Half year results

Six months ended 30 September 2020

United Utilities Group PLC

United Utilities
Water for the North West

Steve Mogford
Chief Executive

Highlights

Robust support for customers, colleagues and communities throughout the COVID-19 pandemic

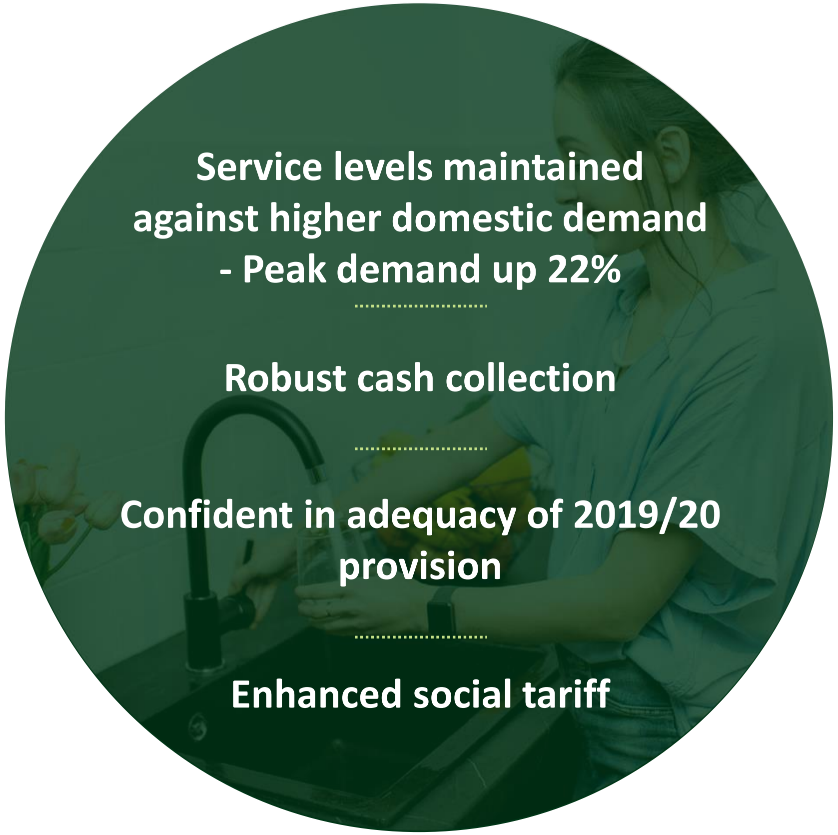
Strong and confident start to AMP7

Good financial performance backed by strong balance sheet

Reaffirming AMP7 dividend policy

Strong operational performance during COVID-19

Domestic customers



Business customers

Supporting customers and communities

Customer support

5%
households receiving support with their bill

Extended
eligibility for social tariff

Leading the way
on service

Accelerated
£71m
voluntary financial support committed over AMP7

Community support

Home learning hub helped 7,300 pupils during school closures

Hosted the industry's first Social Mobility Summit

Continuing to recruit graduates and apprentices; youth programme supporting young unemployed

Charitable support including 600,000 meals provided by local foodbanks

Supporting our colleagues

319
apprentices

97%
retention rate

187
graduates

91%
retention rate

80% key workers;
60% working from home

Accelerated **digital strategy**

COVID secure working environment

Technical training college established in 2014; 2,500 people trained

SOS scheme supporting colleagues' struggling families

UK **high performing** norm for employee engagement

BRITAIN'S HEALTHIEST WORKPLACE

THE WORKPLACE WELLBEING CHARTER

glassdoor
2020 BEST PLACES TO WORK

Strong and confident start to AMP7

Fast track
provided early visibility

£130m
investment in 2019/20 to get a fast start

Accelerating £500m
of AMP7 capex

£150m
additional projects at Bolton and Vyrnwy

Customer satisfaction
remains high – on track for C-MeX reward

Industry leading
pollution performance

On track
for 4* industry leading environmental performance

Completed
first replacement section of Haweswater Aqueduct

Delivering improved performance within the totex allowance

Upper quartile efficiency

Starting AMP7 at the required totex run rate

Driving sustainable performance

Confident in ability to deliver AMP7 scope within the final determination totex allowance

Living within the AMP7 totex envelope to drive efficiency and performance against ODIs

Will invest totex if we can deliver greater ODI benefit delivering value for customers and shareholders

Delivering value for customers and shareholders

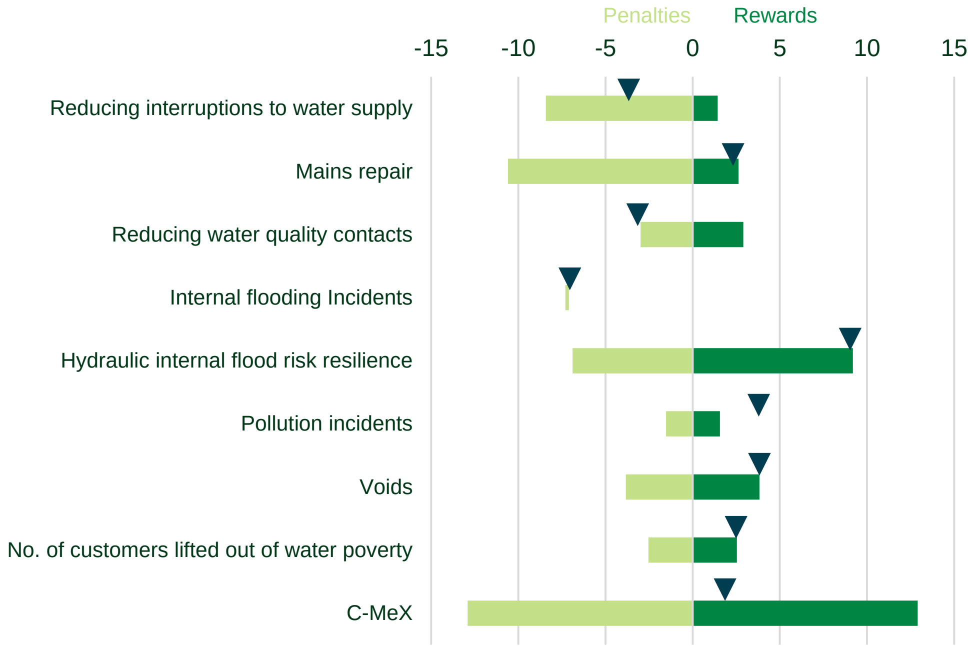
Driving performance to unlock ODI opportunities

1. £100m flying start
2. Accelerating AMP7 investment
3. Optimised plan for multiple benefits
4. Systems Thinking, innovation and digital strategy

Key ODIs driving current year performance

Year 1 forecast performance range (P10/P90)

▼ denotes current forecast performance against the range of possible outcomes



Current forecast performance is subject to change dependent upon performance in the second half of the year.

