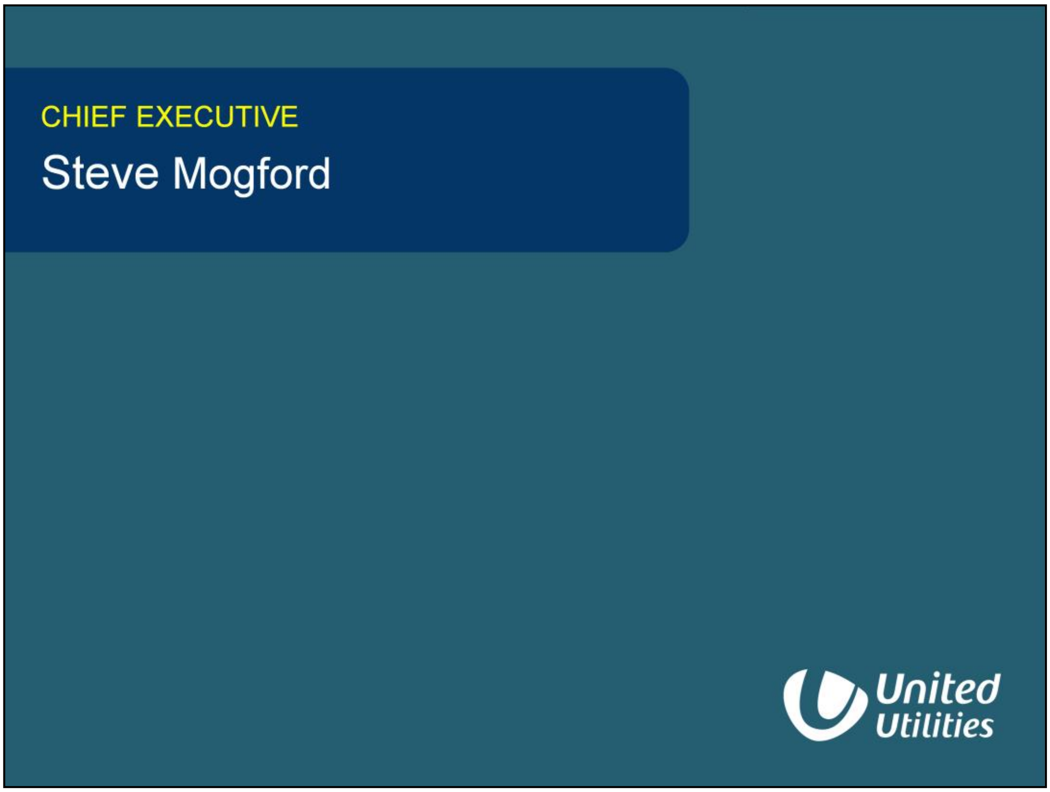
United Utilities Group PLC

Half year results

Six months ended 30 September 2014

helping life flow smoothly

United Utilities



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

We are four months away from the end of AMP5 and we are very pleased with the progress we've made over this regulatory period. We set out to enter AMP6 underpinned by a strong platform of sustainable performance and this has been achieved. We began this regulatory period as a lower quartile performer on most operational measures but we will start AMP6 as a leading operational performer in our sector, having delivered or exceeded our AMP5 outperformance targets.

Our strong performance has also given us the capacity to reinvest around £280 million, for the benefit of all our stakeholders.

I am extremely grateful to our people for the role they have played in transforming the performance of the business, and particularly for putting the customer first, making us one of the most improved companies in the sector for customer satisfaction.

AMP6 will place more emphasis on companies' operational performance. Whilst there is no room for complacency, I am confident that the foundations we have built over the last four years give us a solid launch point for the next regulatory period.

Agenda

- Operational performance
- Financial performance
- 2015-20 business plan
- Summary
- Q&A

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This is the agenda for this morning's presentation.

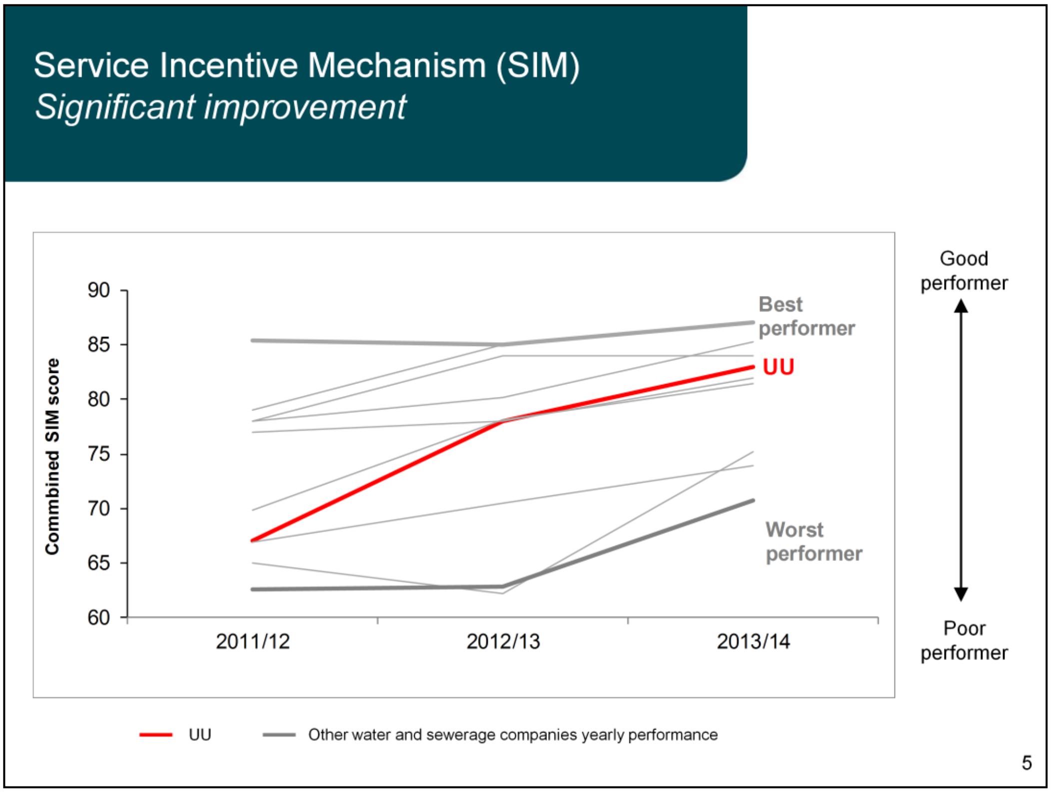
I will provide an overview of our operational progress and Russ will then cover our financial performance.

