Half year results

Six months ended 30 September 2022

United Utilities Group PLC

Rivington reservoir


Steve Mogford
Chief Executive
Dovestone

Highlights

01

Supporting customers through **largest assistance package** in the sector

02

Strong and sustainable performance leveraging Systems Thinking

03

Effectively managing our water network to deliver a **reliable and resilient water supply**

04

Highest 4* rating in EA's assessment for 2021; progressing with **Better Rivers** programme

05

AMP7 ODI guidance of **£200m**, almost **five times higher** than AMP6

06

Significant AMP8 investment need for the sector driven by the **Environment Act**

Helping customers in difficult times

1. Helping more than 200,000 North West households through c£280m package of support[1] in AMP7

2. Innovative uses of technology including Open Banking to help customers access support tariffs

3. Strong supporter of the CCW's national social tariff proposal

[1]50% company funded, 50% customer funded

Operational excellence driving value

Sustainable improvements across water, wastewater and customer service delivering improved ODI outcomes

1. **Highest 4* rating** from the EA for 2021; **5th time in 7 years**
2. **Lowest ever sewer flooding;** supported by **DNM investment**
3. Investment in **river health** helping to **reduce reported spills from storm overflows**
4. **Leakage reduction on target**; using **latest detection techniques**
5. Investment in water quality supporting **lowest levels of discolouration contacts**
6. **High levels of customer satisfaction** Upper quartile C-MeX performance

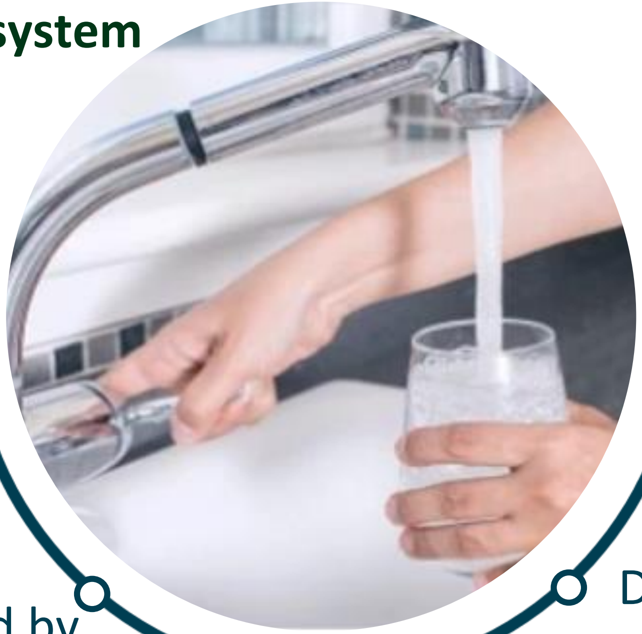
Effective management of our water system

Investment in water system delivering resilience

Despite some areas **receiving less than half of longer term average rainfall** in July and August

Managed our combined system well over the summer

Utilised our **sophisticated water resource planning system**



No customer restrictions needed in our region

Supported by **investments in our integrated regional water system**

Delivered significant **water efficiency customer campaigns to improve PCC**

Better Rivers, Better North West

Our ambitious commitments to improve river health

1. Delivering environmental improvements through £230m AMP7 FD investment and £250m additional investment[1]

2. Delivered a 29% reduction in reported spills last year against a 2020 baseline and making further progress this year

3. Targeting at least a 33% reduction in reported spills by 2025 against a 2020 baseline

4. Hosted the region's first 'Future Rivers Forum' bringing organisations together to find new ways to improve rivers[2]

[1] £250m additional investment announced at full year results in May 2022

[2] Our work to improve river health is showcased as part of an eight-part video series showing how we are using our ESG approach to tackle sustainability issues - https://www.unitedutilities.com/corporate/responsibility/esg-playlist/

Significant AMP8 environmental programme

Environment Act 2021 creating significant drivers for capital investment

1 Reduce spill frequency from storm overflows

2 Reduce phosphate from wastewater treatment

3 Address nutrient imbalance

c60%[1] of investment required to deliver Government storm overflow targets

AMP7

- **Better Rivers programme** helping us to make a head start on the above requirements
- Identified **potential transition investment** to enable us to go faster

AMP8

- **Scoping and costing** our environmental programme
- **Early indications** show investment need could be **significantly higher** than average over the previous two AMPs

AMP9 and beyond

- Long-term goals to realise government targets mean **similar levels of investment** could be needed in **future periods**

Investment pace needs to be balanced against deliverability and customer affordability

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1101686/Storm_Overflows_Discharge_Reduction_Plan.pdf

Phil Aspin

Chief Financial Officer

Ullswater

Financial highlights

Revenue
£919m
H1 2021/22:
£932m

Household bad debt
1.8%
of regulated revenue
H1 2021/22:
1.8%

Underlying and reported operating profit[1]
£259m
H1 2021/22:
£333m

Underlying EPS[1]
(1.8)p
Reported EPS:
51.8p

Interim dividend per share
15.17p
H1 2021/22:
14.50p

Managing inflation impact
Wage deal agreed Power 96% hedged

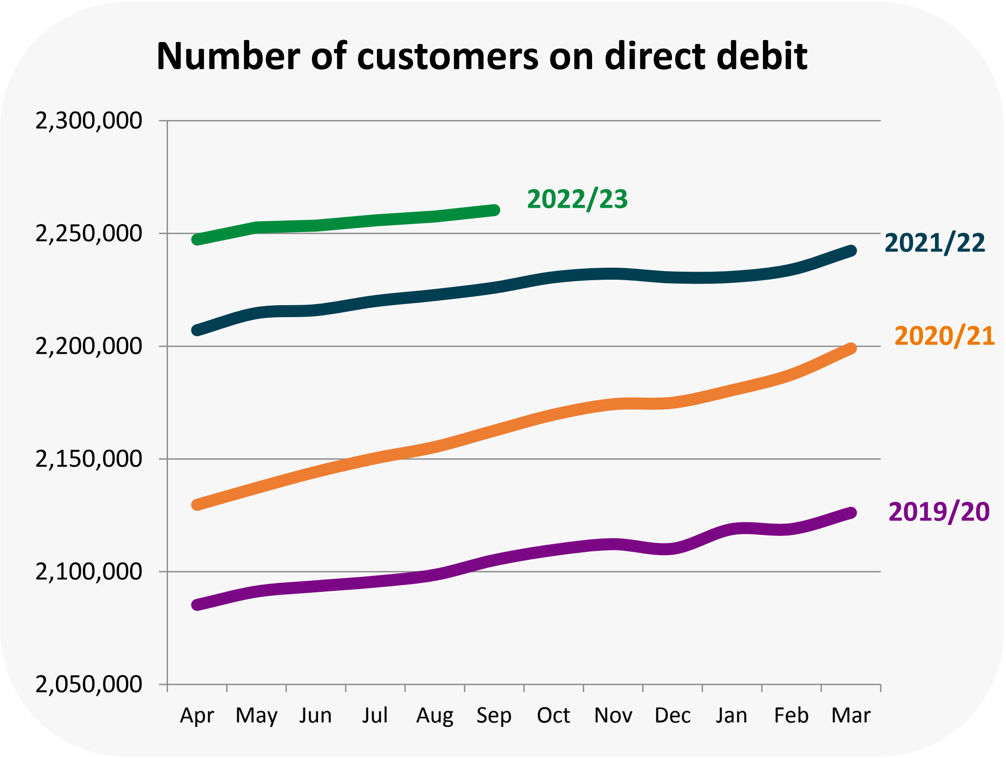
Strong balance sheet
60% RCV gearing and fully funded pension

