportive of changes necessary to facilitate Price Review 2014
- Benefits of further potential changes need to be fully evaluated and understood

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We advised Ofwat and the market last Friday that, after careful consideration, we have concluded that we are unable to accept Ofwat's 'Section 13' licence modification proposals because we believe that, in their current form, they are not in the best interests of customers, investors and wider stakeholders. To aid further constructive dialogue, we have submitted alternative proposals to Ofwat for its consideration.

Our principal concern is that the extent of flexibility in Ofwat's current licence proposals would create unnecessary and prolonged uncertainty for investors, with the potential for this uncertainty to impact customer bills.

We are committed to continued positive engagement with Ofwat to support the progressive evolution of regulation in the water industry. Our proposals include the licence changes necessary to facilitate the forthcoming price review in 2014 and the development of retail competition for business customers. We also recognise that additional licence amendments may be required to accommodate specific changes to the regulatory regime in preparation for 2020 and beyond and we will actively engage in helping to ensure that the benefits of such developments are fully evaluated and understood.

Summary
Sustained operational focus delivering results

- Continued progress on customer service, with further SIM improvement
- Strong operational performance, supported by Ofwat's KPIs assessment
- Actively competing in the retail market
- Another good financial performance in the ongoing tough economic climate
- Confident of delivering outperformance targets
- Robust capital structure and a sustainable, growing dividend

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So, in summary, our sustained focus on operational performance is delivering results.

Following a marked improvement in customer satisfaction last year, we have maintained momentum and made further progress on Ofwat's SIM assessment in the first half of this year. We know, however, that we have more to do and we see plenty of scope to achieve further improvements.

This progress has been supported by strong operational performance. We are amongst the best performers, as measured by Ofwat's new KPIs. We have also increased activity on our capital delivery programme, as we aim for a smoother investment profile to support the efficient delivery of outputs and reduce risk.

In addition, we are pleased with the recognition we have received for our corporate responsibility performance.

We are addressing the competitive retail market for industrial and commercial customers with an experienced retail team and we have won our first business customer outside of our region.

Although the economic climate continues to be tough, we have again delivered a good financial performance.

We promised that we will drive performance and we are delivering. Recent progress reinforces our confidence that our regulatory outperformance targets are all on track.

This all continues to be underpinned by a robust capital structure and a sustainable and growing dividend.

That concludes our results presentation.

Thank you for listening.

We suspect that recent regulatory developments will feature in questioning, but we would like to begin with questions on operational and financial performance before touching on regulation.

Thank you.

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

Income statement – reported
Deferred tax credit enhances earnings

£m **Six months ended 30 September** *Continuing operations*	**2012**	**2011**
REVENUE	822.9	792.7
Operating expenses	(347.6)	(323.5)
EBITDA	**475.3**	**469.2**
Depreciation and amortisation	(160.2)	(146.6)
OPERATING PROFIT	**315.1**	**322.6**
Investment income and finance expense	(179.5)	(198.2)
PROFIT BEFORE TAX	**135.6**	**124.4**
Taxation	18.3	16.4
PROFIT AFTER TAX	**153.9**	**140.8**
BASIC EARNINGS PER SHARE (pence)	**22.6**	**20.7**
INTERIM DIVIDEND PER ORDINARY SHARE (pence)	**11.44**	**10.67**

Underlying profit before tax
Small increase on first half of last year

£m **Six months ended 30 September** *Continuing operations*	**2012**	**2011**
Operating profit	315.1	322.6
Investment income and finance expense	(179.5)	(198.2)
Profit before tax	**135.6**	**124.4**
Adjustments:		
One-off items[1]	0.6	1.6
Net fair value losses on debt and derivative instruments	49.4	55.9
Interest on swaps and debt under fair value option	3.0	3.8
Net pension interest expense	6.5	3.2
Capitalised borrowing costs	(5.4)	(4.0)
Underlying profit before tax	**189.7**	**184.9**

[1] Principally relates to restructuring within the business. Added to operating profit to obtain underlying operating profit

Finance expense
Underlying interest rate down reflecting RPI

£m **Six months ended 30 September** *Continuing operations*	**2012**	**2011**
Investment income	1.3	1.7
Finance expense	(180.8)	(199.9)
	(179.5)	**(198.2)**
Less net fair value losses on debt and derivative instruments	49.4	55.9
Adjustment for interest on swaps and debt under fair value option	3.0	3.8
Adjustment for net pension interest expense	6.5	3.2
Adjustment for capitalised borrowing costs	(5.4)	(4.0)
Underlying net finance expense	**(126.0)**	**(139.3)**
Average notional net debt	**5,069**	**4,782**
Average annualised underlying interest rate	**5.0%**	**5.8%**
Effective interest rate on index-linked debt	4.9%	6.6%
Effective interest rate on other debt	5.1%	5.1%

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

£m **Six months ended 30 September** *Continuing operations*	**2012**	**2011**
Cash interest on index-linked debt	(23.4)	(21.5)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(29.7)	(35.6)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(13.0)	(21.2)
Finance expense on index-linked debt	**(66.1)**	**(78.3)**
Interest on other debt (including fair value option debt and swaps)	(59.9)	(61.0)
Underlying net finance expense	**(126.0)**	**(139.3)**

- Cash interest payment of £23m on c£2.7bn of index-linked debt
- Decrease in indexation charge due to lower RPI
- RPI benefit on RCV exceeds RPI impact on debt principal