On track for ODI outperformance of £10m in 2020/21

Targeting total ODI outperformance for AMP7 in excess of AMP6

Reaffirming AMP7 dividend policy

Phil Aspin
Chief Financial Officer

Financial highlights

Revenue
£894m
↓ 4.4%
H1 2019/20: £936m

Household bad debt
1.8%
of revenue
H1 2019/20: 1.8%

Underlying operating profit
£319m
↓ 18.5%
H1 2019/20: £392m

Underlying EPS[1,2]
25.5p
↓ 16.1%
H1 2019/20: 30.4p

Strong balance sheet
Low customer debtor risk

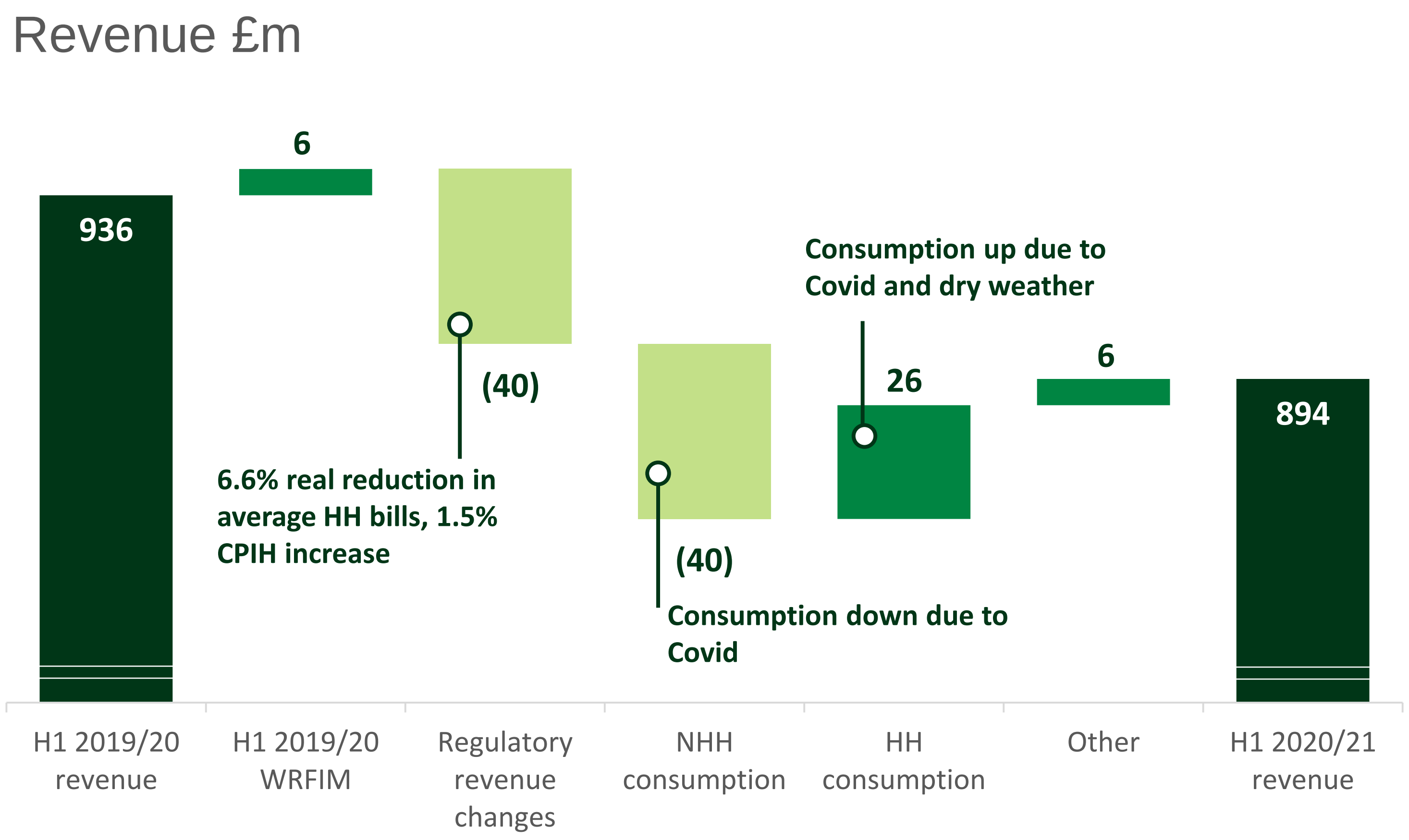
Strong balance sheet
63% RCV gearing
Supports A3 credit rating

Strong balance sheet
Fully funded pension scheme

[1] Underlying profit measures are reconciled to reported profit measures in the appendix

[2] Underlying EPS excludes the impact of deferred tax with prior year numbers restated for comparative purposes

Revenue



FY 2020/21 revenue guidance

- Revenue down £60-110m on prior year
- Volume impact £10-60m
- Revenue cap recovers volume impact in 2022/23

Household cash collection and bad debt

Current year household **cash collection** in line with last year

Confident in **adequacy** of **£17m** Mar-20 provision

Household **bad debt** for H1 2020/21 remains resilient at **1.8%** of regulated revenue

Government intervention to support jobs

Widest range of affordability schemes

Enhanced credit reference sharing

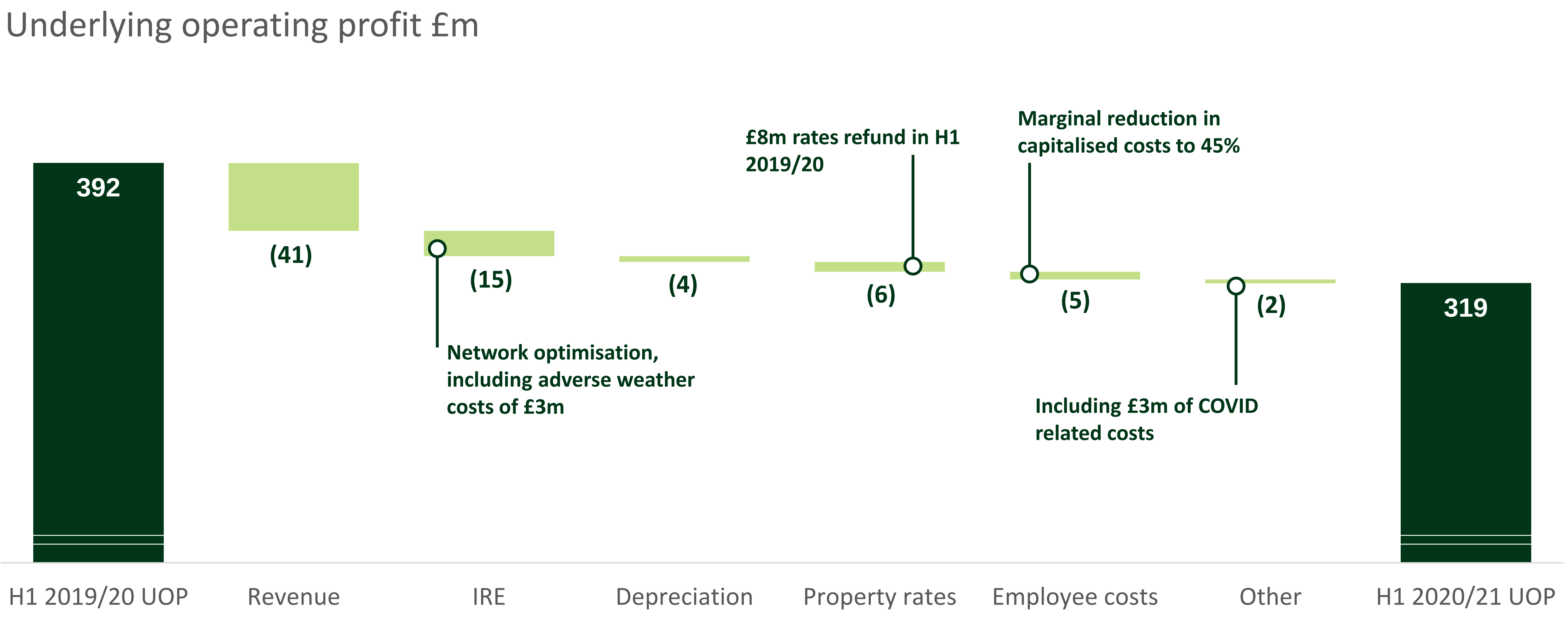
★ **Improved data quality, business processes and systems**

Additional c£15m available from extension of social tariff

★ **Comprehensive approach to collections**

★ 2020 Credit Awards for "Best Use of Technology" and "Utilities & Telecoms Team of the Year"