I will then remind you of the key features from our October draft determination response, before summarising.

Here are the highlights:

- You know that we have delivered significant improvements in customer satisfaction this AMP, as measured by Ofwat's Service Incentive Mechanism (SIM). We were delighted to see this recognised in our draft determination where Ofwat confirmed that our performance took us out of the penalty zone. A great achievement considering that we started the AMP as an outlier in the sector.
- We are a leading operational performer and achieved upper quartile environmental status for the second consecutive year.
- Our capital delivery performance continues to be good and we expect to deliver around £850 million of investment in our asset base this year.
- We are confident of delivering or exceeding our AMP5 outperformance targets.
- We have continued to grow our water retail business in Scotland and we are the most successful new entrant in this market.
- And we are delivering on our AMP5 dividend policy, with an increase of 4.6 per cent.

So, starting now with our customer service performance.



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

Ofwat published, in the summer, the combined SIM scores for 2013/14, the last of the three years of performance measurement to determine whether companies receive a reward or penalty.

This chart shows our significant improvements over the last three years. We are one of the most improved companies over the period.

Our combined SIM score for 2013/14 was 83 points, which represents an above average score. This places us 9th in the sector and 5th among the water and wastewater companies. Having begun AMP5 as an outlier, it was extremely difficult for us to be in reward territory, but our three-year score moved us outside of the SIM penalty zone. This was reflected in the draft determination we received from Ofwat at the end of August.

We are obviously delighted with this outcome, but we know that there are things that we can do better. Our plans for AMP6 will see us focusing on driving customer satisfaction still further.

I have mentioned previously that 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. Individual parameters making up the score will also change so this will lead to variations in companies' relative positions as we begin AMP6. Ofwat and the companies are currently piloting the new process in preparation for implementation of the new scheme in the first year of AMP6.

Moving on to Business Retail.

Business Retail
Further growth in Scotland

United Utilities Business

- Further growth in 2014/15
  - now gained over 200 customers covering over 2,600 sites
  - represents future annual revenue of c£14m
- 2nd largest water retailer in Scotland
- Significant pipeline of opportunities being pursued
- Continuing to offer and develop range of value-added services
- Good preparation ahead of full opening of English market in 2017

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We have been building our capability over the last two years to help ensure that we are in a strong position as competition evolves.

The Scottish business retail market for water has been open for several years and the English business retail market for water and wastewater is due to open fully in 2017. Whilst there has been limited switching by businesses in England so far, we can expect more activity from April 2015 when a higher retail margin will be available to competitors.

We are very active in the Scottish market and have continued to grow our retail business. We have now gained over 200 customers, covering over 2,600 sites and representing future annual revenue of around £14 million. This positions us as the second largest water retailer in Scotland and the most successful new entrant.

We have an experienced retail team and this, combined with our proactive approach and competitive pricing, has helped us make rapid progress. We also continue to pursue a significant and growing pipeline of further opportunities.

Price is not the only important factor for customers and we continue to offer and develop a range of value-added services and flexible service offerings, tailored to the needs of each customer, such as waste to energy consultancy and advice on rainwater harvesting and grey water recycling.

This is all invaluable experience ahead of the market opening in England.

Now, looking at our wholesale business.

Ofwat's assessment of 2013/14 performance

UU delivers another strong overall performance

	Customer experience				Environmental Impact					Serviceability, reliability and availability					
	SIM score	Internal sewer flooding incidents	Water supply interruptions (hours per total properties served)	Drinking water quality (mean zonal compliance)	Greenhouse gas (GHG) emissions	Pollution incidents sewerage	Serious pollution incidents sewerage	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															
ANG	G	G	G	G	G	A	A	A	G	G	G	G	G	G	G
WW	G	G	R	G	G	A	G	A	G	G	G	G	G	G	G
NWG	G	A	G	G	G	A	A	A	G	G	G	G	G	G	G
SVT	G	G	G	G	G	A	G	G	G	A	A	G	A	G	G
SWW	G	A	G	G	G	R	R	R	G	G	G	G	G	G	G
STN	G	R	G	G	G	R	R	R	G	G	G	G	G	G	G
TMS	G	A	G	G	G	A	A	G	G	G	G	G	A	G	G
UU	G	G	G	G	G	G	G	A	A	G	G	G	G	G	G
WSX	G	G	G	G	G	G	A	G	G	G	G	G	G	G	G
YKS	G	G	G	G	G	A	A	A	G	G	G	G	G	G	G

Source: Ofwat's "Companies' performance 2013-14"

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This table shows Ofwat's latest KPIs assessment for the ten water and sewerage companies, covering a broad range of operational metrics.

Once again we have delivered a leading performance and the best amongst the listed companies, with predominantly green assessments. The EA's environmental performance report, published in the summer, also confirmed an upper quartile performance for UU.

We were delighted that our good asset serviceability performance over AMP5 was recognised by Ofwat in our draft determination, with UU being one of only four water and sewerage companies not to receive a penalty relating to this area.

I mentioned previously that we have developed a new operating model for our wholesale business. It takes us beyond the traditional approach to delivering water and wastewater services and introduces new levels of performance monitoring and response in delivering reliable services more efficiently. We are currently piloting the new model around our region and early results underpin our response to our draft determination in accepting Ofwat's upper quartile efficiency challenge. I will provide further detail in future presentations.

Turning to our capital delivery performance.

Wholesale – capital delivery
Continued good performance

- Sustained focus on delivering commitments on time and within budget
  - invested £419m in first half of 2014/15, up £12m on first half of last year
  - Time: Cost: Quality index (TCQi) performance continues at over 95%
- Cumulative capex in AMP5 of c£3.3bn: much improved delivery of outputs
- Expect to invest c£850m in 2014/15
  - includes transitional investment of around £40m

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

Delivery of our capital programme continues to go well, benefiting from our sustained focus on delivering commitments on time and within budget, and the improvements we have made in our project and risk management capability.

