United Utilities Group PLC

Half year results

Six months ended 30 September 2019

Grasmere

United Utilities
Water for the North West

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.

Steve Mogford
Chief Executive

United Utilities
Water for the North West

Thirlmere

Delivering in AMP6, well prepared for AMP7

Delivering against our AMP6 targets and more

Consistently **improving customer satisfaction**; **outperforming on SIM** in AMP6

Delivering against tough targets; **AMP6 ODI outperformance of around £50m** anticipated

£100m totex outperformance against scope of AMP6 FD

Sharing outperformance through total **additional investment of £350m** in AMP6

Responsibly financed, resilient capital structure with **fully funded pension schemes**

£100m of £350m additional investment for **flying start to AMP7**

Transformation in performance

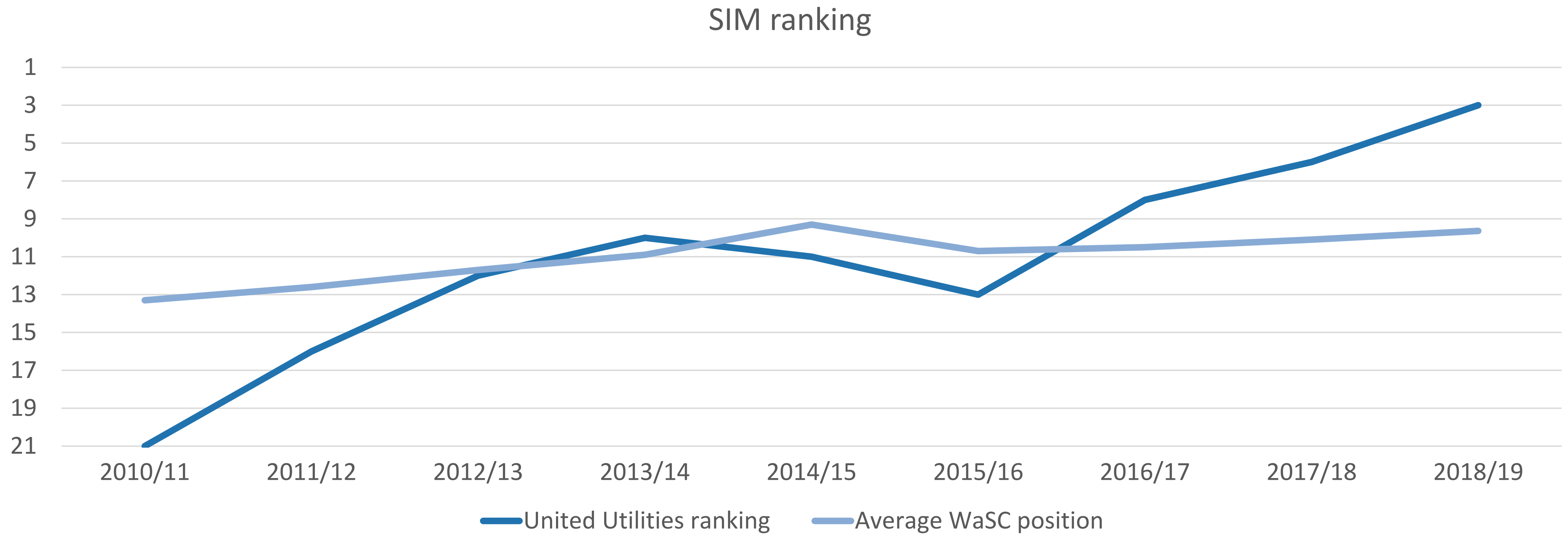
Significant improvements in operational performance and customer service

Measure	Improvement[1]	
CCW Water Investigations	100%	✓
2nd level written complaints	97%	✓
SIM	82%	✓
Customer minutes lost	64%	✓
DWI category 3 or higher events	79%	✓
Properties internally flooded (hydraulic)	95%	✓
Properties internally flooded (other causes)	46%	✓
Pop. equivalent of WwTW failing consents	60%	✓
Environmental programme % delivery on time	98%	✓