Underlying operating profit



Interest, joint ventures, tax and earnings

Underlying net finance expense
£108.5m

£34m lower than H1 2019/20

Lower inflation on index-linked debt

Joint Ventures
£2.5m

Share of **underlying profits**

H1 2019/20 £5.7m share of underlying losses

Net investment in Water Plus reduced to nil at March-20

Underlying tax charge[1]
18%

At **£39m**

Excludes deferred tax

In line with headline rate of 19% including deferred tax

Underlying profit after tax[1]
£174.0m

H1 2019/20: **£207.2m**

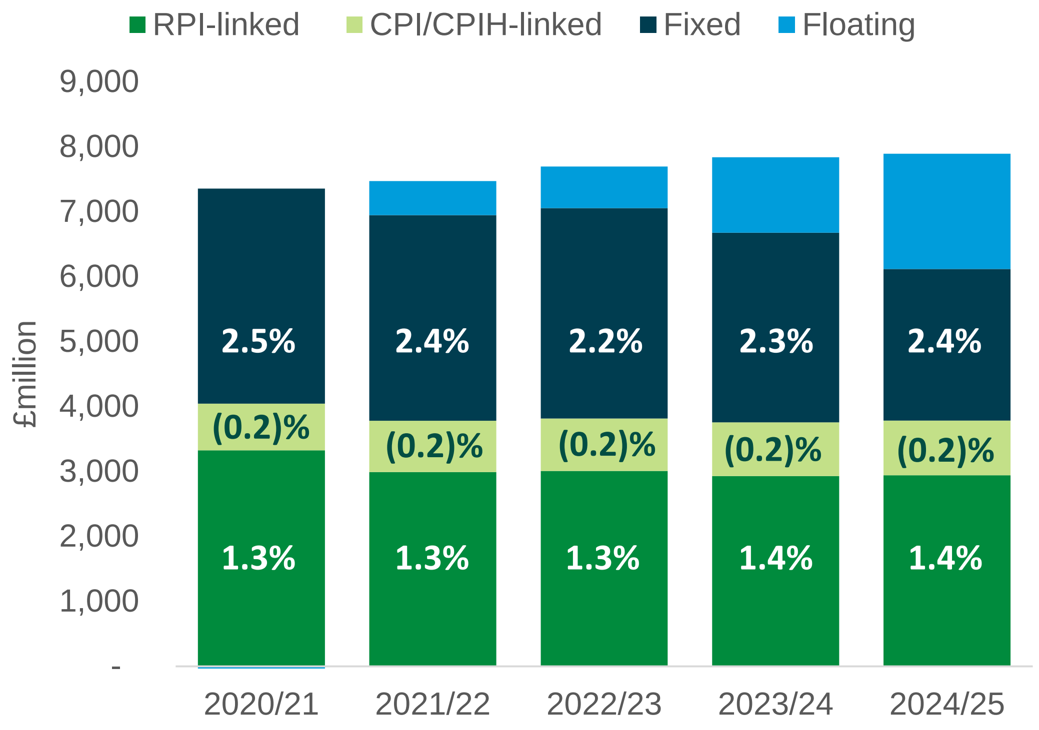
Underlying EPS of 25.5p

Down 16.1%

[1] Underlying profit after tax excludes the impact of deferred tax with prior year numbers restated for comparative purposes

Financing performance

Existing debt locked in at rates favourable to the AMP7 allowed cost of embedded debt

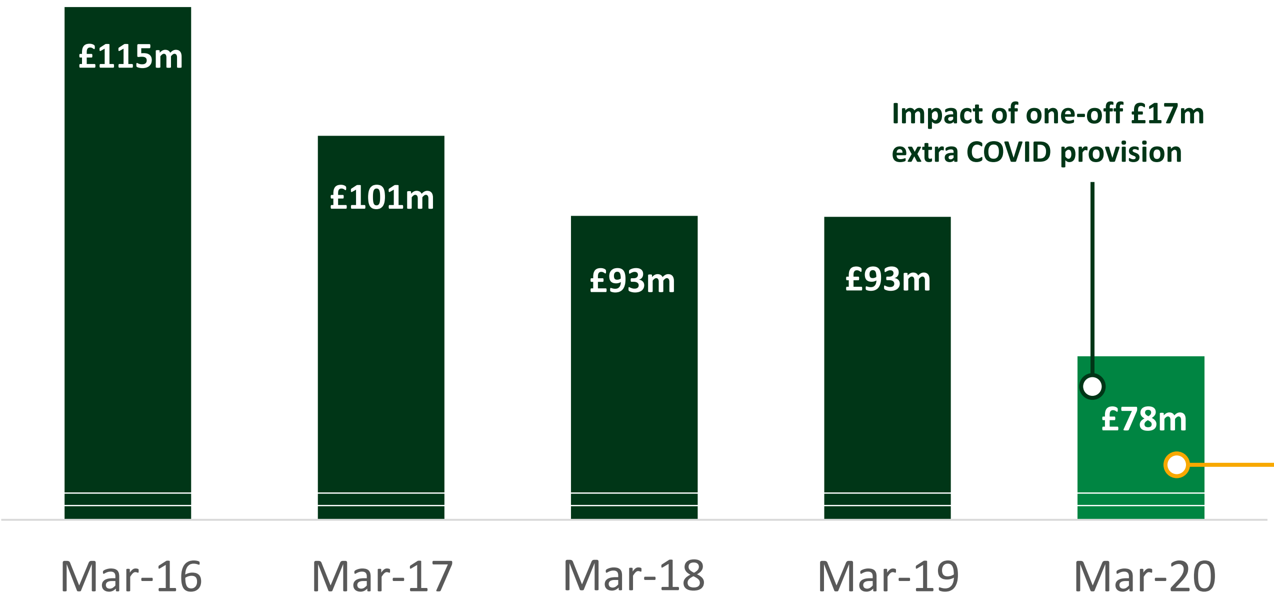


The rates shown are real rates for the index-linked debt and nominal rates for the fixed rate debt.
Floating rate debt will be progressively fixed in line with 10 year reducing balance hedging policy.

- £2.4bn financing to raise in AMP7
- £600m raised in H1 at attractive rates
- Liquidity extended out to September 2022
- Central bank stimulus supportive
- First CPIH swap
- Launched sustainable finance framework replacing green EIB funding

Strong balance sheet – low household debtor risk

Household customer receivables position on the balance sheet



Gross household debtors net of provision

2020 household debtors

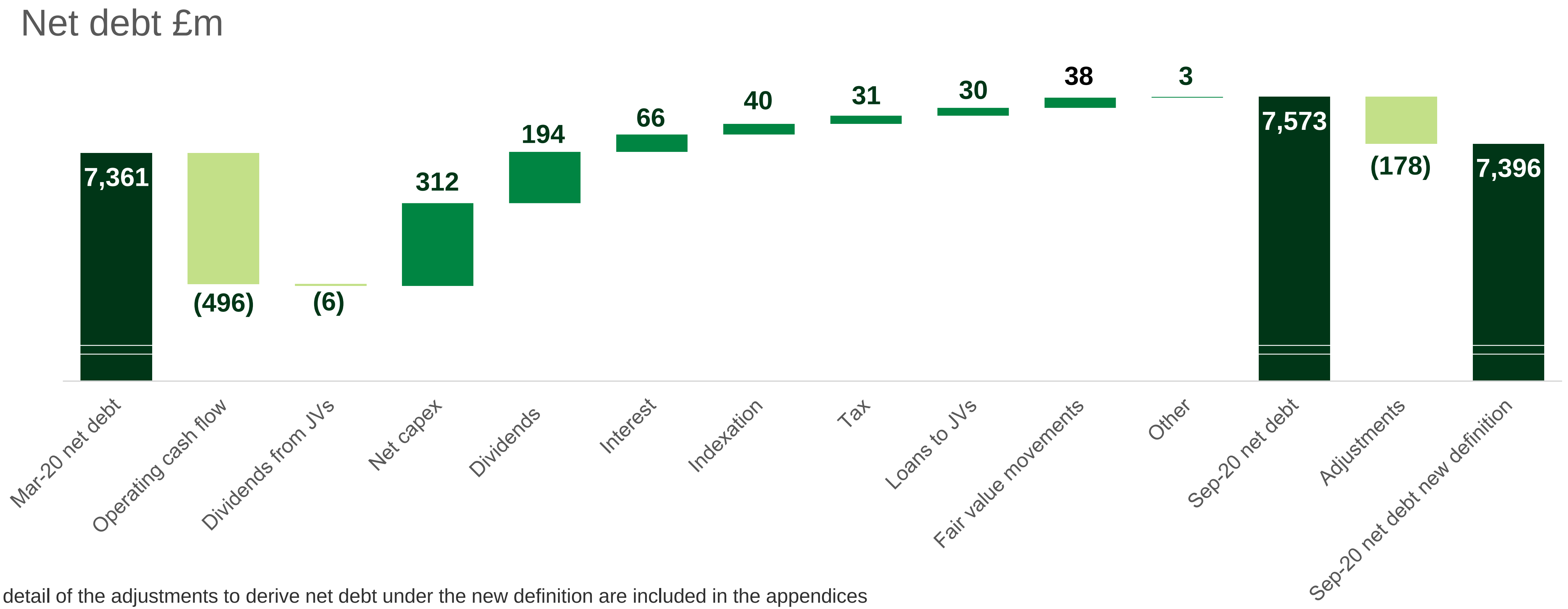
	£m
Trade debtors <1 year	60.2
Trade debtors 1-2 years	16.4
Trade debtors >2 years	0.9
Total	**77.5**

Reconciliation to UUW statutory accounts provided in the appendices

Confident in the adequacy of 2019/20 bad debt provision

Strong balance sheet – net debt to RCV gearing

RCV gearing of 63% supports stable A3 credit rating with Moody's



Full detail of the adjustments to derive net debt under the new definition are included in the appendices