Strong liquidity position
Having raised debt early at attractive rates

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

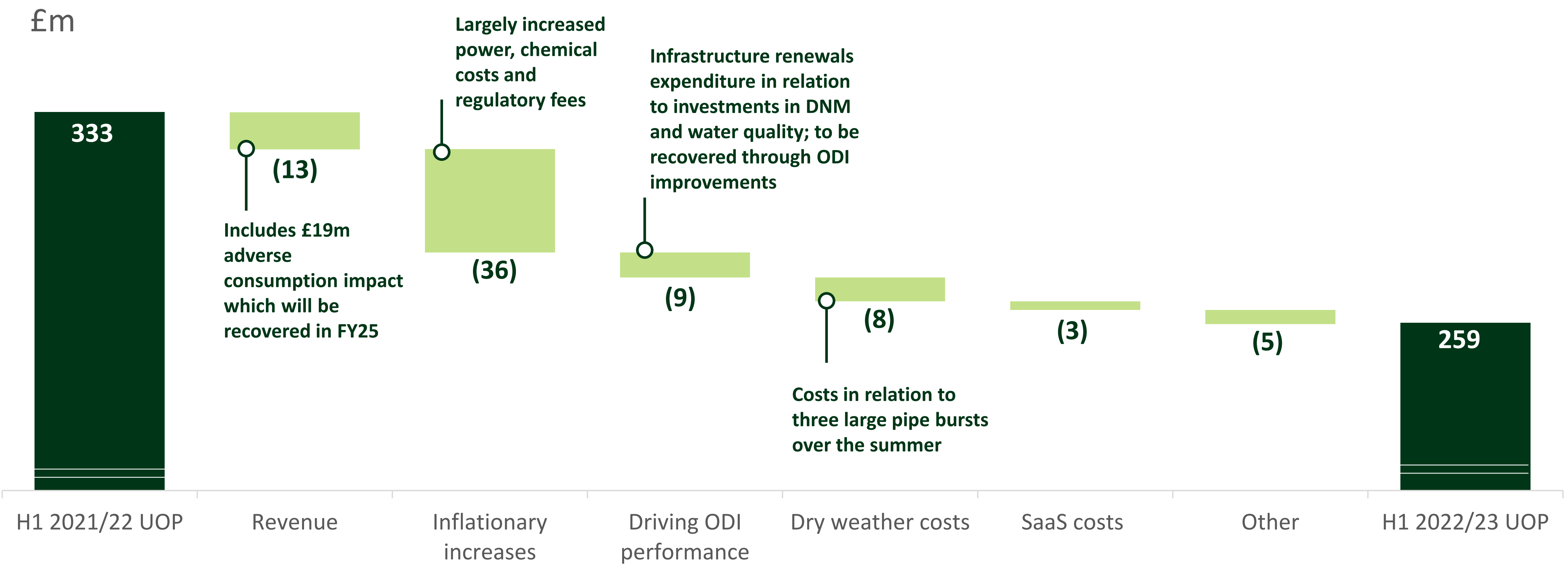
Strong collections performance

Strong growth in direct debit volumes



1. Strong current year household cash collection
2. 81% on direct debit or payment plans
3. Utilising data to optimise customer payment behaviour, including nudge activity
4. Open Banking to helping customers access support tariffs and reducing cost to serve
5. Bad debt charge stable at 1.8% of regulated revenue

Underlying operating profit



Inflation impact

Tight cost management and regulatory mechanisms mitigate rising costs

Effective management

- Wage deal for current year agreed at 4.75%
- 98% of AMP7 base capital programme on contract under target price arrangements
- Around 65% of the programme already delivered, halfway through the AMP
- Power 96% hedged for 2022/23

Regulatory mitigation

- RCV indexed to inflation with the economic benefit slightly exceeding the in year impact of non-cash cost of index-linked debt
- Totex allowance also indexed to inflation providing mitigation to inflation on core costs
- 1% increase in CPIH over AMP7 results in around a £600m to RCV, £150m increase to totex allowance

Power consumption and hedging

01

High mitigation of risk for FY23 with estimated consumption 96%[2] hedged

02

Controlling cost in FY23 at an average rate of £85/MWh[1]

03

Driving energy efficiency Optimising how and when we use energy

04

Self-Generation & PPAs c25% of consumption

05

Effective hedging policy 70%[2] hedged for FY24 and 2/3rds[2] hedged for FY25

[1] *Average rate represents an average rate secured on hedged power and PPA's and is inclusive of self-generation*

[2] *Hedged position includes the c25% self-generation and PPA contracts*

Finance expense

Underlying net finance expense[1]

£267m

£132m higher than H1 2021/22

Higher non-cash indexation on index-linked debt

Reported net finance income

£(136)m

Including net fair value gains[2] of **£403m**

Reflects benefit of having fixed interest rates on our nominal debt

FY23 guidance[3]

c£165m non-cash increase year-on-year

FY22: £306m

Stable cash interest

FY22: £118m

Higher inflation applies to RCV

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

[2] Fair value gains on debt and derivative instruments, excluding interest on derivatives and debt under fair value option - reconciliation provided in appendix

[3] Assumptions used to derive full year non-cash indexation guidance can be found in the appendix