[1] Comparing performance between 2008/09 and 2018/19

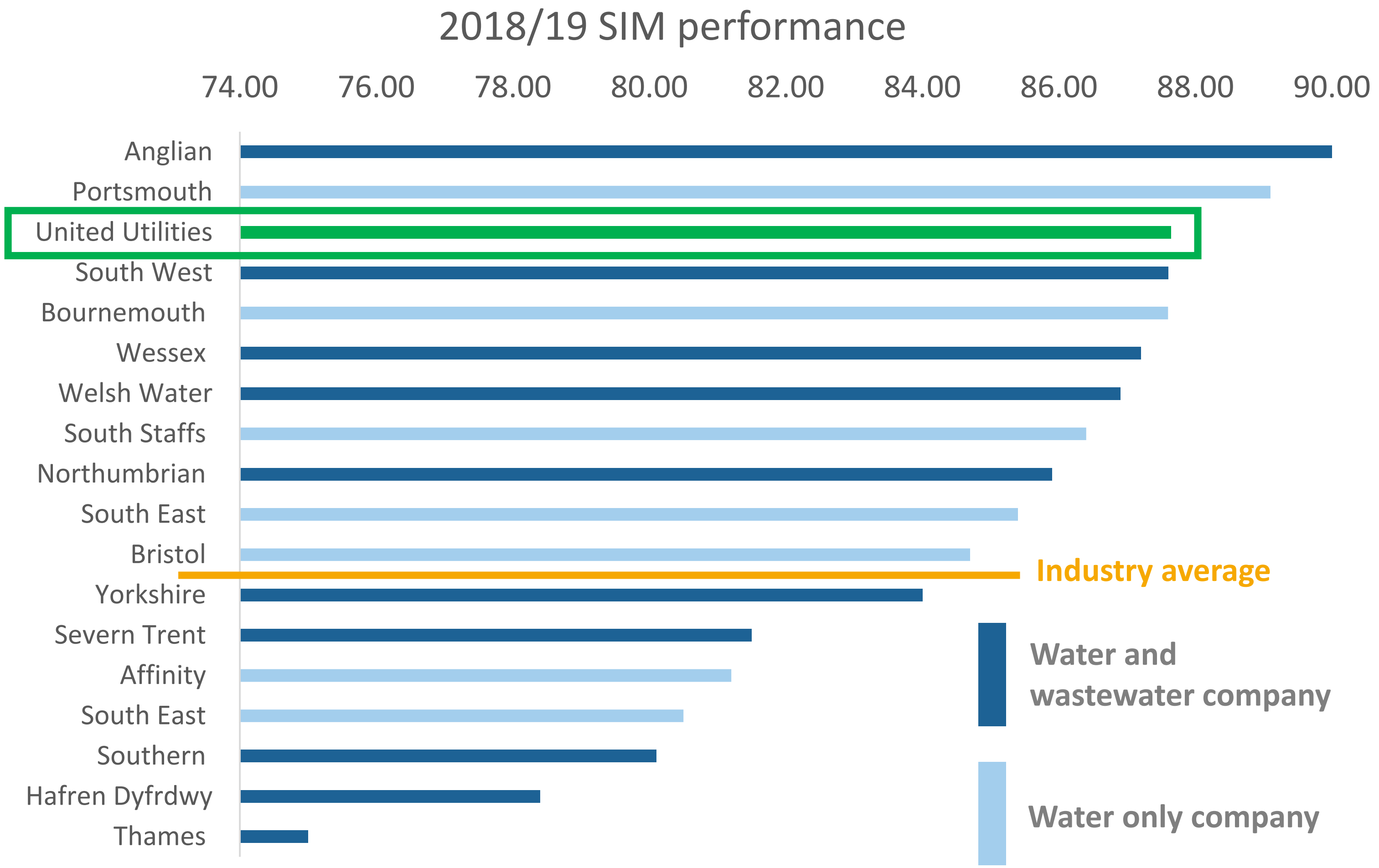
Leading customer service

Customer satisfaction in the upper quartile



Strong SIM performance

Eligible for SIM outperformance payment



Improving customer satisfaction

22% fewer contacts than industry average

12% fewer written complaints than industry average

97% written complaints resolved at first stage

Good service costs less

Driving down bad debt and cost to serve whilst improving customer service

Driving down bad debt

Household bad debt as a percentage of regulated revenue **reduced to 1.8%** for H1 2019/20 **from 2.1%** for H1 2018/19

1.8%

- ✓ 72% on direct debit
- ✓ 11% on other payment plans
- ✓ Customer segmentation
- ✓ Early intervention

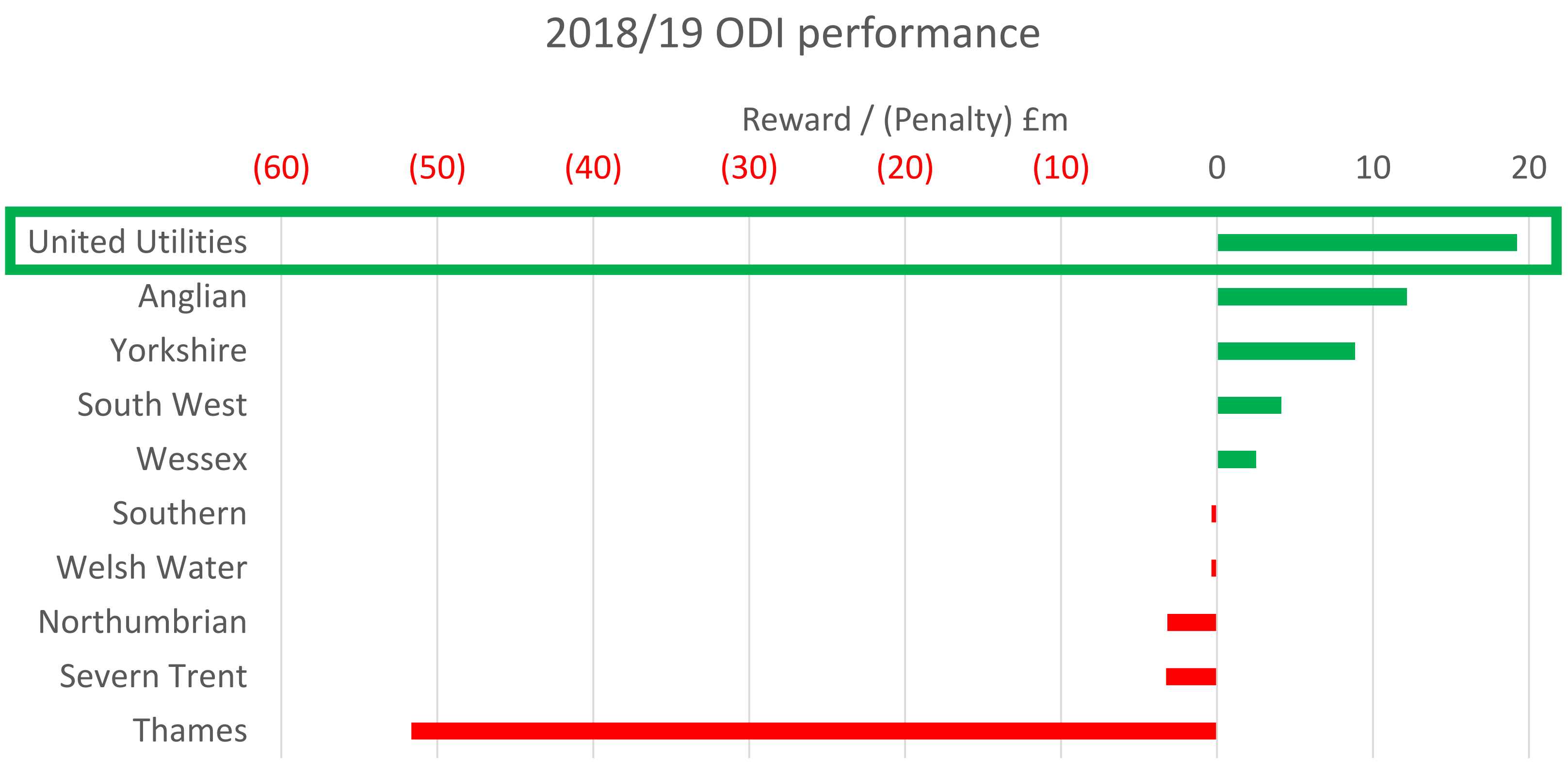
Efficient costs

✓ **On track** to hit AMP6 average cost to serve allowance

Highly rated App, new customer registering every 12 minutes, over £14m cash via App

Leading ODI outperformance for 2018/19

Earned the highest ODI outperformance in the sector for 2018/19 performance



Source: Company Annual Performance Reports for 2018/19

Top performing company on ODIs in 2018/19

Providing the right trajectory into AMP7

AMP6 ODI outperformance

Anticipate cumulative AMP6 outperformance of around £50m

- Accelerated investment
- Systems Thinking, innovation and new ways of working
- Outperformance reinvestment

£50m Cumulative AMP6 outperformance expected

- Driven performance to top end of the range
- Performance across basket of measures