We invested £419 million in the first six months of this year, which is a £12 million increase on the first half of last year. And, importantly, our internal measure of how effectively we deliver our capital programme, our TCQi score, remains high. We continue to achieve a score of over 95 per cent. As a reminder, this compares with a score of around 50 per cent four years ago.

Our challenge now is to sustain this performance through this year and into AMP6.

Our cumulative investment in our assets across AMP5 now stands at £3.3 billion.

Having delivered our largest annual capital programme in a decade last year, we are on track to invest a similar amount this year and expect capex to be around £850 million. This includes transitional investment of around £40 million, which will aid a smoother and more effective start to AMP6. This transitional investment will be recovered within the forthcoming price determination.

I'd now like to cover our environmental, social and governance credentials, or ESG for short.

Operating in a responsible manner
Strong ESG credentials

- External recognition for strong ESG[1] performance
  - 'World Class' in Dow Jones Sustainability index for 7th consecutive year
  - Highest 'Platinum Big Tick' ranking in Business in the Community's CR index
  - membership of FTSE 350 Carbon Disclosure Leadership Index
  - PwC 'Highly Commended' status for 'Excellence in Reporting'
- Reinvesting c£280m of outperformance: customer and environmental benefits
- Expanding apprentice and graduate programmes
- Below inflation growth in average household bills for decade to 2020

[1] Environmental, social and governance

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Operating in a responsible manner is fundamental to the way in which we run our business. We have always placed significant emphasis on governance and we are pleased to see that our strong ESG performance continues to receive external recognition.

We have retained our 'World Class' rating in the Dow Jones Sustainability Index, an award we have now held for seven consecutive years. This year we also achieved industry leading performance status in the multi-utility / water sector.

UU has the highest ranking, 'Platinum Big Tick', in Business in the Community's Corporate Responsibility Index and holds membership of the FTSE 350 Carbon Disclosure Leadership Index.

We are one of only four FTSE 100 companies (and the only water company) to hold all three accolades.

In addition, we were pleased that PwC recently awarded UU 'Highly commended' status for 'Excellence in Reporting in the FTSE 100' at the 2014 Building Public Trust Awards.

Over AMP5 we have committed to reinvest around £280 million of our outperformance, providing benefits for customers and the environment.

As we look to the future, we have continued to expand our apprentice and graduate programmes to attract and develop high calibre people. In total, we have over 150 apprentices and graduates in the business at any one time.

Overall, our customers are set to benefit from below inflation growth in average household bills for the decade to 2020.

We believe that our responsible approach to business is delivering for all our stakeholders.

Now, over to Russ.

CHIEF FINANCIAL OFFICER

Russ Houlden

United Utilities

Thank you, Steve.

Good morning.

Financial performance
Highlights

- Underlying operating profit of £343m, up £3m or 1%
- Underlying profit before taxation of £221m, up £7m or 3%
- Underlying EPS of 25.8 pence, up 4%
- Interim dividend of 12.56 pence per ordinary share, up 4.6%
- Responsible financing and dividend policies

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

A two per cent increase in revenue, tight cost control and a lower tax rate combined to increase underlying operating profit by one per cent, underlying profit before tax by three per cent and underlying EPS by four per cent. This is after the impact of the previously announced special one-off customer discount, which is part of our responsible approach to business and our sharing of outperformance with customers.

We have declared an interim dividend of 12.56p per share, up 4.6 per cent. This increase comprises RPI inflation of 2.6 per cent for the year to November 2013, which is the rate included within our price limit for 2014/15, plus two per cent in line with our stated dividend policy.

We also have responsible financing policies, with RCV gearing down to 57 per cent which is within Ofwat's AMP5 range. And our dividend policy for AMP5, targeting growth of RPI+2 per cent each year, keeps dividends growing in line with RCV.

Profit after tax reconciliation
Prior year profit benefits from one-off tax credits

£m Six months ended 30 September *Continuing operations*	2014	2013 (Restated[1])
Reported profit after tax	**162.8**	**546.8**
Adjustments:		
One-off items[2]	2.6	1.5
Net fair value losses/(gains) on debt and derivative instruments	19.9	(100.0)
Interest on swaps and debt under fair value option	1.5	4.5
Net pension interest expense/(income)	3.6	(0.5)
Capitalised borrowing costs	(11.1)	(11.5)
Adjustment for release of tax interest accrual	-	(13.3)
Deferred taxation credit - change in taxation rate	-	(158.6)
Agreement of prior years' UK taxation matters	-	(125.0)
Taxation in respect of adjustments to underlying profit before tax	(3.5)	24.4
Underlying profit after tax	**175.8**	**168.3**
Basic earnings per share (pence)	**23.9**	**80.2**
Underlying earnings per share (pence)	**25.8**	**24.7**

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

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As usual, we have made some adjustments to reported profit to get to underlying profit, which we believe gives a more representative view of underlying performance.

We had a £20 million fair value loss in the half year, largely due to losses on the swap portfolio which fixes rates for the regulatory periods. This resulted from a decrease in medium-term sterling interest rates during the period, partly offset by a gain from the unwinding of our derivatives hedging interest rates to 2015. This £20 million fair value loss compares with a fair value gain of £100 million in the first half of last year.

We had no large one-off tax adjustments in the first half of this year, whereas last year we had two large one-off tax credits: £159 million relating to reductions in the corporation tax rate and £125 million relating largely to an agreement with HMRC.

These factors resulted in reported profit being significantly lower this year. However, the more meaningful underlying measure was up £8 million to £176 million.

Income statement – underlying
Another good financial performance

£m **Six months ended 30 September** *Continuing operations*	**2014**	**2013** (Restated[1])	**Movement**
Revenue	859.4	845.7	*+1.6%*
Operating expenses	(343.6)	(343.8)	*(0.1)%*
EBITDA	**515.8**	**501.9**	***+2.8%***
Depreciation and amortisation	(172.7)	(162.1)	*+6.5%*
Operating profit	**343.1**	**339.8**	***+1.0%***
Net finance expense	(124.4)	(127.6)	*(2.5)%*
Share of profits of joint ventures	2.5	2.1	*+19.0%*
Profit before tax	**221.2**	**214.3**	***+3.2%***
Tax	(45.4)	(46.0)	*(1.3)%*
Profit after tax	**175.8**	**168.3**	***+4.5%***
Earnings per share (pence)	**25.8**	**24.7**	***+4.5%***
Interim dividend per ordinary share (pence)	**12.56**	**12.01**	***+4.6%***

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

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

Revenue for the half year of £859 million was up £14 million, or 1.6 per cent, after adjusting for the special customer discount, of which £13 million was applied in the first half.