Robust financing position

Strong liquidity position

Over **£1bn** of liquidity as at **Sep-22**
Liquidity through to **Feb-25**

Track record of outperforming debt index[1] at issuance

Typically outperform by **50-100 bps**

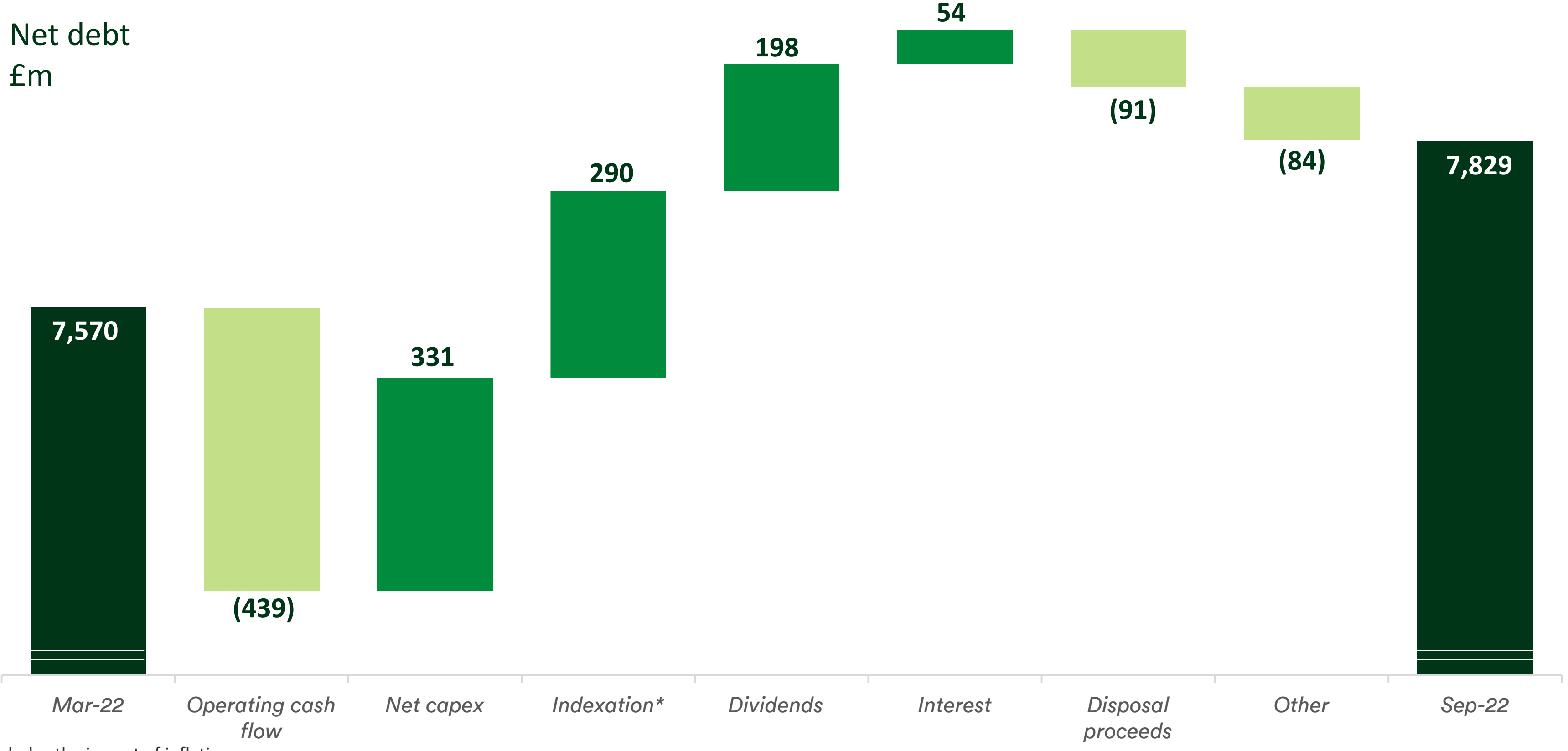
Benefiting from front loading debt issuances

£350m 1.875% 2042 bond
£250m 1.75% 2038 bond

[1] *Chart showing UU issuances from Apr-20 to Oct-22 against iBoxx is provided in the appendix*

Strong balance sheet

RCV gearing of 60% supports a sector-leading stable A3 credit rating with Moody's



* Includes the impact of inflation swaps

Higher inflation and AMP7 investments driving RCV growth

AMP7 nominal RCV growth[1]

27.5%

AMP7 exit RCV: £15.1bn

Gearing to trend towards lower end of 55 – 65% target range

RCV gearing calculated as group net debt / UUW's shadow (adjusted for actual spend and timing differences) RCV of £13,085m

[1] *Includes returns to be received as revenues in AMP8 and inflation assumptions based on a consensus from a selection of banks and HM Treasury*

Strong balance sheet – resilient pension position

1. Retirement benefit **IFRS surplus of £824m** as at 30 September 2022

2. **Fully funded pension schemes**

3. **Robust policies;** successfully navigated recent challenging market conditions

4. **Headroom for further de-risking**

2022/23 full year outlook

Revenue	↓ c1% y-o-y	• Lower consumption; £34m expected to be recovered in FY25 • 4.6% CPIH offset by –1.3% k factor
Underlying operating costs	↑ c£130m y-o-y	• c£80m inflationary increases affecting power, chemicals and other costs • c£50m other increases, including £30m scope reflecting FY23 infrastructure renewals expenditure of additional investment
Underlying finance expense	↑ c£165m y-o-y	• Increase in non-cash indexation as a result of higher inflation impacting index-linked debt
Underlying tax	↑ £5 – 10m tax charge	• Optimising capital allowance “super deductions” • Efficiently managing the group’s tax position
Capex	↑ £660 – 715m	• Acceleration of AMP7 capex profile • Includes incremental capex as part of £765m additional investment
ODIs	↑ c£30m reward	• Guidance unchanged; consistent with AMP7 target of £200m
RoRE	↑	• Reflecting higher financing performance and improving ODI performance • FY22 Reported RoRE of 7.9%
Dividends	↑	• In line with AMP7 dividend policy

Financial summary

Robust financial position

Managing near-term impact of inflation - regulatory mechanisms provide mitigation through **higher totex allowance** and **RCV growth**

Robust cash collection and **stable bad debt** position

Strong balance sheet; **sustainable gearing** and **leading pension position**


Steve Mogford
Chief Executive
Dovestone

Summary

Supporting customers
In difficult times

Systems Thinking driving **sustainable performance improvements**; supporting our **AMP7 ODI target of £200m**

Delivering a **reliable and resilient water supply**

Improving river health through Better Rivers plan

Successfully navigating current macro-economic challenges

Significant environmental programme expected in AMP8


Any questions?