Had the same adjustments been made at March-20, net debt would have been £135m lower

Strong balance sheet – the pensions journey

Position today

Pension scheme **fully funded** on a **low dependency** basis with no further pension deficit contributions due

Strong position consistent with the Pensions Regulator's **fast track** classification

Reaffirming AMP7 dividend policy

Medium term inflation forecasts have stabilised

HMT and BoE forecast firm recovery in inflation over next 2 years

Significant central bank stimulus

Government intervention and fiscal policy to support the economy

Excellent operational performance

Confident start to AMP7

On track against plan

ODI outperformance of £10m for 2020/21

Strong balance sheet

Low residual household debtor risk

RCV gearing of 63%

Fully funded pension scheme on low dependency basis

A3 stable credit rating with Moody’s

2020/21 full year outlook

Revenue	£1.75-1.80bn	• c5% average household bill reduction year 1 of AMP7 • COVID-19 impact reducing non-household consumption partly offset by increased household consumption
Underlying operating costs	↑	• Higher IRE • Small inflationary increases to core costs
Underlying finance expense	↓	• Lower RPI and CPI impacting index-linked debt
Capex	£590-640m	• Acceleration of AMP7 capex profile • Excludes IRE included in operating costs
ODIs	Reward	• Expect net positive reward of around £10m in year 1 of AMP7

Financial summary

Strong financial performance

Robust cash collection and bad debt position

Locked in debt at **low rates** compared with price review assumptions

Strong balance sheet with **leading pensions** position and **low household debtor risk**

Stable inflation forecasts, monetary and **fiscal policy** are supportive

Steve Mogford

Chief Executive

Playing our part in the green economic recovery

1
On track

Confident in delivering our existing AMP7 requirements – a prerequisite for accelerating AMP8 schemes

2
AMP7 acceleration

Already accelerating £500m of AMP7 capex

Delivering environmental and operational improvements

3
Enhancement projects

Around £150m remunerated through ODI or totex adjustment

Bringing forward environmental and customer benefits

4
AMP8 acceleration

Schemes to support earlier delivery of regulatory requirements, climate change or resilience

Bringing forward schemes for environmental and customer benefits

Projects will be subject to appropriate cost benefit analysis

Strong performance across a broad range of ESG indices

FTSE4Good

GRESB

MEMBER OF
Dow Jones Sustainability Indices
In collaboration with SAM

Corporate Responsibility
Prime
RATED BY ISS ESG

MSCI ESG RATINGS AA
CCC B BB BBB A AA AAA

SUSTAINALYTICS

EURONEXT vigeoeiris INDICES UK 20

ETHIBEL SUSTAINABILITY INDEX EXCELLENCE Europe

Established a sustainable financing framework to replace green EIB funding no longer available

Read more about our approach to ESG at:
https://www.unitedutilities.com/globalassets/documents/pdf/united-utilities-esg-booklet-2020.pdf

Summary

Managing the impact of COVID-19

Focused on delivering our AMP7 plans

Responsible value creation for all stakeholders

Reaffirming AMP7 dividend policy

Any questions?

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.

This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016 and for UK Regulatory purposes the person responsible for making the announcement is Simon Gardiner, Company Secretary.

Supporting information

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Underlying income statement

Six months ended 30 September £m	2020	2019	Change (%)
Revenue	**894.4**	**935.5**	**-4%**
Operating expenses	(289.2)	(276.5)	
Infrastructure renewals expenditure	(83.3)	(68.0)	
EBITDA	**521.9**	**591.0**	**-12%**
Depreciation and amortisation	(202.8)	(199.3)	
Operating profit	**319.1**	**391.7**	**-19%**
Net finance expense	(108.5)	(142.0)	
Share of profits / (losses) of joint ventures	2.5	(5.7)	
Profit before tax	**213.1**	**244.0**	**-13%**
Tax[1]	(39.1)	(36.8)	
Profit after tax	**174.0**	**207.2**	**-16%**
Earnings per share[1] (pence)	**25.5**	**30.4**	**-16%**
Interim dividend per ordinary share (pence)	**14.41**	**14.20**	**+1.5%**

[1] Underlying profit measures exclude the impact of deferred tax with prior year numbers restated for comparative purposes

Underlying operating costs

Six months ended 30 September £m	2020	2019	Change (%)
Revenue	**894.4**	**935.5**	**-4%**
Employee costs	(78.0)	(73.3)	+6%
Hired and contracted services	(45.9)	(47.2)	-3%
Property rates	(45.2)	(39.3)	+15%
Materials	(39.5)	(36.9)	+7%
Power	(38.5)	(36.6)	+5%
Regulatory fees	(14.5)	(14.1)	+3%
Bad debts	(11.7)	(11.8)	-1%
Other expenses	(15.9)	(17.3)	-8%
	(289.2)	**(276.5)**	**+5%**
Infrastructure renewals expenditure (IRE)	(83.3)	(68.0)	+23%
Depreciation and amortisation	(202.8)	(199.3)	+2%
Total underlying operating expenses	**(575.3)**	**(543.8)**	**+6%**
Underlying operating profit	**319.1**	**391.7**	**-19%**
Adjustments:			
Restructuring costs	(0.6)	(8.7)	-93%
Reported operating profit	**318.5**	**383.0**	**-17%**

Profit before tax reconciliation

£m	30 Sep 2020	30 Sep 2019	31 Mar 2020
Operating profit	318.5	383.0	630.3
Investment income and finance expense	(119.9)	(182.2)	(289.0)
Share of profits/(losses) of joint ventures	2.5	(5.7)	(38.1)
Reported profit before tax	**201.1**	**195.1**	**303.2**
Adjustments:			
Bioresources asset write down	-	-	82.6
COVID-19	-	-	56.2
Restructuring costs	0.6	8.7	11.8
Net fair value losses on debt and derivative instruments	27.1	62.6	76.3
Interest on swaps and debt under fair value option	10.0	10.1	16.5
Net pension interest income	(8.7)	(6.8)	(14.0)
Capitalised borrowing costs	(17.0)	(25.7)	(40.6)
Underlying profit before tax	**213.1**	**244.0**	**492.0**

Profit after tax reconciliation

£m	30 Sep 2020	30 Sep 2019	31 Mar 2020
Reported profit after tax	**162.0**	**158.6**	**106.8**
Adjustments:			
Bioresources asset write down	-	-	82.6
COVID-19	-	-	56.2
Restructuring costs	0.6	8.7	11.8
Net fair value losses on debt and derivative instruments	27.1	62.6	76.3
Interest on swaps and debt under fair value option	10.0	10.1	16.5
Net pension interest income	(8.7)	(6.8)	(14.0)
Capitalised borrowing costs	(17.0)	(25.7)	(40.6)
Deferred tax adjustment	5.1	12.4	157.5
Agreement of prior years' tax matters	-	-	(12.2)
Tax in respect of adjustments to underlying profit before tax	(5.1)	(12.7)	(11.3)
Underlying profit after tax[1]	**174.0**	**207.2**	**429.6**
Basic earnings per share (pence)	**23.8**	**23.3**	**15.7**
Underlying earnings per share[1] (pence)	**25.5**	**30.4**	**63.0**

[1] Underlying profit measures exclude the impact of deferred tax with prior year numbers restated for comparative purposes

Finance expense

Six months ended 30 September £m	2020	2019
Investment income	12.1	11.7
Finance expense	(132.0)	(193.9)
	(119.9)	**(182.2)**
Less net fair value losses on debt and derivative instruments	27.1	62.6
Adjustments for interest on swaps and debt under fair value option	10.0	10.1
Adjustment for net pension interest income	(8.7)	(6.8)
Adjustment for capitalised borrowing costs	(17.0)	(25.7)
Underlying net finance expense	**(108.5)**	**(142.0)**
Average notional net debt	**7,257**	**7,106**
Average underlying interest rate	**3.0%**	**4.0%**
Effective interest rate on index-linked debt	3.2%	4.9%
Effective interest rate on other debt	2.7%	2.9%

Finance expense: index-linked debt

Six months ended 30 September £m	2020	2019
Interest on index-linked debt	(25.0)	(25.5)
RPI adjustment to index-linked debt principal – 3 month lag[1]	(32.8)	(61.8)
CPI adjustment to index-linked debt principal – 3 month lag[2]	(5.5)	(4.9)
RPI adjustment to index-linked debt principal – 8 month lag[3]	(3.0)	(3.6)
Finance expense on index-linked debt[4]	**(66.3)**	**(95.8)**
Interest on other debt (including fair value option debt and derivatives)	(42.2)	(46.2)
Underlying net finance expense	**(108.5)**	**(142.0)**

[1] Affected by movement in RPI between January 2020 and July 2020
[2] Affected by movement in CPI between January 2020 and July 2020
[3] Affected by movement in RPI between July 2019 and January 2020
[4] Adjusted to overlay the impact of inflation swaps

Derivative analysis

At 30 September £m	2020	2019
Derivatives hedging debt	652.4	687.8
Derivatives hedging interest rates	(180.8)	(144.3)
Derivatives hedging commodity prices	2.2	1.1
Total derivative assets and liabilities	**473.8**	**544.6**

- 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; the majority fix our sterling interest rate exposure on a 10 year rolling average basis. For the AMP6 regulatory period, this was supplemented by fixing substantially all remaining floating exposure across the future regulatory period around the time of the price control determination. A portion of these derivatives instead fix future real interest rates through inflation-linked swaps.
- Derivatives hedging commodity prices; fix a proportion of our future electricity prices in line with our policy.
- Derivatives hedging specific debt instruments 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.