Underlying operating profit of £343 million was up £3 million as a result of the increase in revenue and tight cost control.

Underlying profit before tax of £221 million was £7 million higher than the first half of last year. This was due to the increase in underlying operating profit of just over £3 million, alongside a decrease in underlying net finance expense of just over £3 million which mainly reflects the impact of lower RPI inflation on our index-linked debt.

The underlying tax charge of £45 million was marginally 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
Tight cost control

£m Six months ended 30 September *Continuing operations*	2014	2013 (Restated[1])	Movement
Revenue	**859.4**	**845.7**	
Employee costs	(67.0)	(65.0)	(2.0)
Power	(32.0)	(30.6)	(1.4)
Property rates	(41.7)	(38.0)	(3.7)
Bad debts[2]	(23.1)	(18.3)	(4.8)
Regulatory fees	(19.6)	(19.1)	(0.5)
Other expenses	(85.7)	(94.8)	9.1
	(269.1)	**(265.8)**	**(3.3)**
Infrastructure renewals expenditure (IRE)	(74.5)	(78.0)	3.5
Depreciation and amortisation	(172.7)	(162.1)	(10.6)
Total underlying operating expenses	**(516.3)**	**(505.9)**	**(10.4)**
Underlying operating profit	**343.1**	**339.8**	
Adjustments:			
One-off costs[3]	(2.6)	(1.5)	
Reported operating profit	**340.5**	**338.3**	

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

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We have continued to manage our cost base tightly.

Overall, our total operating expenses, including IRE and depreciation, increased by £10 million or just two per cent.

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

Bad debts and cash collection
Challenging environment

- North West is the most deprived region in England
- Bad debt increased by £5m from 2.2% to 2.7% of regulated revenue
  - economic factors and tightening of real disposable incomes
  - additional revenue recognition and associated bad debt
  - provision review ahead of systems upgrades and full market opening
- Impact of welfare reform may intensify
- UU debt management externally recognised as efficient and effective
  - continue to refine and enhance to improve further

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We highlighted in May 2014 that debt collection was likely to become more challenging for UU, particularly as our region suffers from high levels of income deprivation. Even as 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. In the draft determination, Ofwat recognised the impact of deprivation on our retail costs by making an adjustment.

In the first half of this year, bad debt expense has increased by £5 million, from 2.2 per cent to 2.7 per cent of regulated revenue, as a result of three main factors, of which one is economic and the other two are more technical.

- first, the cumulative impact of economic factors on customers' ability to pay, including the tightening of real disposable incomes in the North West;
- second, an increase in the number of customers re-commencing payment through our help-to-pay initiatives has resulted in additional revenue recognition and associated bad debt, under IFRS accounting; and
- third, a recent review of bad debt provisions for business customers in preparation for systems upgrades, ahead of full market opening.

Looking ahead, bad debts will continue to be challenging for us, with the tightening of real disposable incomes, the impact of recent welfare reforms likely to intensify, and the possibility of further provision reviews as we enhance our systems.

Whilst our debt management processes have been externally benchmarked as efficient and effective, we will continue to refine and enhance them.

Financial position

Robust capital structure

£m At *Continuing operations*	30 Sept 14	31 Mar 14 (Restated)[1]
Property, plant and equipment	9,509.3	9,318.5
Retirement benefit surplus	-	-
Other non-current assets	162.7	155.1
Cash	110.6	115.8
Other current assets	393.3	370.2
Total derivative assets	561.3	512.9
Total assets	**10,737.2**	**10,472.5**
Gross borrowings	(6,249.4)	(6,041.5)
Other non-current liabilities	(1,541.4)	(1,501.4)
Retirement benefit obligations	(115.2)	(177.4)
Other current liabilities	(466.1)	(433.2)
Total derivative liabilities	(106.6)	(103.1)
Total liabilities	**(8,478.7)**	**(8,256.6)**
TOTAL NET ASSETS	**2,258.5**	**2,215.9**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,274.7	1,230.3
Other reserves	481.1	482.9
SHAREHOLDERS' EQUITY	**2,258.5**	**2,215.9**
NET DEBT[2]	**(5,684.1)**	**(5,515.9)**

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Net debt includes cash, borrowings and derivatives (slide 29)

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Turning now to the statement of financial position.

Property, plant and equipment was up £191 million in the first half of the year to £9.5 billion, as we continue to make good progress on our capex programme.

Cash and short term deposits of £111 million were similar to the position at March year end, with the impact of capital expenditure broadly offset by drawings from our EIB loan.

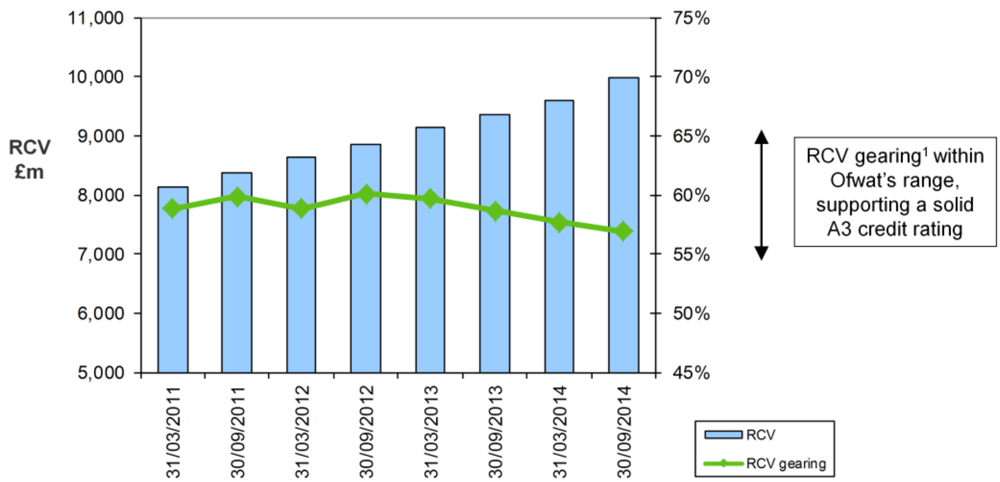
Total derivative assets have increased by £48 million, to £561 million, mainly due to a decrease in market interest rates during the period. Derivative liabilities remained broadly unchanged at £107million.