Cautionary statement

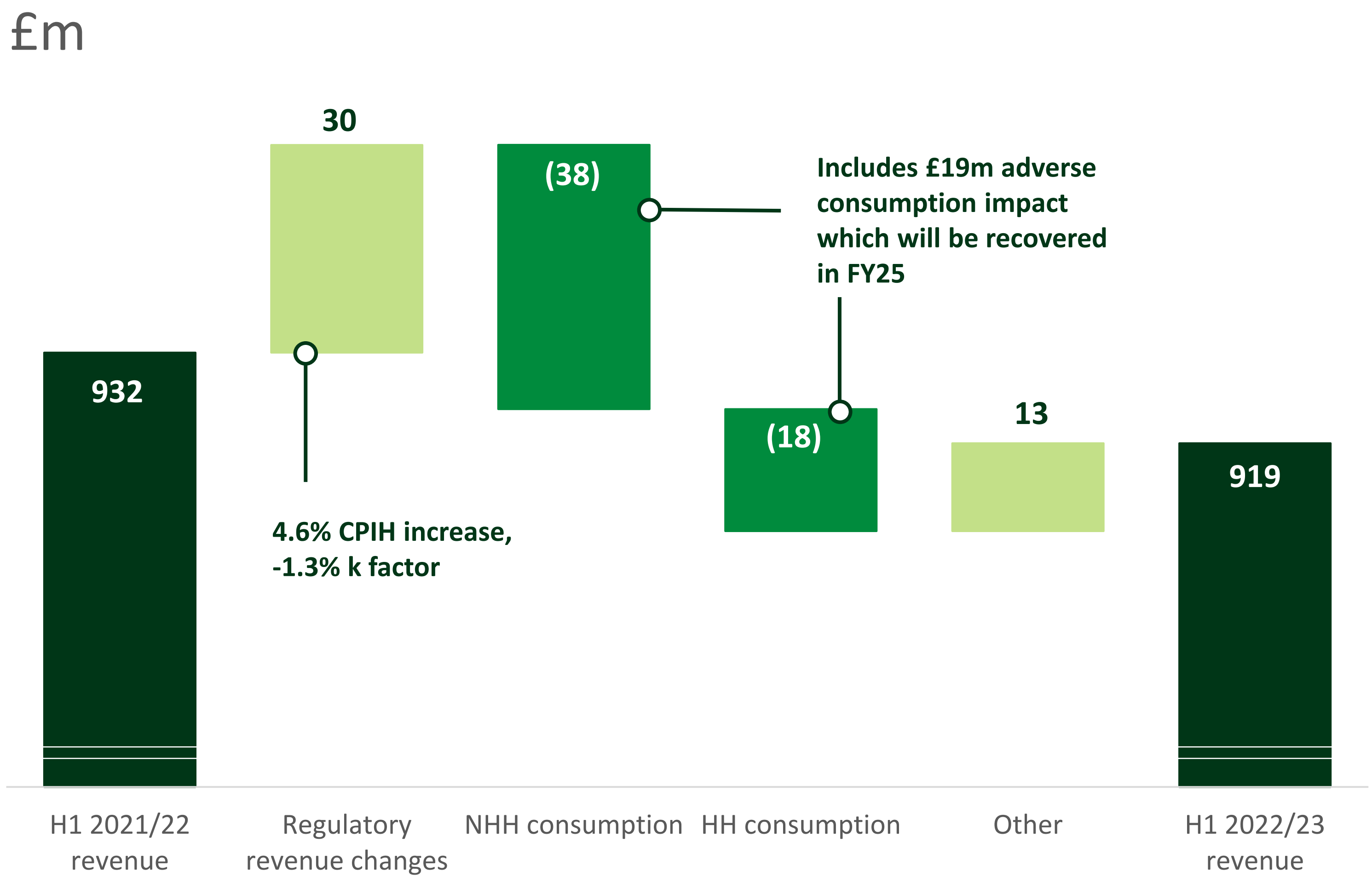
This presentation contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. These forward-looking statements include without limitation any projections or guidance relating to the results of operations and financial conditions of the group as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and any strategic initiatives relating to the group, as well as discussions of our business plan and our assumptions, expectations, objectives and resilience with respect to climate scenarios. 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

Revenue



Overall consumption lower than predicted as we had predicted a slower return to pre-pandemic levels

Full year 2022/23 revenue expected to be c1% lower year-on-year

Underlying income statement

Six months ended 30 September £m	2022	2021	Change (%)
Revenue	**919.3**	**932.3**	**-1%**
Operating expenses	(361.8)	(309.3)	
Infrastructure renewals expenditure	(92.2)	(82.6)	
EBITDA	**465.3**	**540.4**	**-14%**
Depreciation and amortisation	(206.8)	(207.6)	
Operating profit	**258.5**	**332.8**	**-22%**
Net finance expense	(266.6)	(134.2)	
Share of profits / (losses) of joint ventures	0.2	(1.8)	
(Loss) / profit before tax	**(7.9)**	**196.8**	**-104%**
Tax	(4.3)	(2.9)	
(Loss) / profit after tax	**(12.2)**	**193.9**	**-106%**
Earnings per share (pence)	**-1.8**	**28.4**	**-106%**
Interim dividend per ordinary share (pence)	**15.17**	**14.50**	**+4.6%**

Underlying operating costs

Six months ended 30 September £m	2022	2021[1]	Change (%)
Revenue	**932.3**	**932.3**	**-1%**
Staff costs	(95.2)	(89.1)	+7%
Materials	(61.7)	(40.7)	+52%
Power	(54.7)	(38.2)	+43%
Hired and contracted services	(48.7)	(43.4)	+12%
Property rates	(45.7)	(46.5)	-2%
Regulatory fees	(18.3)	(14.5)	+26%
Bad debts	(11.2)	(12.1)	-7%
Other expenses	(26.3)	(24.8)	+6%
	(361.8)	**(309.3)**	**+17%**
Infrastructure renewals expenditure (IRE)	(92.2)	(82.6)	+12%
Depreciation and amortisation	(206.8)	(207.6)	-0%
Total underlying operating expenses	**(660.8)**	**(599.5)**	**+10%**
Underlying operating profit	**258.5**	**332.8**	**-22%**

[1] In order to give a clearer view of total staff costs, since Mar-22 staff costs have included the costs of non-permanent staff, whereas previously these were included in hired and contracted services. Accordingly, these amounts for the six months to 30 Sept-21 have been re-presented.

Profit before tax reconciliation

£m	30 Sep 2022	30 Sep 2021	31 Mar 2022
Operating profit	258.5	332.8	610.0
Net finance income/(expense)	136.4	(118.3)	(168.3)
Share of profits/(losses) of joint ventures	0.2	(1.8)	(1.8)
Profit on disposal of subsidiary	31.2	-	-
Reported profit before tax	**426.3**	**212.7**	**439.9**
Adjustments:			
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(403.0)	(15.9)	(138.0)
Profit on disposal of subsidiary	(31.2)	-	-
Underlying (loss) / profit before tax	**(7.9)**	**196.8**	**301.9**

Profit after tax reconciliation

£m	30 Sep 2022	30 Sep 2021	31 Mar 2022
Reported profit/(loss) after tax	**353.0**	**(216.2)**	**(56.8)**
Adjustments:			
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(403.0)	(15.9)	(138.0)
Profit on disposal of subsidiary	(31.2)	-	-
Deferred tax adjustment	69.0	423.9	562.5
Tax in respect of adjustments to underlying profit before tax	-	2.1	(0.7)
Underlying (loss)/profit after tax	**(12.2)**	**193.9**	**367.0**
Basic earnings per share (pence)	**51.8p**	**(31.7)p**	**(8.3)**
Underlying earnings per share (pence)	**(1.8)**	**28.4**	**53.8**