Statement of financial position

At £m	30 Sep 2020	31 Mar 2020	Change (%)
Property, plant and equipment	11,648.9	11,510.9	+1%
Retirement benefit surplus	654.3	754.1	-13%
Other non-current assets	346.8	332.9	+4%
Cash	899.0	528.1	+70%
Other current assets	300.3	300.2	+0%
Total derivative assets	661.9	617.9	+7%
Total assets	**14,511.2**	**14,044.1**	**+3%**
Gross borrowings	(8,946.2)	(8,363.1)	+7%
Other non-current liabilities	(2,209.1)	(2,223.8)	-1%
Other current liabilities	(336.5)	(350.8)	-4%
Total derivative liabilities	(188.1)	(144.3)	+30%
Total liabilities	**(11,679.9)**	**(11,082.0)**	**+5%**
TOTAL NET ASSETS	**2,831.3**	**2,962.1**	**-4%**
Share capital	499.8	499.8	-
Share premium	2.9	2.9	-
Retained earnings	1,992.7	2,122.7	-6%
Other reserves	335.9	336.7	-0%
SHAREHOLDERS' EQUITY	**2,831.3**	**2,962.1**	**-4%**
NET DEBT[1]	**(7,395.8)**	**(7,226.7)**	**+2%**

[1] Reconciliation of net debt included on the following slide

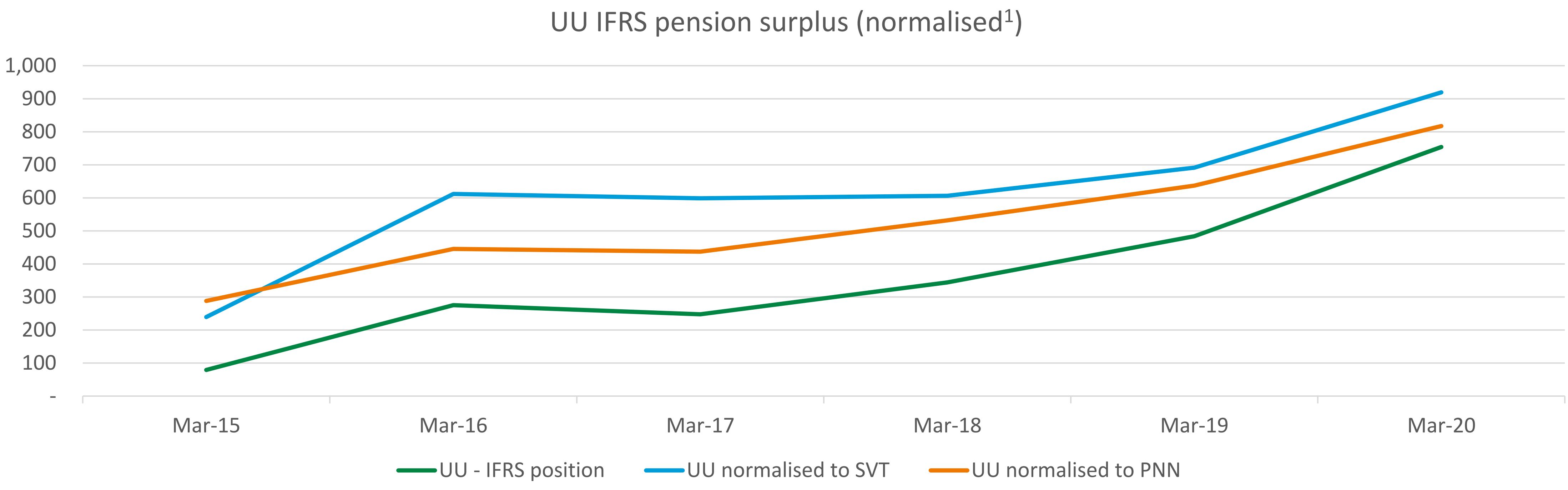
Reconciliation of net debt

At £m	30 Sep 2020	31 Mar 2020
Cash	899.0	528.1
Total derivative assets	661.9	617.9
Gross borrowings	(8,946.2)	(8,363.1)
Total derivative liabilities	(188.1)	(144.3)
Net debt on previous definition	**(7,573.4)**	**(7,361.4)**
Exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	152.6	120.6
Inflation derivatives fixing future real interest rates	27.2	11.9
Electricity derivatives fixing future electricity costs	(2.2)	2.2
Net debt on new definition	**(7,395.8)**	**(7,226.7)**

2020 household debtors reconciliation

As at £m	31 March 2020
Household net debtors	77.5
Household accrued income	54.6
Non household net debtors	37.9
Other sundry net debtors	31.3
Total net debtors (including related parties)	**201.3**
Less related party debtors	(52.7)
Less total accrued income	(72.1)
Net debtors per UUW statutory accounts	**76.5**

IFRS pension surplus (normalised)