As at September 2014, the group had an IAS 19 pension deficit of £115 million, compared with a deficit of £177 million at March 2014. This £62 million favourable movement mainly reflects a decrease in inflation expectations, partly offset by a reduction in corporate credit spreads.

Retained earnings have increased by £44 million, mainly as a result of actuarial gains on our defined benefit pension schemes.

Net debt was £168 million higher than the position at March 2014, mainly reflecting expenditure on our substantial capital investment programme.

RCV and gearing
RCV gearing supports robust capital structure



- Including pensions deficit, gearing would be c58%

[1] RCV gearing calculated as group net debt / United Utilities Water's regulatory capital value adjusted for actual capex (outturn prices) and reflects information contained within Ofwat's draft determination, published in August 2014

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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. The September 2014 RCV has also been adjusted to reflect information contained within Ofwat's recent draft determination. These bars show the growth in our RCV.

The green line shows the movement in RCV gearing since we completed our non-regulated disposal programme. Our gearing has reduced by around one per cent, since March 2014, and is now 57 per cent, due to a modest increase in net debt compared with the growth in the RCV.

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

Cash flow statement
Cash from operations similar to last year

£m **Six months ended 30 September** *Continuing operations*	**2014**	**2013** (Restated)[1]
Net cash generated from operating activities	368.7	378.7
Net cash used in investing activities	(333.5)	(330.0)
Net cash used in financing activities	(13.3)	(179.0)
Net movement in cash	**21.9**	**(130.3)**

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

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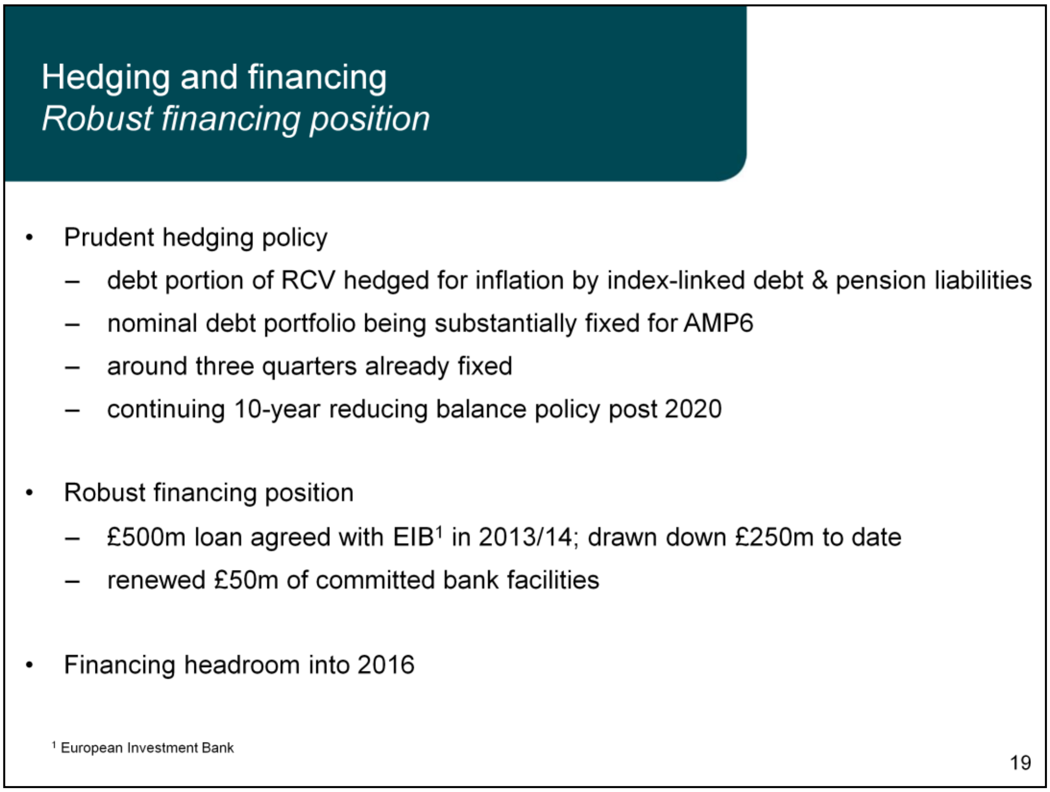
Moving on to cash flow.

Net cash generated from operating activities was £369 million, a reduction of £10 million compared with the first half of last year. This small decrease mainly reflects an increase in tax paid between the two periods.

Cash used in investing activities was similar, as our capital investment programme continued at high levels.

Net cash used in financing activities was just £13 million, compared with £179 million in the first half of last year. This difference is mainly due to the fact we drew down £150 million of cash from our EIB loan facility in the first half of this year.



And finally, an update on our hedging and financing.

Looking first at our hedging policy. As a reminder, we leave the equity portion of the RCV exposed to RPI inflation by hedging the debt portion of the RCV for inflation through index-linked debt and the effect of our pension scheme liabilities. With regard to nominal debt, we have now fixed around three quarters of our floating rate exposure across the 2015-20 period. We intend to substantially fix the remainder through to 2020, over the next six months.