Finance expense

Six months ended 30 September £m	2022	2021
Investment income	19.1	9.2
Finance income/(expense)	117.3	(127.5)
	136.4	**(118.3)**
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(403.0)	(15.9)
Underlying net finance expense	**(266.6)**	**(134.2)**
Adjustment for net pension interest income	(14.4)	(7.3)
Adjustment for capitalised borrowing costs	(62.9)	(21.4)
Effective net finance expense	**(343.9)**	**(162.9)**
Average notional net debt	**7,679**	**7,290**
Average effective interest rate	**9.0%**	**4.5%**
Effective interest rate on index-linked debt	13.7%	5.8%
Effective interest rate on other debt	2.5%	2.6%

Finance expense: index-linked debt

Six months ended 30 September £m	2022	2021
Interest on index-linked debt	(13.1)	(17.1)
RPI adjustment 3 month lag[1] – (Sep-22: c£2.3bn debt, 8.0% charge; Sep-21 c£2.2bn debt; 3.7% charge)	(181.2)	(79.5)
CPI adjustment 3 month lag[2] – (Sep-22: c£1.1bn debt, 6.6% charge; Sep-21 c£1.1bn debt; 2.1% charge)	(74.9)	(22.8)
RPI adjustment 8 month lag[3] – (Sep-22: c£0.8bn debt, 4.0% charge; Sep-21 c£0.8bn debt; 0.1% charge)	(33.4)	(1.1)
Finance expense on index-linked debt[4]	**(302.6)**	**(120.5)**
Interest on other debt (including fair value option debt and derivatives)	(41.2)	(42.4)
Effective net finance expense	**(343.8)**	**(162.9)**

[1] Affected by movement in RPI between January 2022: 317.7 and July 2022: 343.2
[2] Affected by movement in CPI between January 2022: 114.9 and July 2022: 122.5
[3] Affected by movement in RPI between July 2021: 305.5 and January 2022: 317.7
:[4] Adjusted to overlay the impact of inflation swaps

Finance expense: inflation forecasts

FY23 guidance

c£165m

non-cash increase year-on-year

FY22: £306m

RPI 3 month lag £2.3bn debt:
Jan-23 forecast[1] 12.1%, Jan-22 7.8%

CPI 3 month lag £1.3bn debt:
Jan-23 forecast[1] 9.5%, Jan-22 5.4%

RPI 8 month lag £0.9bn debt:
Jul-22 12.3%, Jul-21 3.8%

	HY 2022/23	**H1 2021/22**	**FY 2021/22**
Cash interest	£55m	£58m	£118m
Non-cash indexation	£290m	£103m	£256m
Non-cash capitalisation of borrowing costs	£(63)m	£(21)m	£(53)m
Pension interest income	£(14)m	£(7)m	£(14)m
Underlying net finance expense	**£267m**	**£134m**	**£306m**
Fair value gains	£(403)m	£(16)m	£(138)m
Reported net finance (income)/ expense	**£(136)m**	**£118m**	**£168m**

[1] Forecasts based on bank data compiled following the inflation release in October 2022

Derivative analysis

At 30 September £m	2022	2021
Derivatives hedging debt	(30.1)	417.3
Derivatives hedging interest rates	360.3	(93.6)
Derivatives hedging commodity prices	290.0	48.1
Total derivative assets and liabilities	**620.2**	**371.8**

- *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; the majority fix our sterling interest rate exposure on a 10 year rolling average basis. 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. These are in addition to prices fixed in the physical market with power purchase agreement which are not subject to fair value measurement.*
- *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 2022 Group financial statements.*

Statement of financial position

At £m	30 Sep 2022	31 Mar 2022	Change (%)
Property, plant and equipment	12,321.2	12,147.5	+1%
Retirement benefit surplus	823.5	1,016.8	-19%
Other non-current assets	240.2	259.5	-7%
Cash	532.2	240.9	+121%
Other current assets	315.8	314.9	+0%
Total derivative assets	911.0	457.4	+99%
Total assets	**15,143.9**	**14,437.0**	**+5%**
Gross borrowings	(8,263.8))	(7,979.8)	+4%
Other non-current liabilities	(3,058.4)	(2,983.3)	+3%
Other current liabilities	(408.1)	(378.8)	+8%
Total derivative liabilities	(290.8)	(137.2)	+122%
Total liabilities	**(12,021.1)**	**(11,479.6)**	**+5%**
TOTAL NET ASSETS	**3,122.8**	**2,957.4**	**+6%**
Share capital	499.8	499.8	0%
Share premium	2.9	2.9	0%
Retained earnings	2,068.0	2,038.5	+1%
Other reserves	552.1	416.2	+33%
SHAREHOLDERS' EQUITY	**3,122.8**	**2,957.4**	**+6%**
NET DEBT[1]	**(7,828.7)**	**(7,570.0)**	**+3%**

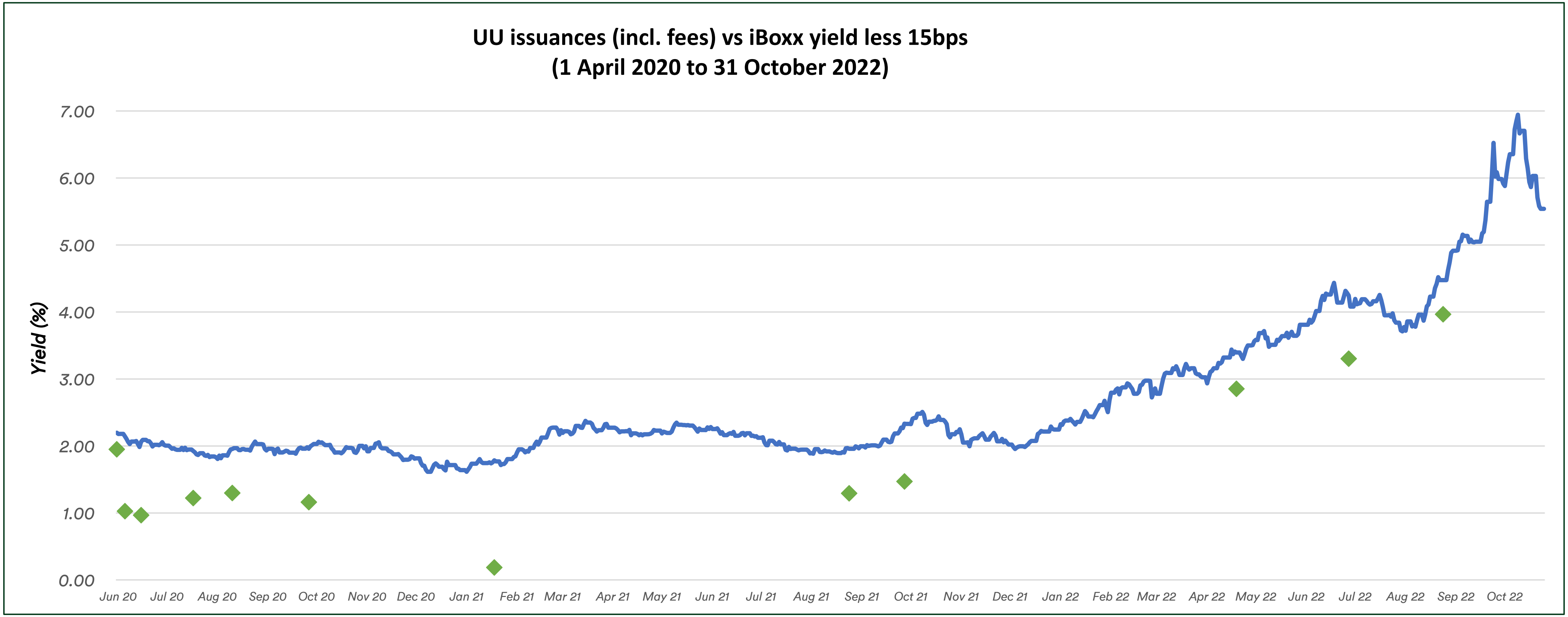
[1] *Reconciliation of net debt included on the following slide*