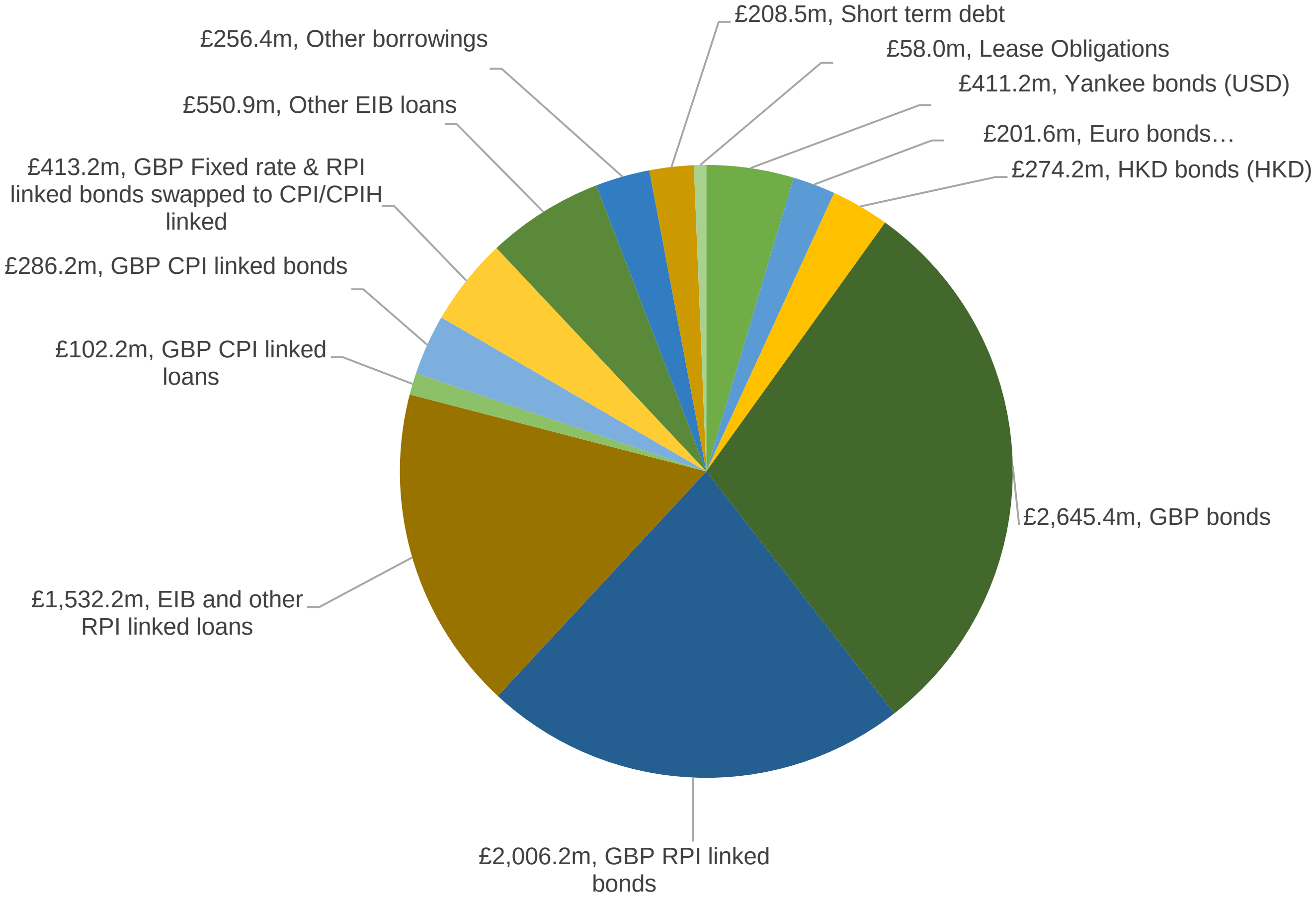


Source: Companies' annual reports and accounts

[1] Normalised for inflation, discount rate and mortality assumptions

Financing and liquidity at 30 September 2020

Gross debt = £8,946.2m



Headroom / prefunding = £848.3m

	£m
Cash and short-term deposits	899.0
Medium-term committed bank facilities	800.0
Short-term debt	(208.5)
Term debt maturing within one year	(642.2)
Total headroom / prefunding	**848.3**

Debt structure at 30 September 2020

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable; A- stable[7]

Yankees:
- $400m in 28s

Other debt:
- Short-term loans £120m

United Utilities Water Limited
A3 stable; BBB+ stable; A- stable[7]
Ring-fenced and regulated by Ofwat

Euro MTNs:
- £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]
- £20m in 43s[1]
- £50m in 46s[1]
- £50m in 49s[1]
- £510m in 56s[1]
- £150m in 57s[1]

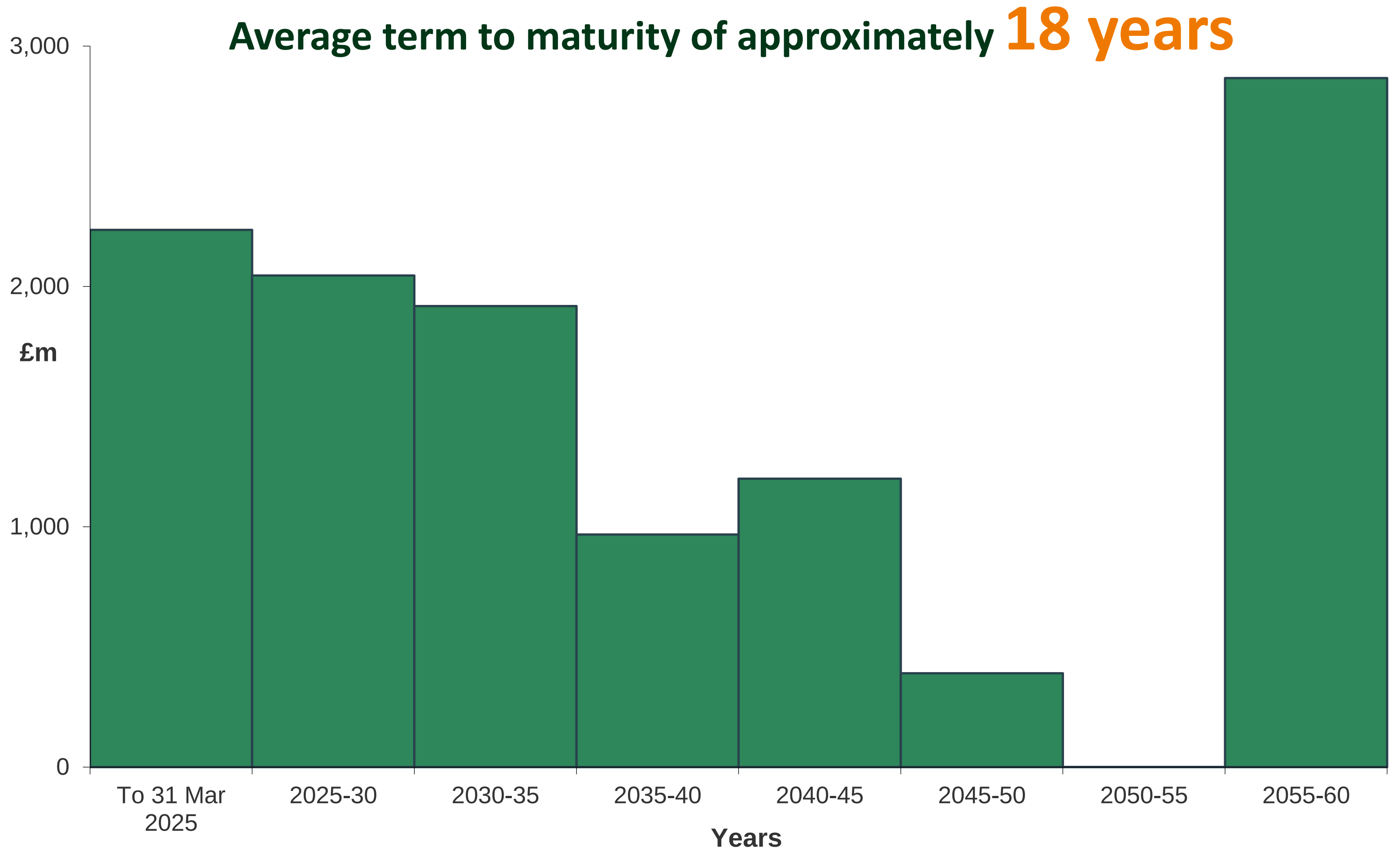
Other debt:
- EIB RPI-linked loans £941m[1]
- Other RPI-linked loans £300m[1]
- CPI-linked loans £100m[2]
- Other EIB loans £551m
- Short-term loans £68m
- ¥10bn dual currency loan
- Other sterling loans £127m

United Utilities Water Finance PLC[6]
Guaranteed by United Utilities Water Ltd

Euro MTNs:
- £450m in 25s
- £25m in 25s[1]
- HK$320m in 26s
- HK$739m in 26s
- €52m in 27s
- HK$830m in 27s
- £20m in 28s[1]
- £35m in 30s[1]
- €30m in 30s
- £425m in 31s[4]
- €30m in 31s
- HK$600m in 31s
- US$35m in 31s
- £38m in 31s[3]
- £20m in 31s[2]
- €28m in 32s
- €26m in 32s
- €30m in 33s
- £350m in 33s[5]
- £27m in 36s[3]
- £29m in 36s[3]
- £20m in 36s[2]
- £60m in 37s[2]
- £250m in 38s
- £95m in 40s[2]
- £300m in 42s
- £32m in 48s[2]
- £33m in 57s[2]