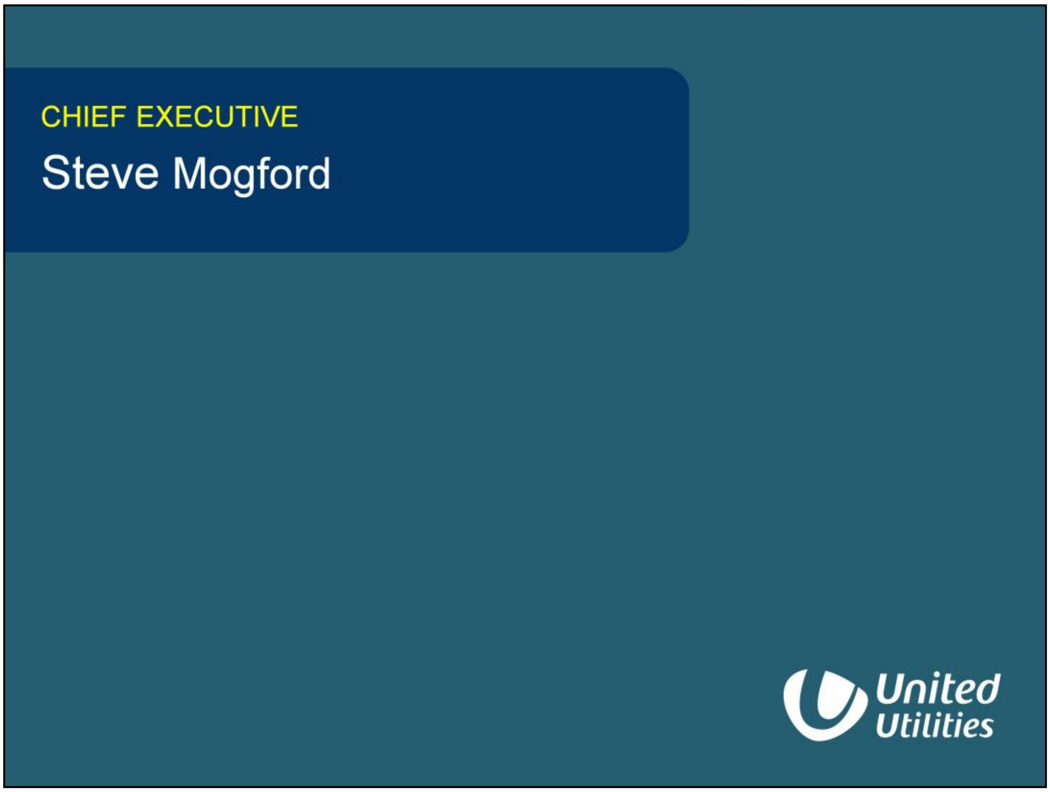
In preparation for AMP7, we intend to continue with our 10-year reducing balance policy, for the post 2020 period, to help manage our exposure to the cost of debt to be allowed at PR19.

Now, on to financing. In the second half of last year, we bolstered our robust financing position with a £500 million loan from the EIB. We chose not to take this loan in index-linked form as we were already appropriately hedged for inflation, in line with our policy. We have, so far, drawn down £250 million, with an average term to maturity of around 10 years. We intend to draw down the remainder of the loan, in tranches, within the next year.

In addition, we renewed £50 million of committed bank facilities in the first half of this year.

So, overall, we have continued to maintain a robust financing position, with headroom into 2016.

Now, back to Steve.



Thank you, Russ.

I'll provide a brief reminder as to how our AMP6 business plan is progressing, before summarising our performance.

2015-20 business plan
Comprehensive response to draft determination

- Reduced planned totex by c£370m
  - scope revisions
  - reassessment of implicit allowances in Ofwat's models
  - revised our costs to reflect Ofwat's view of upper quartile efficiency
- Proposed totex adjustments now £628m, in addition to that reflected in DD[1]
  - further independent evidence and assurance to support our cost claims
- PAYG[2] ratio adjusted to reflect revised level of totex and support financeability
- DD reflected adjustment for deprivation of c£19m p.a.
  - our representations addressed calculation of retail cost allowances
- Final determination due 12 December 2014

[1] Draft determination [2] Pay-as-you-go

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As you know, we submitted our representations in response to our draft determination in early October and in doing so made a number of revisions to our business plan. Our submission represented a comprehensive response to the points raised by Ofwat in our draft determination and in discussions thereafter.

The release we issued to the market at that time provides more detail about our representations and, although nothing has changed since then, I thought it would be useful today to give you a little more insight into the key drivers behind our plan revisions.

The wholesale totex component of our draft determination was a significant element of our representation. We made a number of revisions which reduced our claim by approximately £370 million. For simplicity, these fell into three principal areas:

- first, we made a number of scope adjustments reflecting developments since our earlier submissions;
- second, Ofwat had stated that its models made an implicit allowance for aspects of our business plan and for which we had made a claim for additional funding. Following third party analysis, we reduced our claim to account for such implicit allowances; and
- third, in issuing draft determinations, Ofwat required companies to achieve its estimate of upper quartile efficiency for totex in AMP6. We revised our submission to deliver this, supported by third party assurance of our costings.

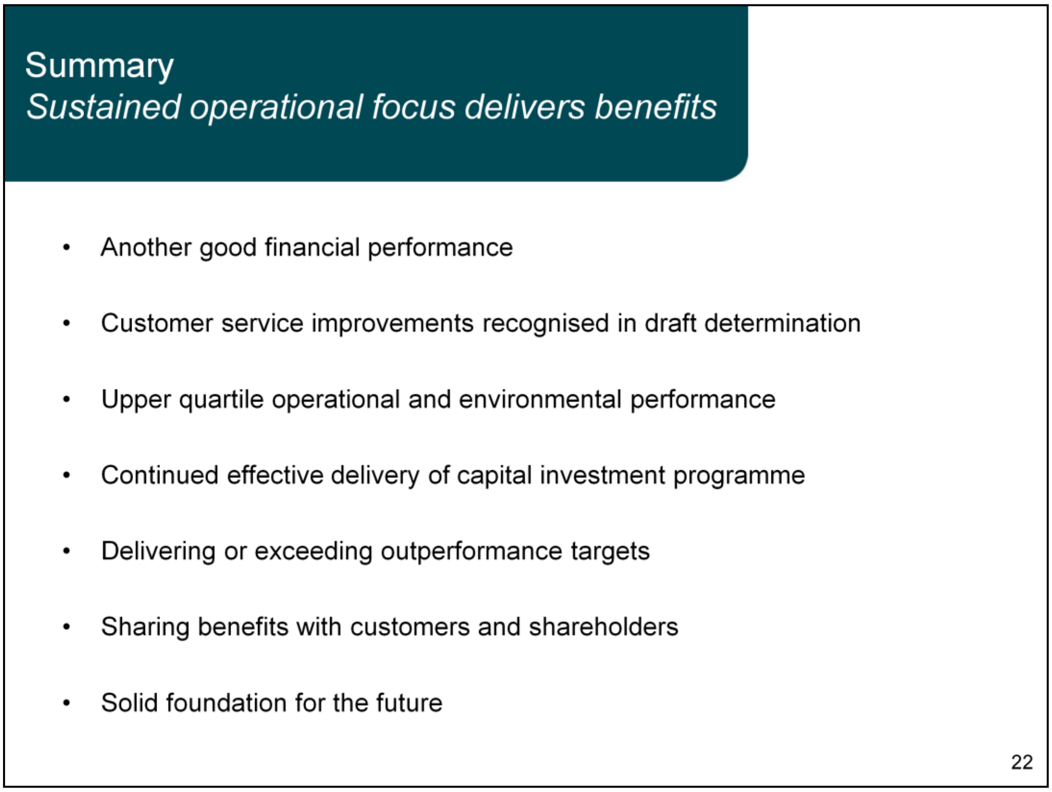
This leaves our remaining claim for totex adjustments at £628 million, which we believe are not accounted for in Ofwat's models. Ofwat asked for a significant amount of additional evidence, backed by third party assurance, in support of our claim and we provided a comprehensive submission.