Reconciliation of net debt

At £m	30 Sep 2022	31 Mar 2022
Cash	532.2	240.9
Total derivative assets	911.0	457.4
Gross borrowings	(8,263.8)	(7,979.8)
Total derivative liabilities	(290.8)	(137.2)
Balance sheet net debt	**(7,111.4)**	**(7,418.7)**
Exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	(294.5)	(55.1)
Inflation derivatives fixing future real interest rates	(132.8)	14.8
Electricity derivatives fixing future electricity costs	(290.0)	(111.0)
Net debt	**(7,828.7)**	**(7,570.0)**

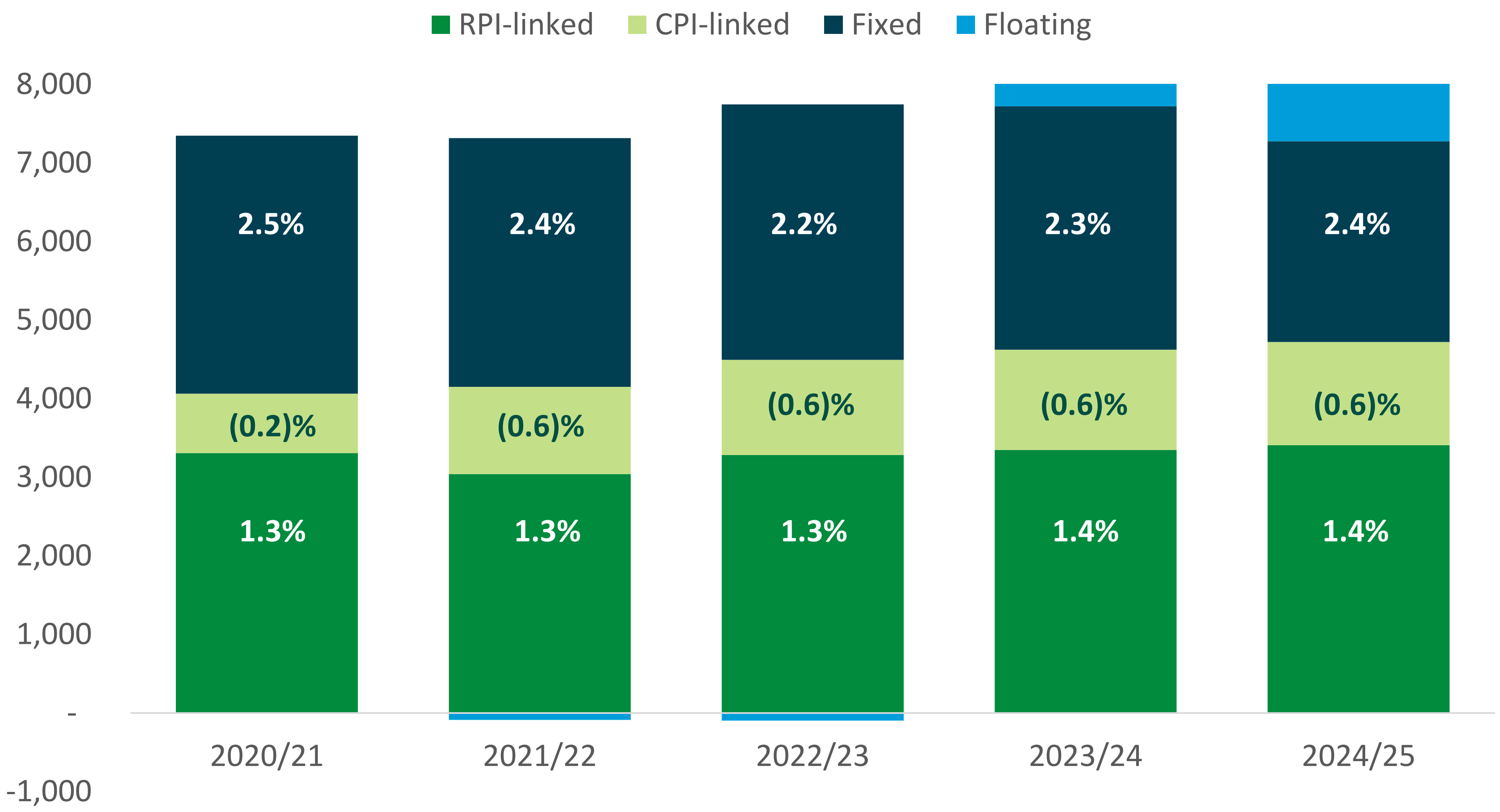
Raising finance efficiently

Typically outperform the index by 50-100 bps



Financing performance

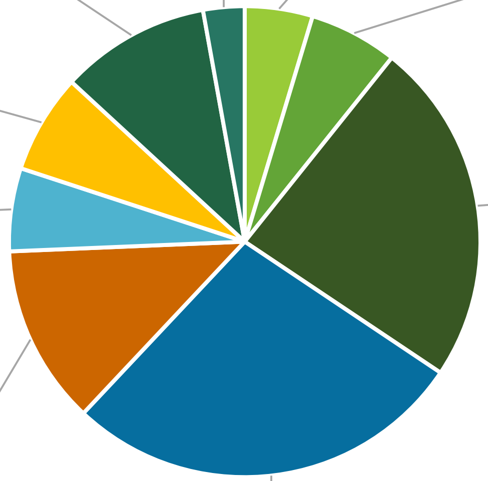
Existing debt locked in at rates favourable to the AMP7 allowed cost of embedded debt



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.