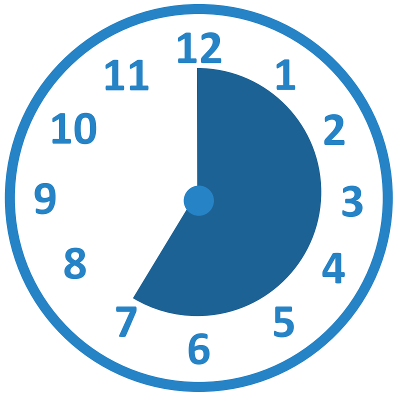
Delivering **sustained improvements** in performance against **tougher targets**

Creating a strong **platform for AMP7**

Systems Thinking delivering performance

Case study: Burst on water main affecting water supply to 32,500 households

A traditional water company process



7 hour loss of supply

32,500 households impacted

£10.4m ODI penalty

Process with
Systems Thinking

2 hours proactive planning in ICC

No impact to supply

£0m ODI penalty

West Cumbria strategy

Long-term resilience project on track to deliver £22.5m ODI outperformance

- Environmental driver
- 98km pipeline, 80ML/d treatment works, 2 service reservoirs, 2 pumping stations
- £300m scope project
- Innovation delivered throughout

On track to deliver early and earn £22.5m ODI outperformance

Public interest at our heart

Delivering responsibly for customers, the environment and society

Customer

ServiceMark with Distinction
Accredited from Aug '18 to Aug '21
The Institute of Customer Service

Shaw Trust Accessible

CICM
QUALITY
ACCREDITED

The WOW! Awards

Governance

PwC's Building Public Trust Awards 2018
Winner of Reporting in Financial Services in the FTSE 350
Celebrating openness

Fair Tax

TCFD
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

FTSE4Good

Operating in the public interest

Environment

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

CDP
DISCLOSURE INSIGHT ACTION

GREEN ECONOMY
LONDON STOCK EXCHANGE

EURONEXT
vigeo eiris
INDICES UK 20

Our people

BRITAIN'S HEALTHIEST WORKPLACE

THE WORKPLACE WELLBEING CHARTER

2018
RoSPA
Gold Medal Award

CIPS CORPORATE ETHICS
0604
VALID TO 13/05/2020

Haweswater Reservoir

Underlying income statement

Six months ended 30 September £m	2019	2018	Movement
Revenue	**935.5**	**916.4**	**19.1**
Operating expenses	(276.5)	(276.8)	
Infrastructure renewals expenditure	(68.0)	(80.8)	
EBITDA	**591.0**	**558.8**	
Depreciation and amortisation	(199.3)	(191.0)	
Operating profit	**391.7**	**367.8**	**23.9**
Net finance expense	(142.0)	(130.9)	
Share of profits / (losses) of joint ventures	(5.7)	3.4	
Profit before tax	**244.0**	**240.3**	**3.7**
Tax	(45.8)	(43.4)	
Profit after tax	**198.2**	**196.9**	**1.3**
Earnings per share (pence)	**29.1**	**28.9**	
Interim dividend per ordinary share (pence)	**14.20**	**13.76**	

Underlying operating costs

Six months ended 30 September £m	2019	2018	Movement
Revenue	**935.5**	**916.4**	**19.1**
Employee costs	(73.3)	(75.4)	2.1
Hired and contracted services	(47.2)	(45.7)	(1.5)
Property rates	(39.3)	(45.6)	6.3
Materials	(36.9)	(38.2)	1.3
Power	(36.6)	(32.5)	(4.1)
Regulatory fees	(14.1)	(16.9)	2.8
Bad debts	(11.8)	(13.2)	1.4
Cost of properties disposed	-	(2.9)	2.9
Settlement of commercial claims	-	9.9	(9.9)
Other expenses	(17.3)	(16.3)	(1.0)
	(276.5)	**(276.8)**	**0.3**
Infrastructure renewals expenditure (IRE)	(68.0)	(80.8)	12.8
Depreciation and amortisation	(199.3)	(191.0)	(8.3)
Total underlying operating expenses	**(543.8)**	**(548.6)**	**4.8**
Underlying operating profit	**391.7**	**367.8**	
Adjustments:			
Dry weather event	-	(25.0)	
Restructuring costs	(8.7)	(3.7)	
Reported operating profit	**383.0**	**339.1**	