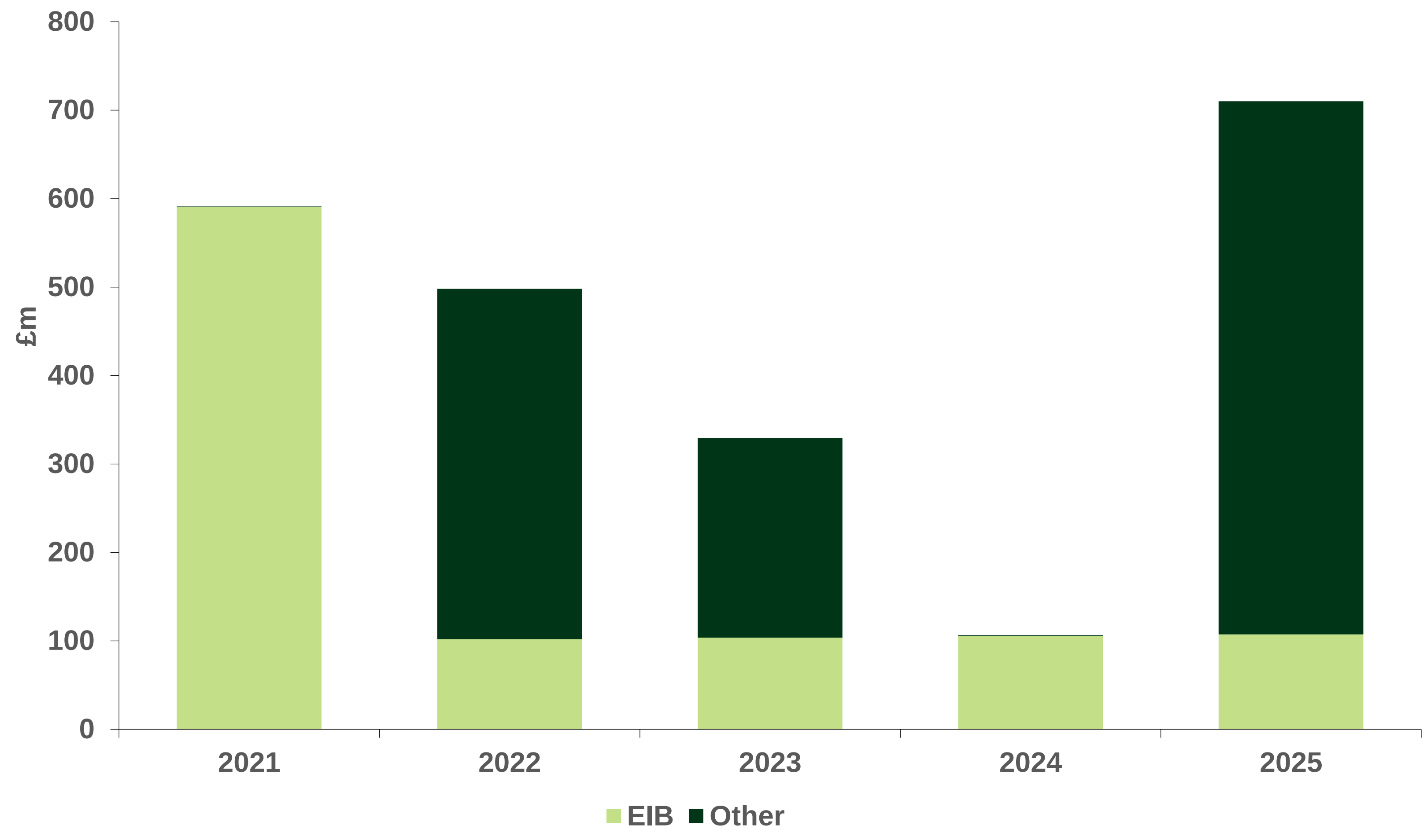
[1] RPI linked finance
[2] CPI linked finance
[3] RPI linked finance subsequently swapped to CPI linked
[4] £100m and £75m fixed rate tranches of this bond have been swapped to CPI linked
[5] Two £50m fixed rate tranches of this bond have been swapped to CPI/CPIH linked
[6] United Utilities Water Finance PLC (UUWF) is a financing subsidiary of United Utilities Water Limited (UUW) established to issue new listed debt on behalf of UUW. Notes issued by UUWF are unconditionally and irrevocably guaranteed by UUW and are rated in line with UUW's credit ratings
[7] Senior unsecured debt ratings published by Moody's; Standard & Poor's; Fitch respectively

Term debt maturity profile as at 30 September 2020[1]



[1] Future repayments of index-linked debt include inflation based on an average annual RPI rate of 3% and an average annual CPI rate of 2%

AMP7 maturity profile

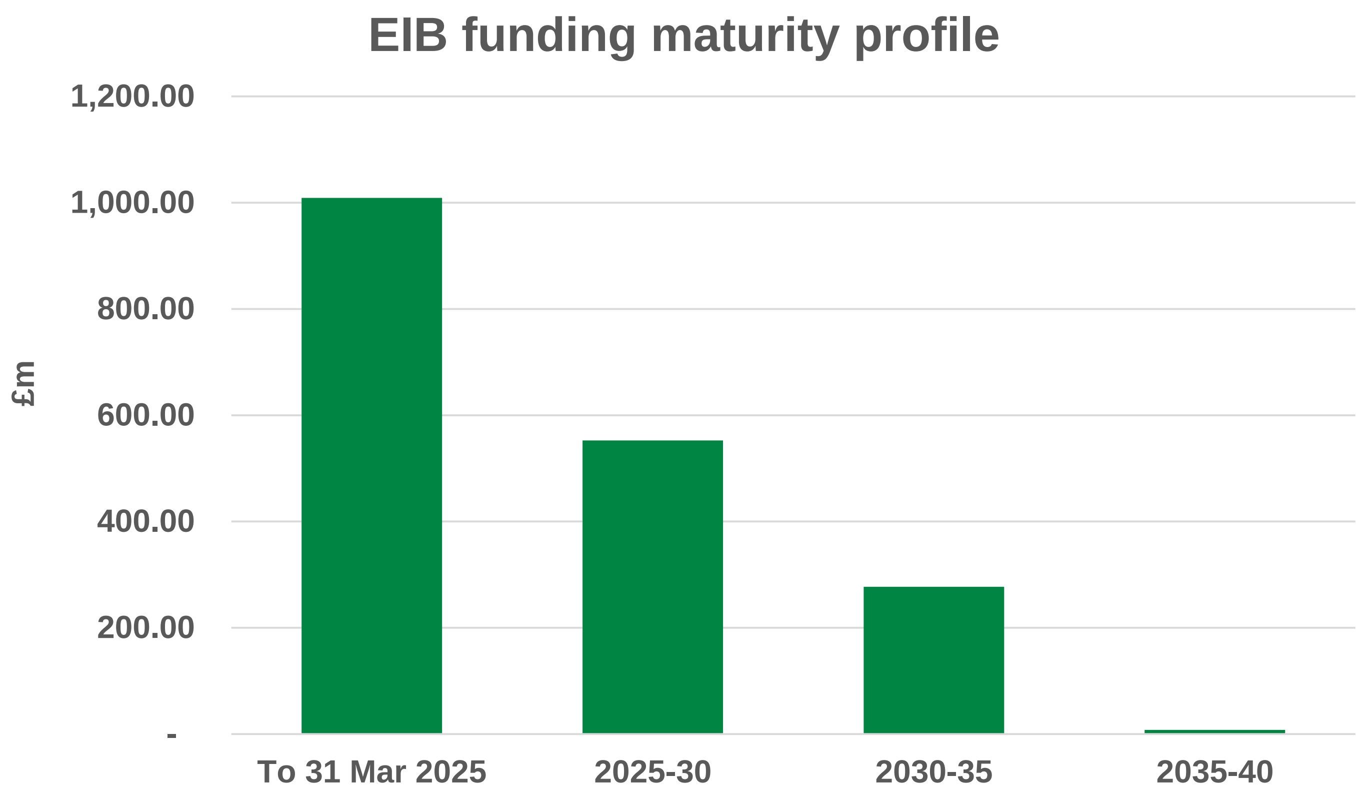


Notes

Future repayments of RPI linked debt include inflation based on an average annual RPI rate of 3%.

Light green areas represent EIB debt maturing whereas dark green areas represent other debt maturing.