[1] Affected by movement in RPI between January 2012 and July 2012
[2] Affected by movement in RPI between July 2011 and January 2012

Derivative analysis
Derivatives intrinsically linked to debt

£m	30 Sep 12	31 Mar 12
Derivatives hedging debt	712.4	617.4
Derivatives hedging interest rates to 2015	(141.5)	(137.0)
Derivatives hedging interest rates beyond 2015	(60.2)	(18.2)
Derivatives hedging commodity prices	(6.7)	(4.6)
Total derivatives assets and liabilities (slide 23)	**504.0**	**457.6**

- **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**

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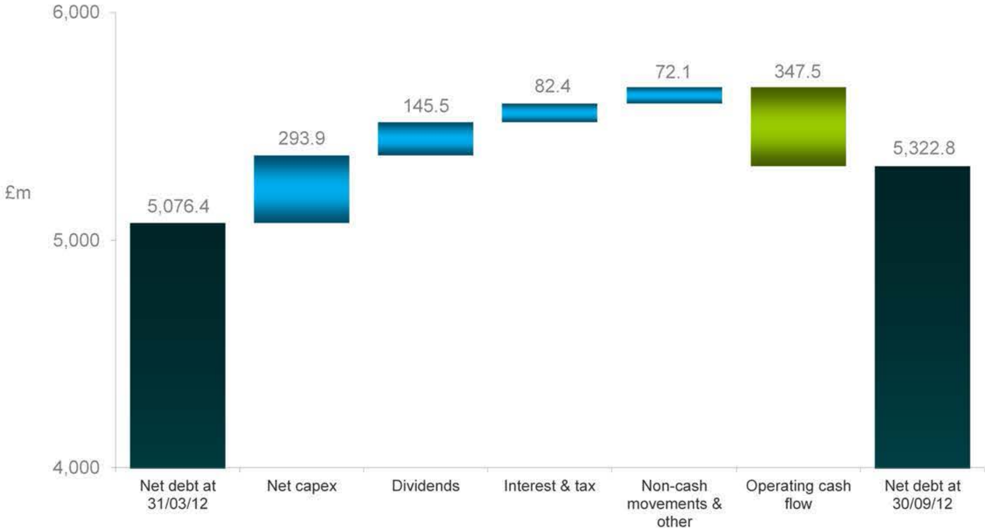
Movement in net debt[1]
Increase in line with expectations



[1] Net debt includes derivatives which incorporate regulatory swaps

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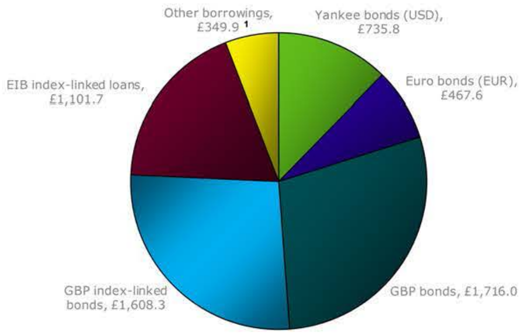
Financing & liquidity at 30 September 2012

Gross debt = £5,979.3m



Headroom / prefunding = £414.4m

	£m
Cash and short-term deposits	152.5
Medium-term committed bank facilities[2]	420.0
Short-term debt	(126.9)
Term debt maturing within one year	(31.2)
Total headroom / prefunding	**414.4**

[1] Includes amounts relating to joint ventures of £26.7m
[2] Excludes £100m facilities maturing within one year and £50m with a forward start in September 2013 and £50m with a forward start in January 2014

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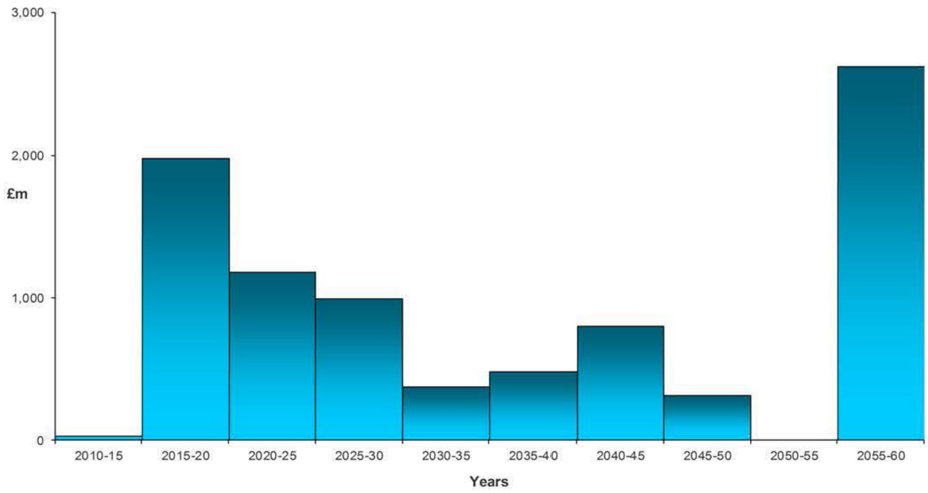
Term debt maturity profile[1]

Average term to maturity of c25 years



[1] Future repayments of index-linked debt include inflation based on an average annual RPI rate of 2.75%

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Debt structure at 30 September 2012

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable

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

Euro MTN:
- £6.5m in 13s

Other debt:
- Short-term loans £66m

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

Euro MTNs:
- ¥3bn in 13s
- £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]
- Short-term loans £39m
- Other loans £132m

[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.