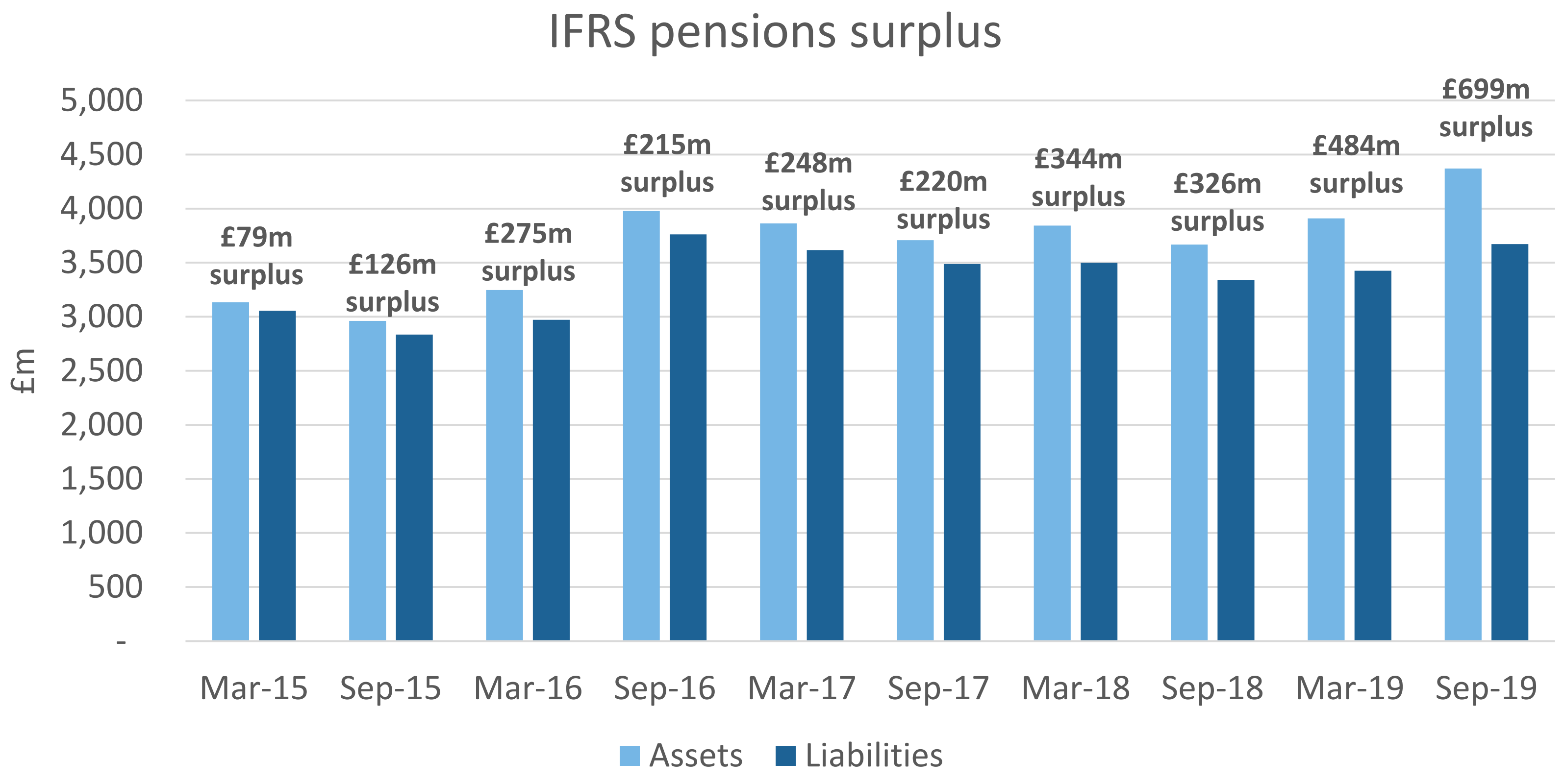
Financial position

At £m	30 Sep 2019	31 Mar 2019	Movement
Property, plant and equipment	11,359	11,153	206
Retirement benefit surplus	699	484	215
Other non-current assets	416	442	(26)
Cash	622	339	283
Other current assets	306	281	25
Total derivative assets	696	489	207
Total assets	**14,098**	**13,188**	**910**
Gross borrowings	(8,513)	(7,816)	(697)
Other non-current liabilities	(2,040)	(1,843)	(197)
Other current liabilities	(343)	(338)	(5)
Total derivative liabilities	(151)	(80)	(71)
Total liabilities	**(11,047)**	**(10,077)**	**(970)**
TOTAL NET ASSETS	**3,051**	**3,111**	**(60)**
Share capital	500	500	-
Share premium	3	3	-
Retained earnings	2,206	2,270	(64)
Other reserves	342	338	4
SHAREHOLDERS' EQUITY	**3,051**	**3,111**	**(60)**
NET DEBT[1]	**(7,346)**	**(7,067)**	**(279)**

[1] Net debt includes cash, borrowings and derivatives

Pensions

United Utilities' pensions are fully funded on a self-sufficiency basis



IAS19 surplus, no funding deficit

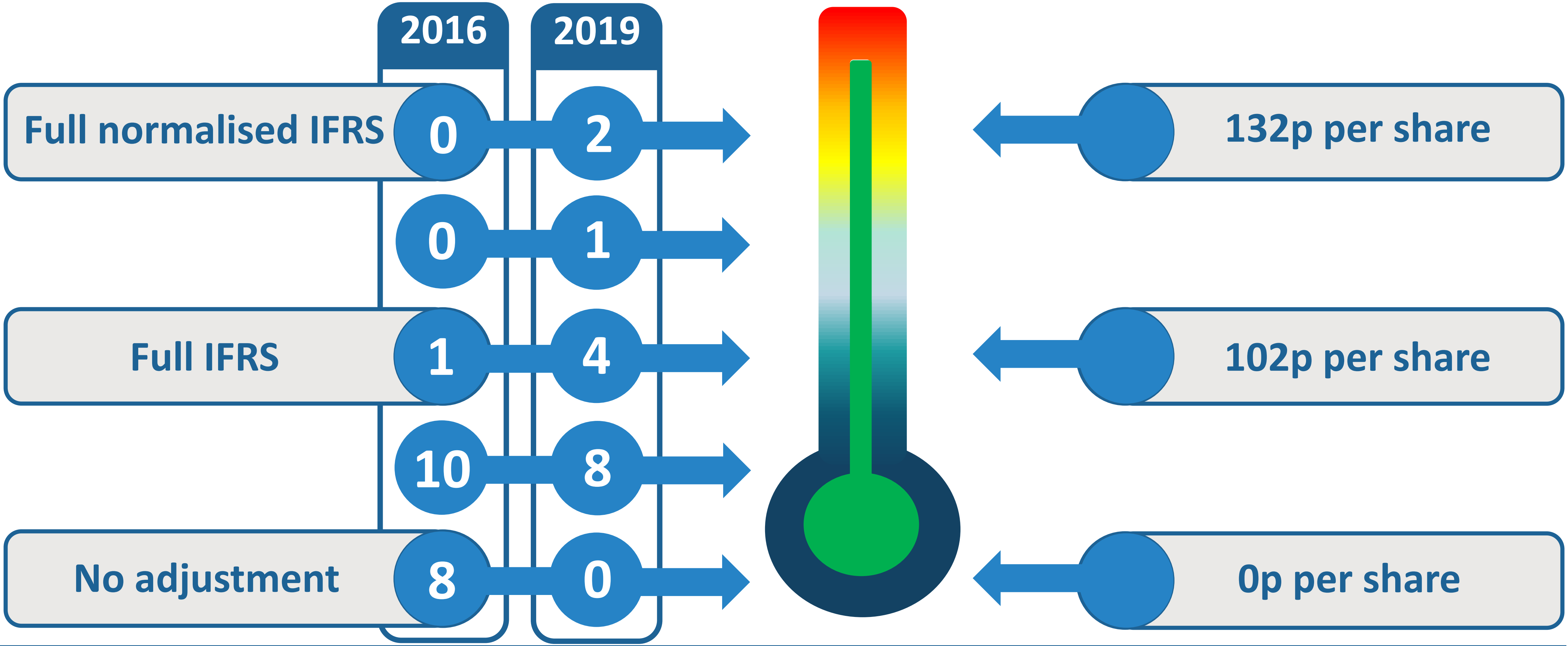
Low risk assets, hedged for inflation and interest rate risk