The pay-as-you-go ratio Ofwat used in the draft determination did not reflect the impact of reduced totex on our opex/capex split. As financeability of our plan is particularly sensitive to FFO to debt, we have provided Ofwat with a revised set of pay-as-you-go ratios to be considered in setting our final determination. In our view, maintaining the existing credit ratings helps keep the cost of borrowing down and is in the best long-term interests of customers.

On retail, we were pleased that the draft determination reflected our proposal for a £19 million per annum adjustment, relating to the extreme levels of income deprivation in our region and the associated impact on our retail costs. Our representation also addressed a number of detailed points relating to calculation of retail cost allowances.

In formulating our response, we held detailed discussions with our regulators, our Customer Challenge Group and other stakeholders. We also had the opportunity to present our business plan revisions to Ofwat last month.

We now await the final determination, which Ofwat is scheduled to publish in a couple of weeks' time, on 12 December. We will then have two months to consider our response.



So, in summary, we have delivered another good financial performance.

Our improvement in customer satisfaction during AMP5 has taken us out of the SIM penalty zone.

We have again delivered strong operational, environmental and capital delivery performance.

We are delivering or exceeding our AMP5 outperformance targets.

And, we are continuing to take a responsible approach in sharing the benefits of our outperformance with customers and shareholders.

Overall, we have made significant and sustained performance improvements in AMP5 and, combined with our new wholesale operating model, this provides a solid foundation for the next regulatory period and beyond.

That concludes our results presentation.

Thank you for listening.

We'll now be pleased to take questions.

Supporting information

Reported income statement

Underlying profit before tax

Finance expense

Derivative analysis

Movement in net debt

Financing and liquidity

Term debt maturity profile

Debt structure

United Utilities

Income statement – reported
Tax credits enhance prior year earnings

£m **Six months ended 30 September** *Continuing operations*	**2014**	**2013** (Restated[1])
Revenue	859.4	845.7
Operating expenses	(346.2)	(345.3)
EBITDA	**513.2**	**500.4**
Depreciation and amortisation	(172.7)	(162.1)
Operating profit	**340.5**	**338.3**
Investment income and finance expense	(138.3)	(6.8)
Share of profits of joint ventures	2.5	2.1
Profit before tax	**204.7**	**333.6**
Taxation	(41.9)	213.2
Profit after tax	**162.8**	**546.8**
Basic earnings per share (pence)	**23.9**	**80.2**
Interim dividend per ordinary share (pence)	**12.56**	**12.01**

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

Underlying profit before tax
Increase on first half of last year

£m Six months ended 30 September *Continuing operations*	2014	2013 (Restated[1])
Operating profit	340.5	338.3
Investment income and finance expense	(138.3)	(6.8)
Share of profits of joint ventures	2.5	2.1
Profit before tax	**204.7**	**333.6**
Adjustments:		
One-off items[2]	2.6	1.5
Net fair value losses/(gains) on debt and derivative instruments	19.9	(100.0)
Interest on swaps and debt under fair value option	1.5	4.5
Net pension interest expense/(income)	3.6	(0.5)
Capitalised borrowing costs	(11.1)	(11.5)
Release of tax interest accrual	-	(13.3)
Underlying profit before tax	**221.2**	**214.3**

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

Finance expense
Underlying interest charge slightly lower

£m Six months ended 30 September *Continuing operations*	2014	2013 (Restated[1])
Investment income	0.6	1.0
Finance expense	(138.9)	(7.8)
	(138.3)	**(6.8)**
Less net fair value losses/(gains) on debt and derivative instruments	19.9	(100.0)
Adjustment for interest on swaps and debt under fair value option	1.5	4.5
Adjustment for net pension interest expense/(income)	3.6	(0.5)
Adjustment for capitalised borrowing costs	(11.1)	(11.5)
Release of tax interest accrual	-	(13.3)
Underlying net finance expense	**(124.4)**	**(127.6)**
Average notional net debt	**5,547**	**5,336**
Average underlying interest rate	**4.5%**	**4.8%**
Effective interest rate on index-linked debt	4.2%	4.8%
Effective interest rate on other debt	4.8%	4.8%

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

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

£m **Six months ended 30 September** *Continuing operations*	**2014**	**2013** (Restated[1])
Cash interest on index-linked debt	(25.0)	(24.4)
RPI adjustment to index-linked debt principal - 3 month lag[2]	(26.2)	(30.0)
RPI adjustment to index-linked debt principal - 8 month lag[3]	(11.4)	(14.5)
Finance expense on index-linked debt	**(62.6)**	**(68.9)**
Interest on other debt (including fair value option debt and swaps)	(61.8)	(58.7)
Underlying net finance expense	**(124.4)**	**(127.6)**

- Cash interest payment of £25m on c£3.0bn of index-linked debt
- Slight decrease in indexation charge due to lower RPI
- RPI benefit on RCV exceeds RPI impact on debt principal