Financing and liquidity at 30 September 2022

Gross debt = £8,263.8m



Headroom / prefunding = £1,015.1m

	£m
Cash and short-term deposits	532.2
Medium-term committed bank facilities[1]	800.0
Short-term debt	(66.2)
Term debt maturing within one year	(250.9)
Total headroom / prefunding	**1,015.1**

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

Debt structure at 30 September 2022

United Utilities Group PLC

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

Yankees:
- $400m in 28s

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

Euro MTNs:
- £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]

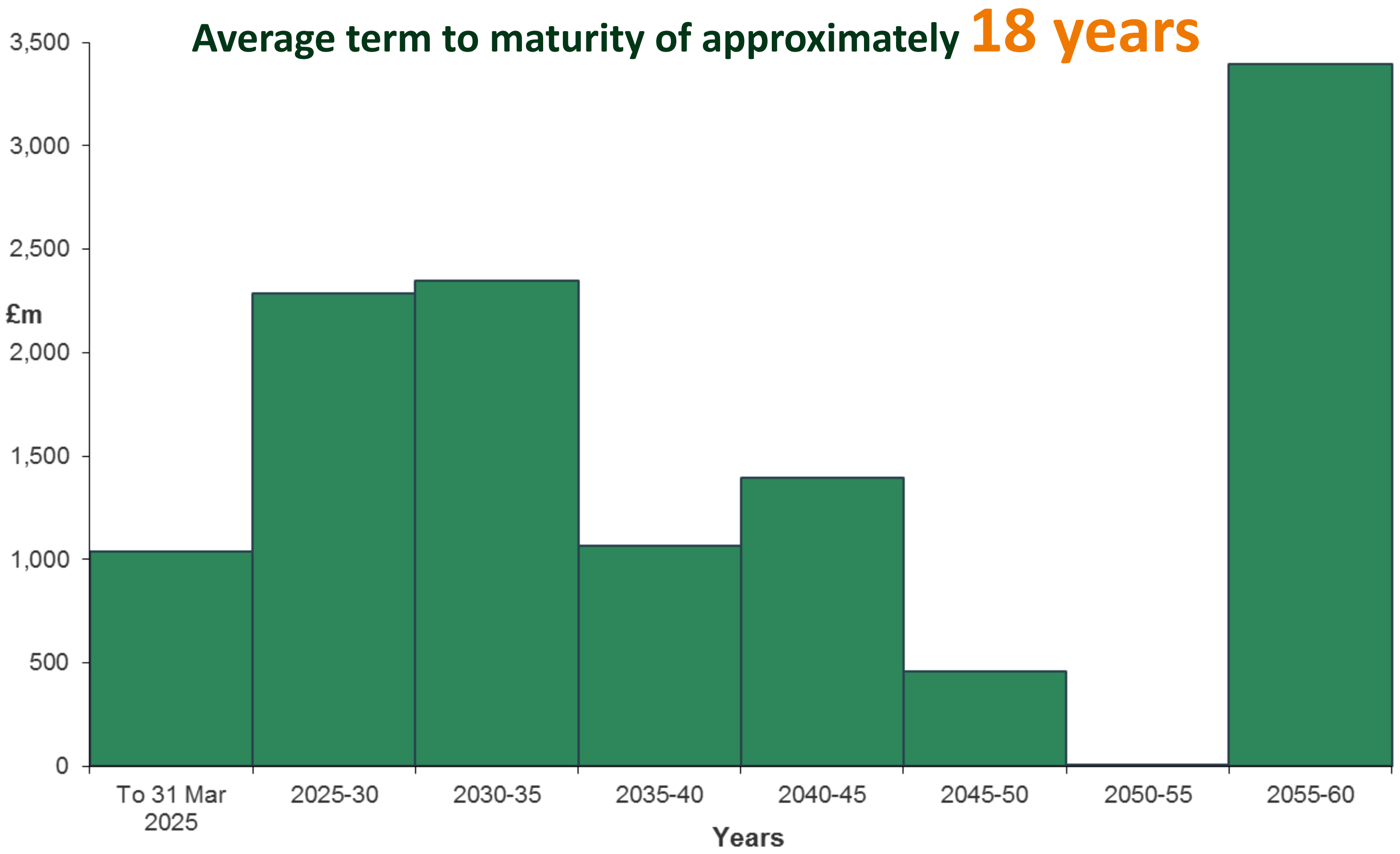
Other debt:
- EIB RPI-linked loans £444m[1]
- Other RPI-linked loans £300m[1]
- CPI-linked loans £100m[2]
- Other EIB loans £466m
- Short-term loans £54m
- ¥10bn dual currency loan
- Other sterling loans £410m

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]
- £100m in 28s
- £300m in 29s[2]
- £35m in 30s[1]
- ¥11bn in 30s
- €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
- £125m in 40s[2]
- £300m in 42s
- £32m in 48s[2]
- £33m in 57s[2]