No deficit on a self-sufficiency basis

Future contributions are ongoing service costs only

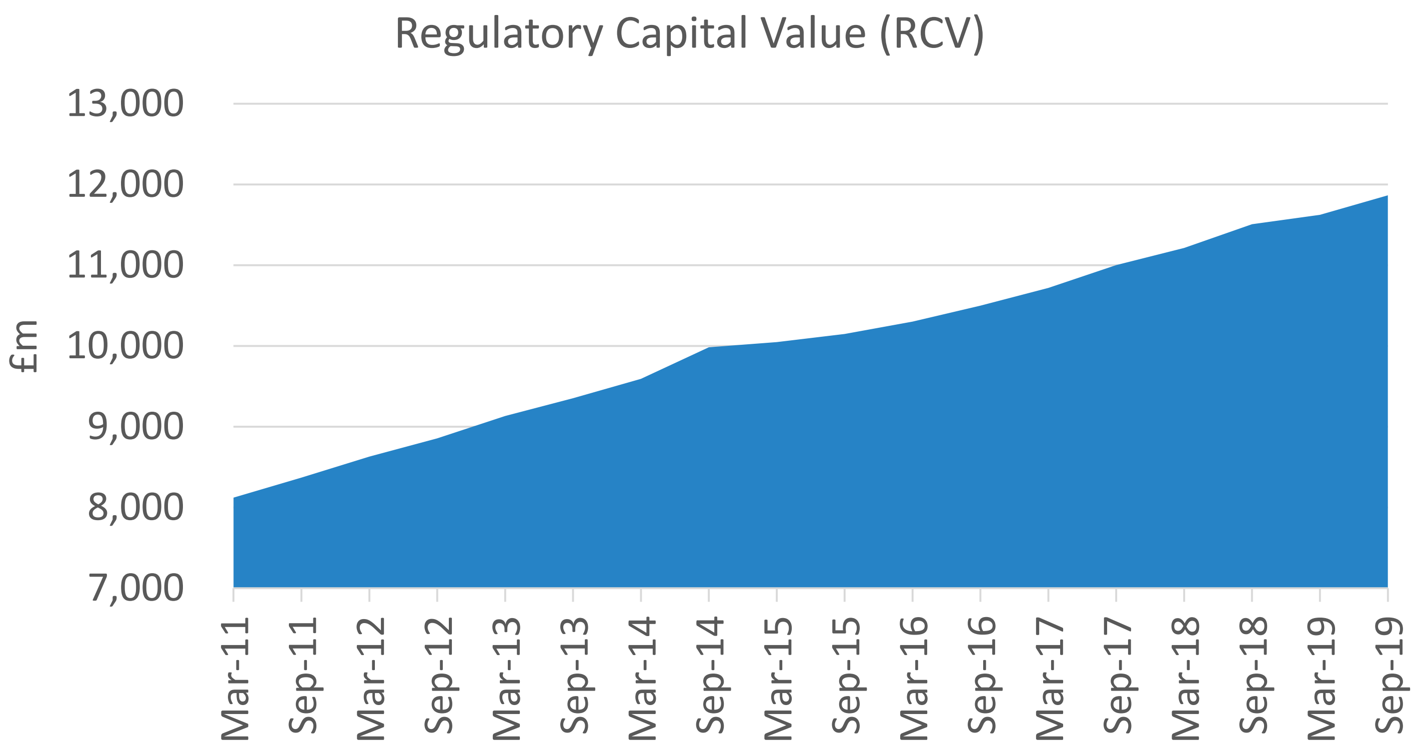
The pensions valuation gap

Company pension position is a significant component of economic value



RCV

Net additions and inflation driving RCV growth



United Utilities Water's regulatory capital value (based on shadow RCV for AMP6, updated for actual spend) and presented in outturn prices. Shadow RCV at 30 September 2019 = £11,866m

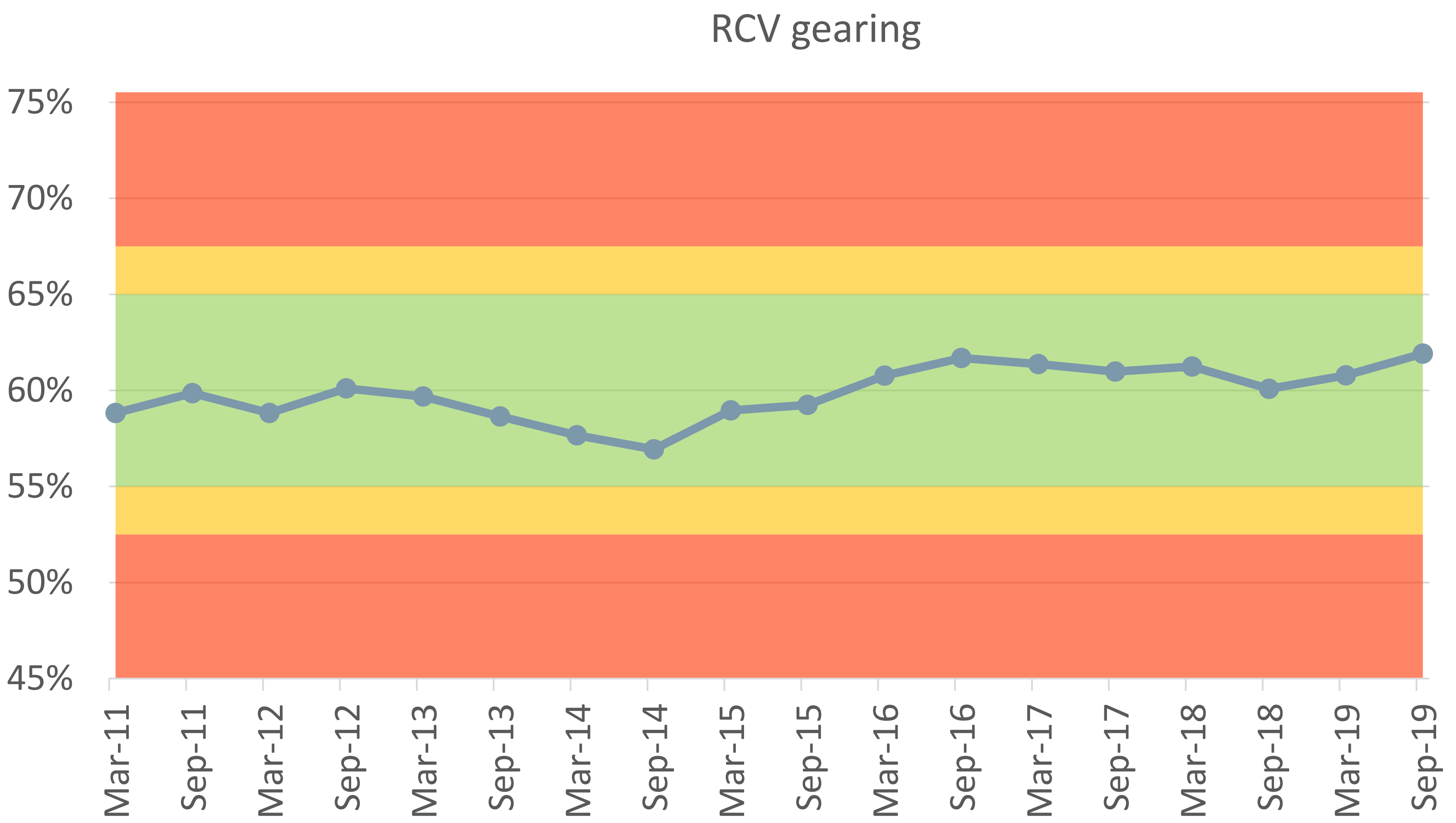
RCV growth driven by investment and inflation