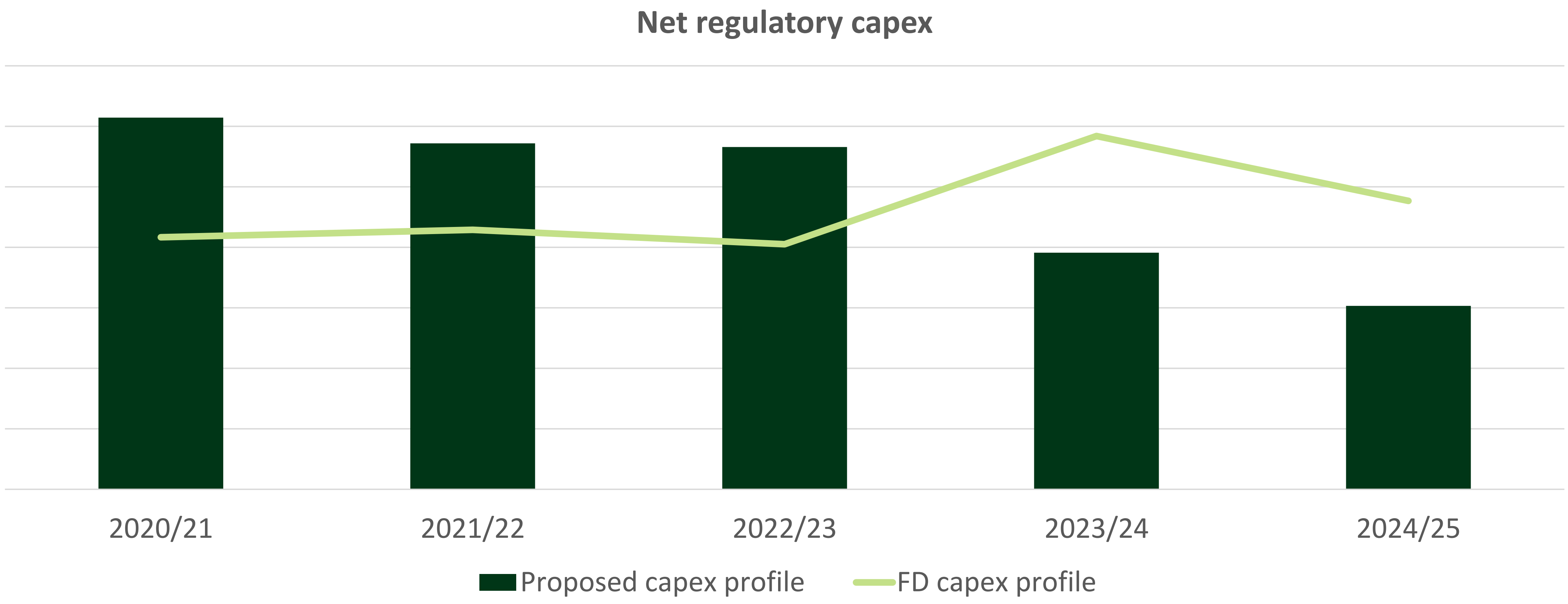
EIB funding maturity profile



Notes

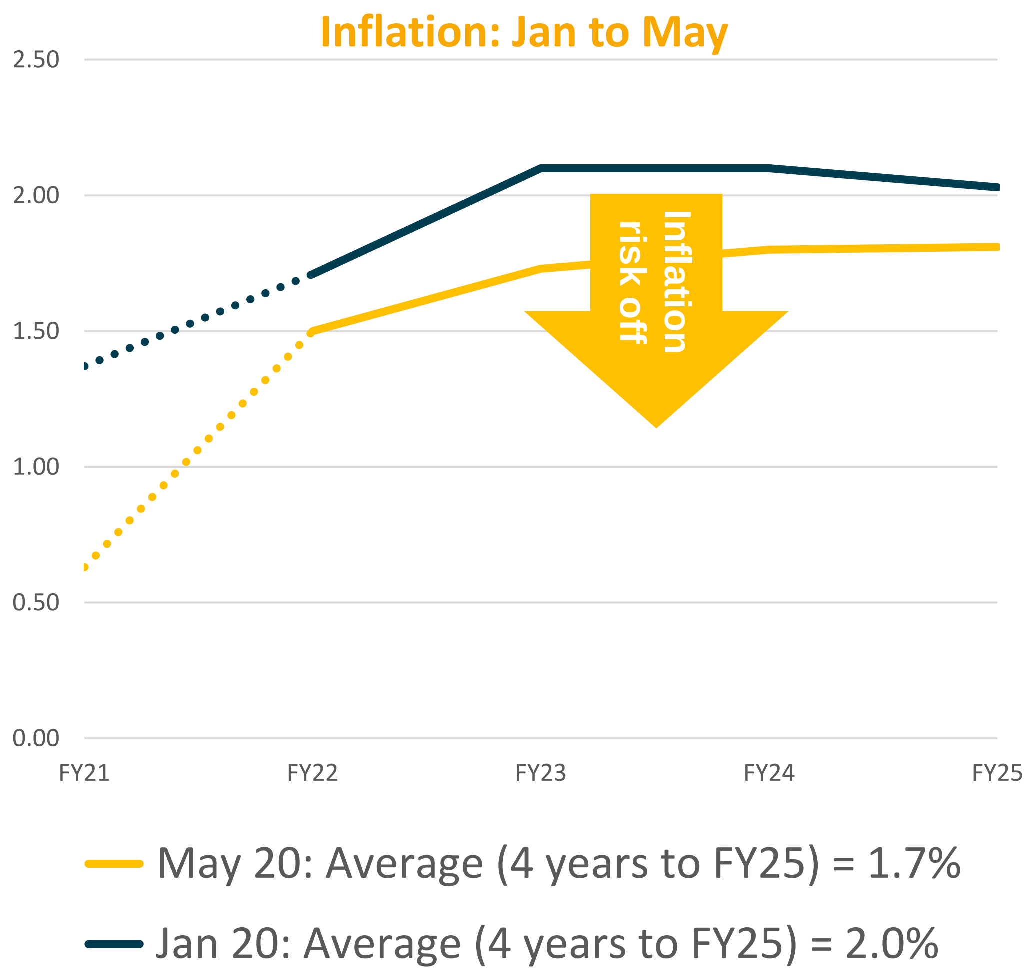
Future repayments of EIB RPI linked debt include inflation based on an average annual RPI rate of 3%.

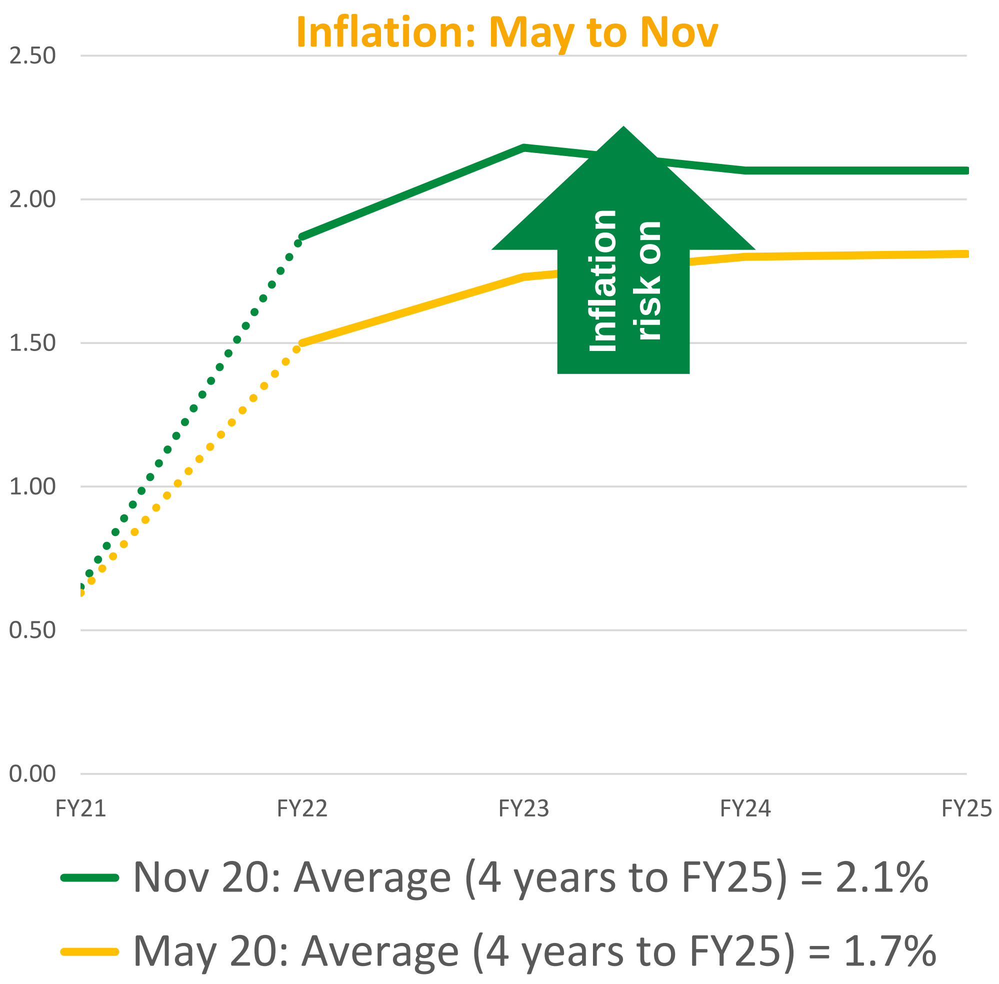
Net regulatory capital spend profile



AMP7 net regulatory capex excludes IRE
The AMP7 net regulatory capex profile shown on the chart does not constitute a forecast and is subject to change

HMT survey of inflation forecasts





Data based on bank forecasts to December 2021 and HMT consensus data from January 2022 onwards