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

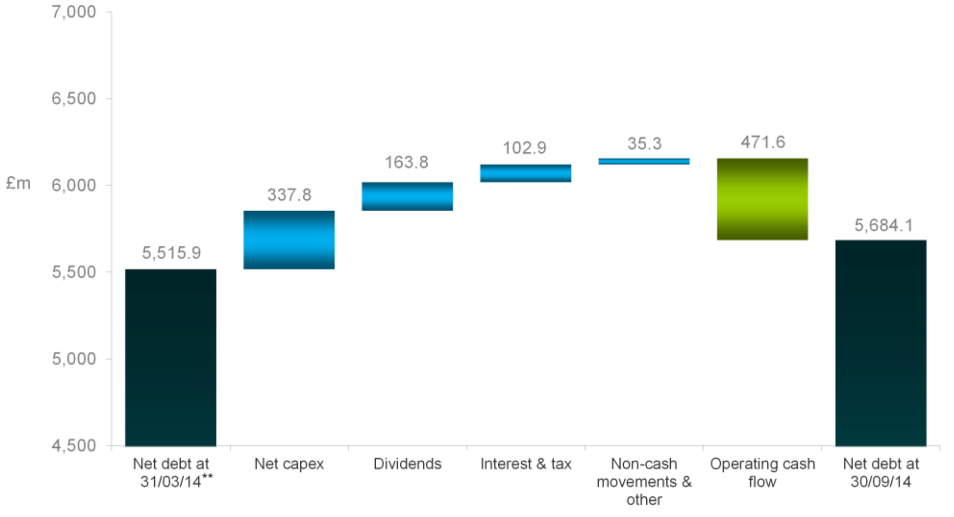
Derivative analysis
Derivatives intrinsically linked to debt

£m At	30 Sep 14	31 Mar 14
Derivatives hedging debt	546.6	482.5
Derivatives hedging interest rates to 2015	(34.3)	(59.3)
Derivatives hedging interest rates beyond 2015	(52.4)	(3.1)
Derivatives hedging commodity prices	(5.2)	(10.3)
Total derivatives assets and liabilities (slide 16)	**454.7**	**409.8**

- **Derivatives hedging debt; hedge our non index-linked debt into sterling, floating interest rate debt. Typically these are designated in fair value hedge accounting relationships**
- **Derivatives hedging interest rates to 2015; fix our sterling interest rate exposure out to 2015**
- **Derivatives hedging interest rates beyond 2015; fix our sterling interest rate exposure beyond 2015. This is in line with our strategy of fixing interest on a 10 year rolling average basis. This is supplemented by fixing substantially all remaining floating exposure across the future regulatory period around the time of the price control determination**
- **Derivatives hedging commodity prices; fix a proportion of our future electricity prices in line with our policy**
- **Derivatives are included within net debt to eliminate, to a certain extent, the fair value recognised in borrowings and thereby present a more representative net debt figure**
- **Further details of our group hedging strategy can be found in the Group financial statements**

Movement in net debt*

Moderate increase in line with expectations



* Net debt includes derivatives which incorporate regulatory swaps

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

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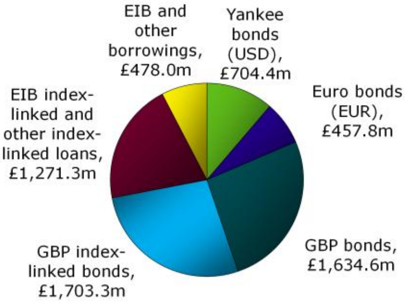
Financing & liquidity at 30 September 2014

Gross debt = £6,249.4m

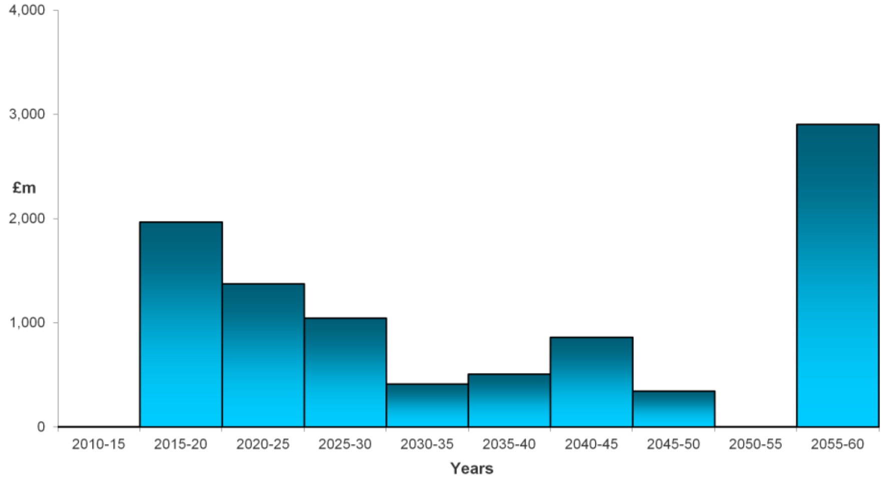


Headroom / prefunding = £719.3m

	£m
Cash and short-term deposits	110.6
Medium-term committed bank facilities[1]	450.0
Undrawn EIB term loan facility	250.0
Short-term debt	(88.9)
Term debt maturing within one year	(2.4)
Total headroom / prefunding	**719.3**

[1] Excludes £100m facilities maturing within one year

Term debt maturity profile[1]
Average term to maturity of close to 25 years



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

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Debt structure at 30 September 2014

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable

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

Other debt:
- Short-term loans £47m

United Utilities Water Limited[2]
A3 stable; BBB+ stable
Ring-fenced and regulated by Ofwat

Euro MTNs:
- £425m in 15s
- ¥5bn in 17s
- £150m in 18s
- €500m in 20s
- £375m in 22s
- £300m in 27s
- £50m in 32s[1]
- £200m in 35s
- £100m in 35s[1]
- £35m in 37s[1]
- £70m in 39s[1]
- £100m in 40s[1]
- £50m in 41s[1]
- £100m in 42s[1]
- £50m in 43s[1]
- £50m in 46s[1]
- £50m in 49s[1]
- £510m in 56s[1]
- £150m in 57s[1]

Other debt:
- EIB index-linked loans £1,000m[1]
- Other index-linked loans £100m[1]
- Other EIB loans £250m
- Short-term loans £32m
- Other loans £110m

United Utilities Water Finance PLC[3]
Guaranteed by United Utilities Water Ltd

[1] Index-linked finance
[2] United Utilities Water PLC re-registered as a private limited company and changed its name to United Utilities Water Limited (UUW) on 11 November 2014
[3] United Utilities Water Finance PLC (UUWF) is a new financing subsidiary of UUW established to issue any new listed debt on behalf of UUW going forward. Notes issued by UUWF will be unconditionally and irrevocably guaranteed by UUW and are therefore expected to be rated in line with UUW's credit ratings

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.