Additional outperformance investment is contributing to RCV growth

Indexation of RCV is part of investors' return not impacting the income statement

RCV gearing

RCV gearing supports robust capital structure



RCV gearing within our target range, supporting a solid A3 credit rating

Cash flow statement

Six months ended 30 September £m	2019	2018
Net cash generated from operating activities	364.1	438.2
Net cash used in investing activities	(306.0)	(300.6)
Net cash generated from / (used in) financing activities	221.4	(399.4)
Net movement in cash	**279.5**	**(261.8)**

Financing

Prefunding AMP7 with headroom out to 2021

Index-linked	Nominal	Committed bank facilities
CPI-linkage increased to **£465m** through **£100m tap** of 2031 public bond and **swapped to CPI**	**£250m** public bond issue with 14-year maturity	**New £50m** committed bank facilities signed for initial 5-year term **£50m** committed bank facilities renewed for initial 5-year term **£50m** committed bank facilities extended a year to 2024

Cost of debt and hedging

Delivering significant financing outperformance

	Inflation		Interest rate
Hedging policy	**c50% of net debt** to be maintained in **index-linked** form		Maintain a **fixed rate, 10 year reducing balance** on nominal debt
Debt portfolio	**c£3.5bn** of RPI-linked debt at an average rate of **1.4% real**	**c£0.5bn** of CPI-linked debt at an average rate of **0.2% real**	**c£3.2bn** of nominal debt fixed at an average rate of **2.9% nominal**

Net debt as at 30 September 2019 is £7,346m and includes fair value that is not included in the above figures. A reconciliation of net debt can be found on slide 43.

AMP6 real cost of debt allowance = 2.59% (RPI-stripped), assumed to be 3.69% (CPI-stripped)

Financial summary

Delivering in AMP6 and prepared for AMP7

Good set of **results**, maintaining **tight cost control**

Fully funded pension on a self-sufficiency basis – a **significant component of economic value**

Sector leading **financial resilience** for the long-term

Delivering **financing outperformance** in AMP6 and well positioned for AMP7

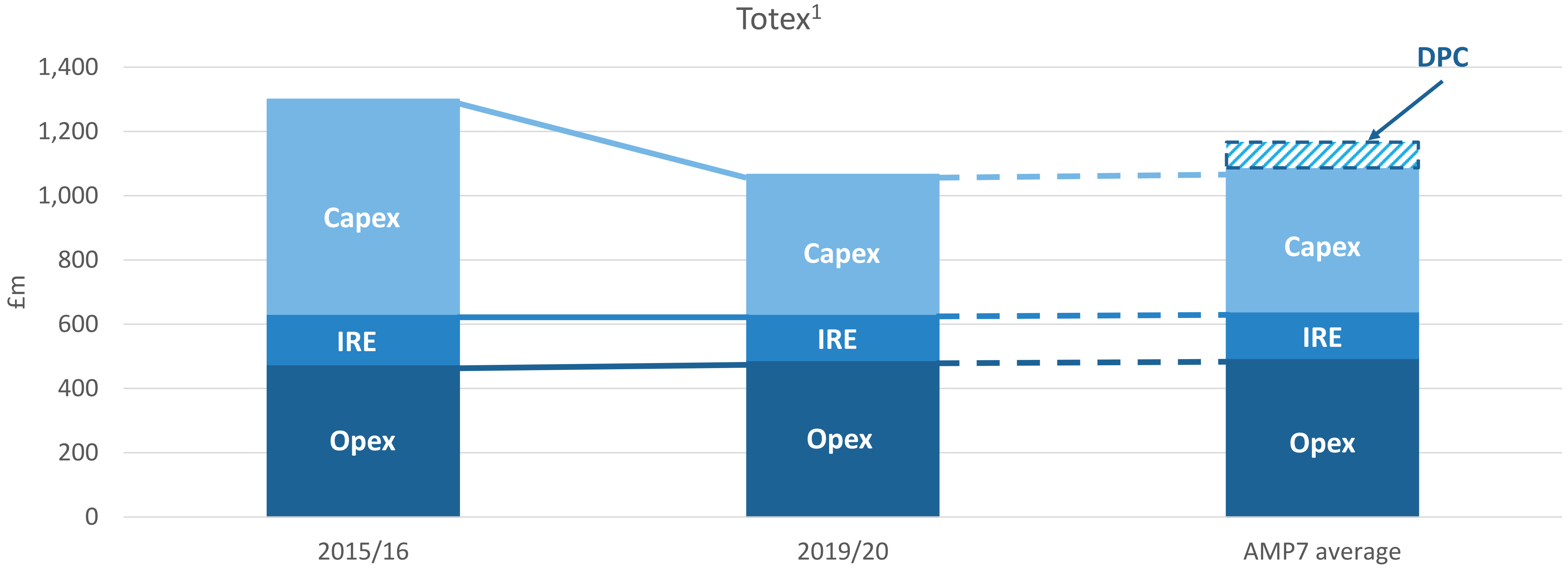
Steve Mogford
Chief Executive

United Utilities
Water for the North West

Thirlmere

Totex run rate on target

AMP6 investment delivering efficiencies to be sustained in AMP7



Source: Company PR19 business plan submission, September 2018

[1] 2017/18 prices, including £250m AMP6 additional investment but not the further £100m announced in May 2019.

Network delivery transformation

Already delivering efficiencies underpinning PR19 business plan

Single contract

Multiple smaller contracts

- Better financial deal
- Integration with customer service teams
- Closer to the customer
- Consistent approach for customer interaction
- Ability to work across all network activity
- Increased competition and flexibility

£100m savings baked into PR19 business plan

AMP7 capital delivery approach

Capital delivery partners appointed

Appointed two capital delivery partners as preferred bidders for **over £300m** of AMP7 capital programme

Closer more **collaborative** working relationship with partners

Leveraging design efficiencies and delivering **significant cost savings**

Enhanced buying power through the supply chain

Greater certainty in hitting **regulatory dates**

Prepared for AMP7

Progressing with £100m investment to give a flying start to AMP7

Targeted investment impacting key ODIs

£100m reinvestment already committed

- Noise loggers
- Installation of new pipes
- High frequency pressure loggers
- Pressure management valves