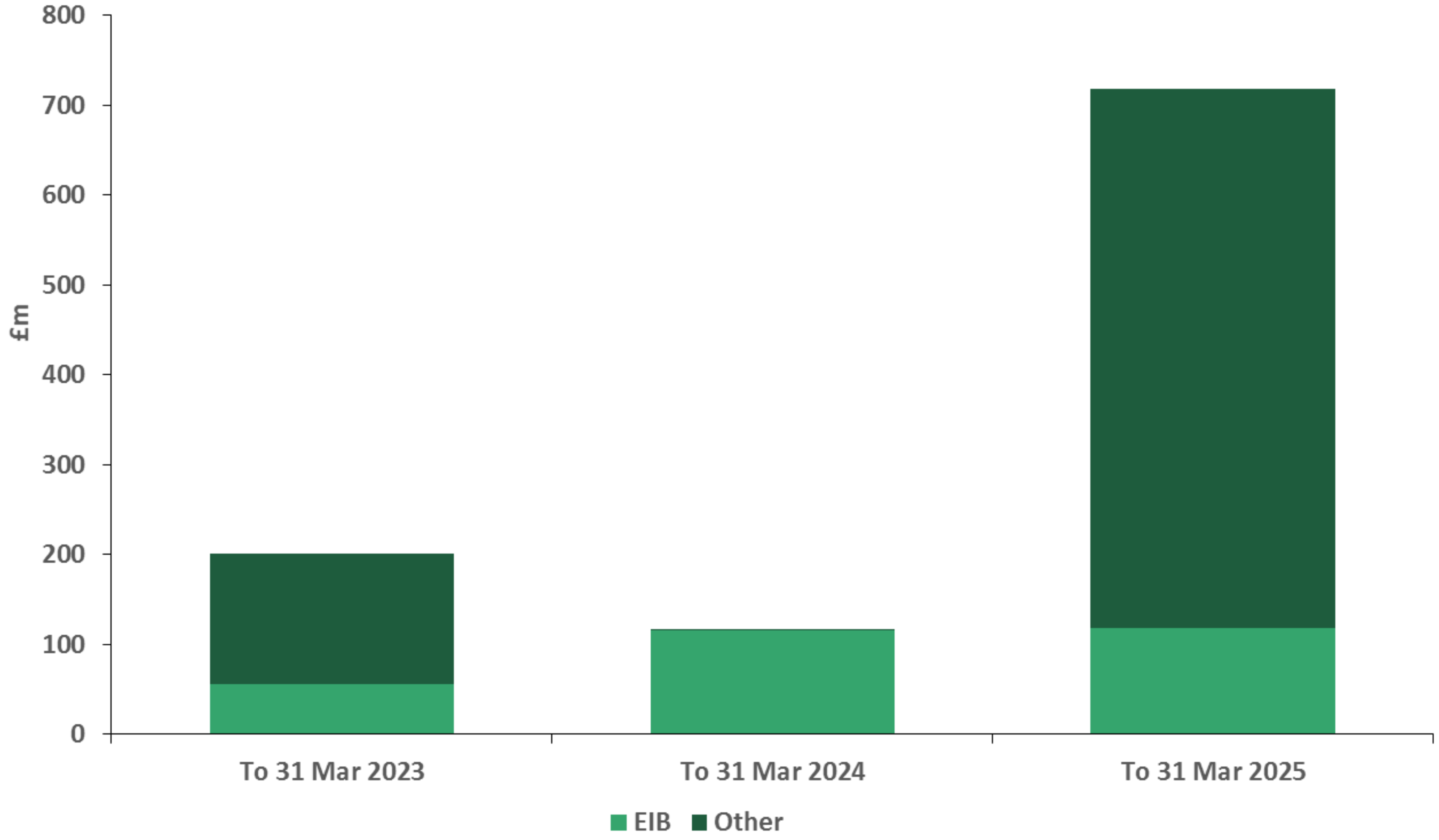
[1] RPI linked finance
[2] CPI linked finance / fixed rate finance subsequently swapped to CPI linked
[3] RPI linked finance subsequently swapped to CPI linked
[4] £100m and £75m fixed rate tranches of this bond have been swapped to CPI linked
[5] Two £50m fixed rate tranches of this bond have been swapped 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 2022[1]



[1] Future repayments of index-linked debt include RPI/CPI/CPIH market derived forecasts out to 2026, subsequently transitioning to an average annual RPI rate of 3% and an average annual CPI/CPIH rate of 2%

AMP7 maturity profile

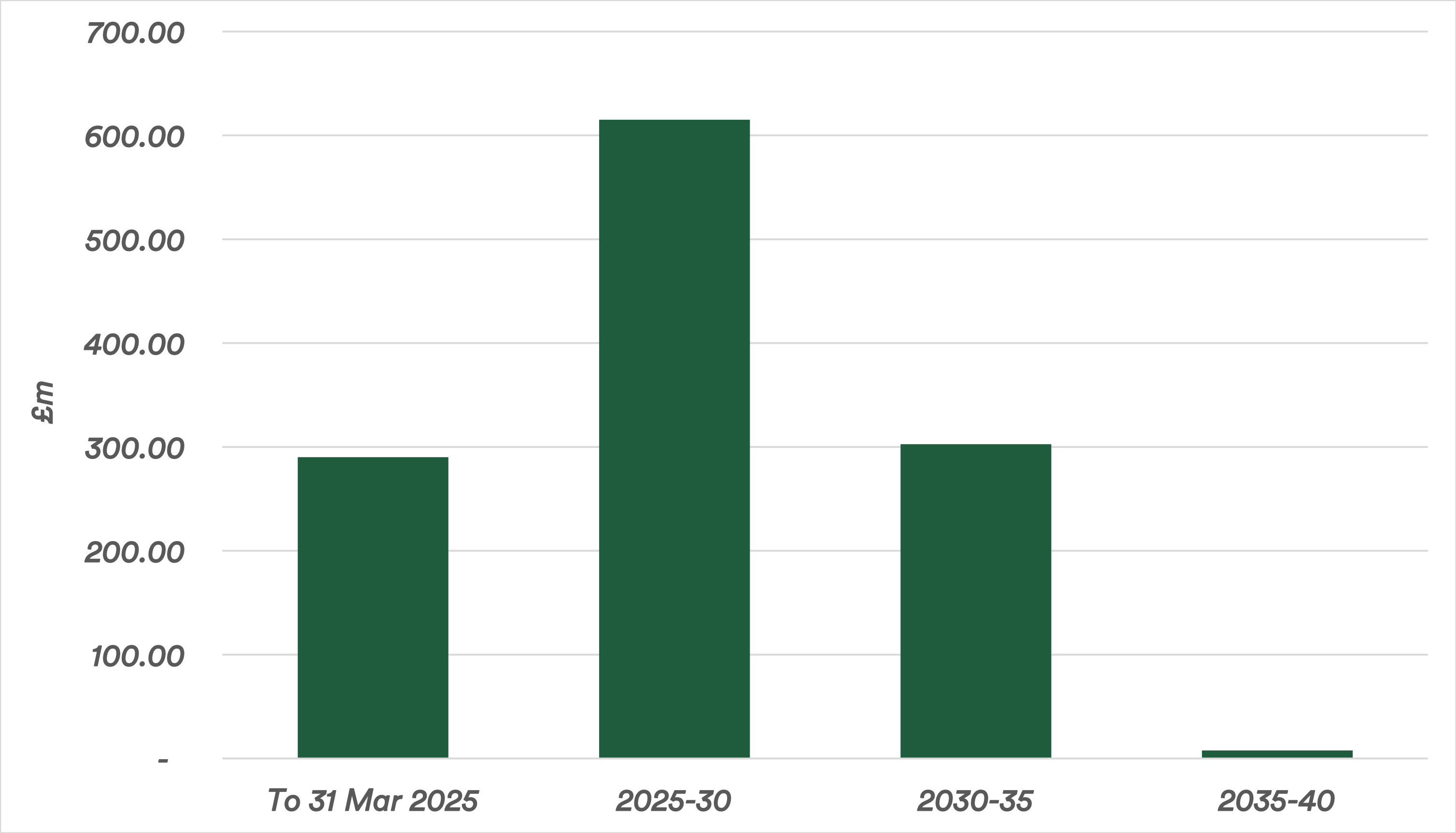


<u>Notes</u>

Future repayments of RPI linked debt include market derived forecasts out to 2026, subsequently transitioning to 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 market derived forecasts out to 2026, subsequently transitioning to an average annual RPI rate of 3%