Leakage and supply interruptions

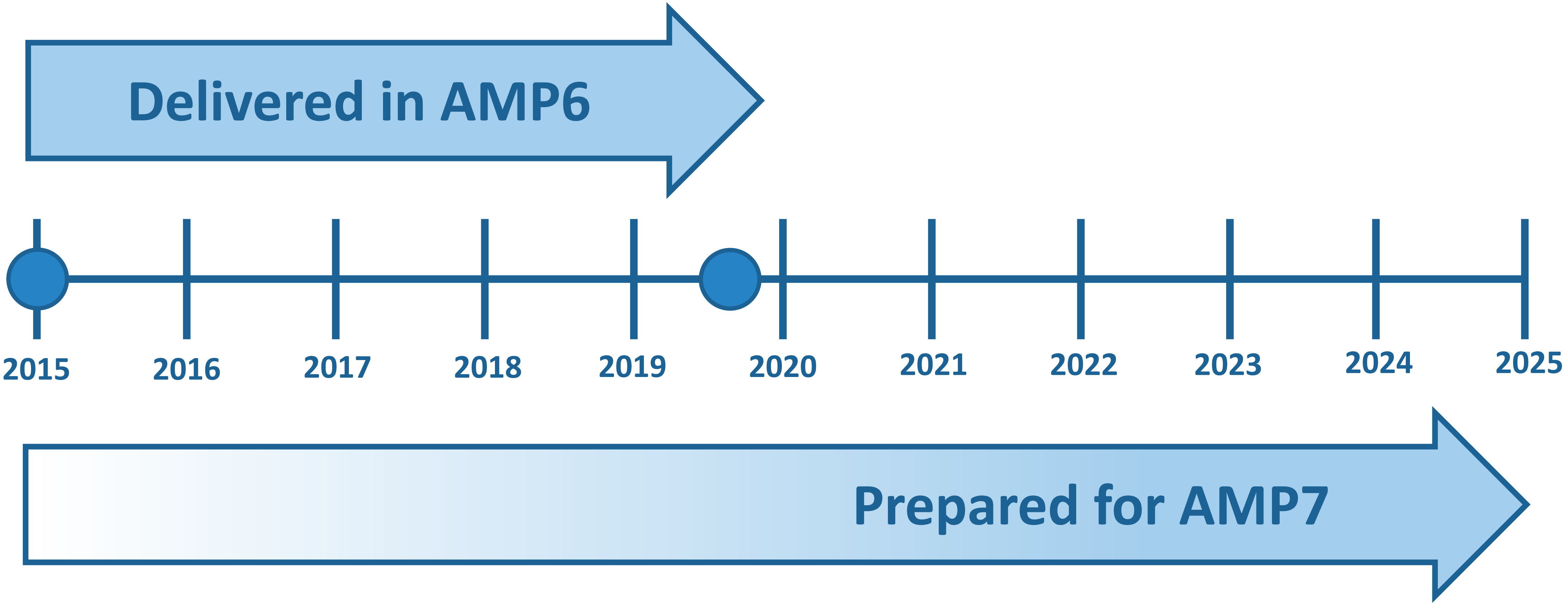
- Targeted strategy of surveying 2,000km of sewers
- Interventions to prevent blockages

Sewer flooding

Total outperformance sharing in AMP6 of £350m

Summary

Delivering against our AMP6 targets and more




Any questions?
United Utilities
Water for the North West

Supporting information

1. Revenue analysis
2. Profit before tax reconciliation
3. Profit after tax reconciliation
4. Finance expense
5. Finance expense: index-linked debt
6. Derivative analysis
7. IFRS pension surplus (normalised)
8. Net regulatory capital spend profile
9. Impact of IFRS16
10. Movement in net debt
11. Financing and liquidity
12. Term debt maturity profile
13. Debt structure
14. EIB funding maturity profile

Revenue analysis

Six months ended 30 September £m	2019	2018
Wholesale water charges	398.4	383.4
Wholesale wastewater charges	465.4	460.7
Residential retail charges	44.7	45.9
Other	27.0	26.4
Revenue	**935.5**	**916.4**

Profit before tax reconciliation

Six months ended 30 September £m	2019	2018
Operating profit	383.0	339.1
Investment income and finance expense	(182.2)	(82.9)
Share of profits of joint ventures	(5.7)	3.4
Reported profit before tax	**195.1**	**259.6**
Adjustments:		
Dry weather event	-	25.0
Restructuring costs	8.7	3.7
Net fair value losses /(gains) on debt and derivative instruments	62.6	(43.7)
Interest on derivatives and debt under fair value option	10.1	18.7
Net pension interest income	(6.8)	(4.5)
Capitalised borrowing costs	(25.7)	(18.5)
Underlying profit before tax	**244.0**	**240.3**

Profit after tax reconciliation

Six months ended 30 September £m	2019	2018
Reported profit after tax	**158.6**	**212.5**
Adjustments:		
Dry weather event	-	25.0
Restructuring costs	8.7	3.7
Net fair value losses / (gains) on debt and derivative instruments	62.6	(43.7)
Interest on derivatives and debt under fair value option	10.1	18.7
Net pension interest income	(6.8)	(4.5)
Capitalised borrowing costs	(25.7)	(18.5)
Tax in respect of adjustments to underlying profit before tax	(9.3)	3.7
Underlying profit after tax	**198.2**	**196.9**
Basic earnings per share (pence)	**23.3**	**31.2**
Underlying earnings per share (pence)	**29.1**	**28.9**

Finance expense

Six months ended 30 September £m	2019	2018
Investment income	11.7	7.8
Finance expense	(193.9)	(90.7)
	(182.2)	**(82.9)**
Less net fair value losses / (gains) on debt and derivative instruments	62.6	(43.7)
Adjustments for interest on derivatives and debt under fair value option	10.1	18.7
Adjustment for net pension interest income	(6.8)	(4.5)
Adjustment for capitalised borrowing costs	(25.7)	(18.5)
Underlying net finance expense	**(142.0)**	**(130.9)**
Average notional net debt	**7,106**	**6,865**
Average underlying interest rate	**4.0%**	**3.8%**
Effective interest rate on index-linked debt	4.9%	4.8%
Effective interest rate on other debt	2.9%	2.6%

Finance expense: index-linked debt

Six months ended 30 September £m	2019	2018
Interest on index-linked debt	(25.5)	(24.3)
RPI adjustment to index-linked debt principal – 3 month lag[1]	(61.8)	(56.4)
CPI adjustment to index-linked debt principal – 3 month lag[2]	(4.9)	(2.2)
RPI adjustment to index-linked debt principal – 8 month lag[3]	(3.6)	(8.5)
Finance expense on index-linked debt[4]	**(95.8)**	**(91.4)**
Interest on other debt (including fair value option debt and derivatives)	(46.2)	(39.5)
Underlying net finance expense	**(142.0)**	**(130.9)**

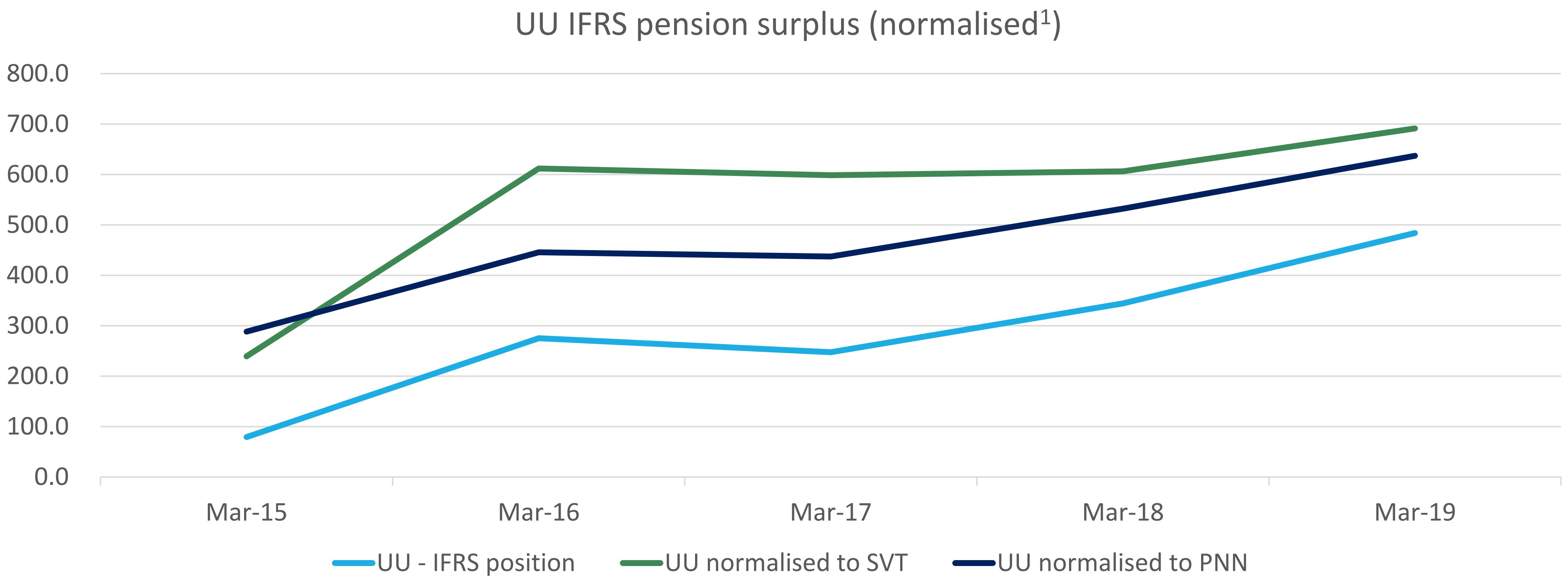
[1] Affected by movement in RPI between January 2019 and July 2019
[2] Affected by movement in CPI between January 2019 and July 2019
[3] Affected by movement in RPI between July 2018 and January 2019
[4] Adjusted to overlay the impact of inflation swaps

Derivative analysis

At 30 September £m	2019	2018
Derivatives hedging debt	683.4	546.1
Derivatives hedging interest rates	(139.8)	(25.4)
Derivatives hedging commodity prices	1.0	12.4
Total derivative assets and liabilities (slide 17)	**544.6**	**533.1**

- Derivatives hedging debt; hedge our non index-linked debt into sterling, floating interest rate debt and hedge a small portion of RPI-linked debt and non index-linked debt to CPI-linked debt. Typically these are designated in fair value hedge accounting relationships.
- Derivatives hedging interest rates; 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.
- 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.

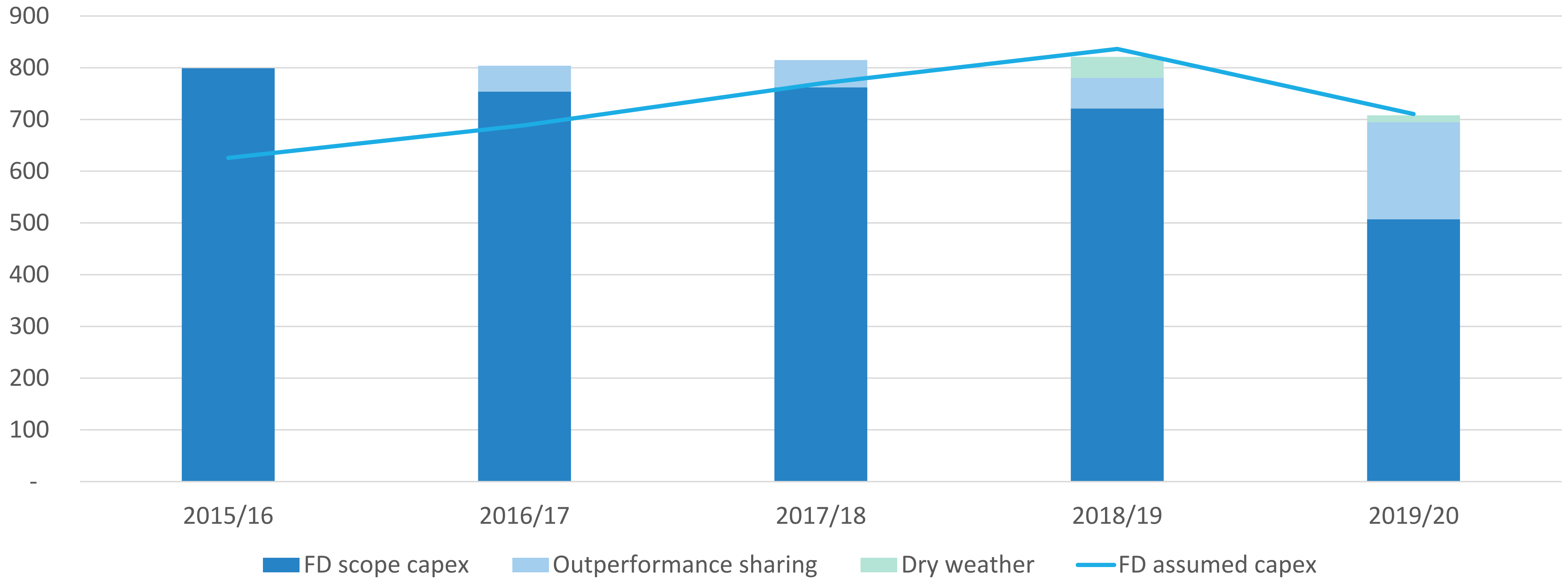
IFRS pension surplus normalised



Source: Companies' annual report and accounts

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

Net regulatory capital spend profile

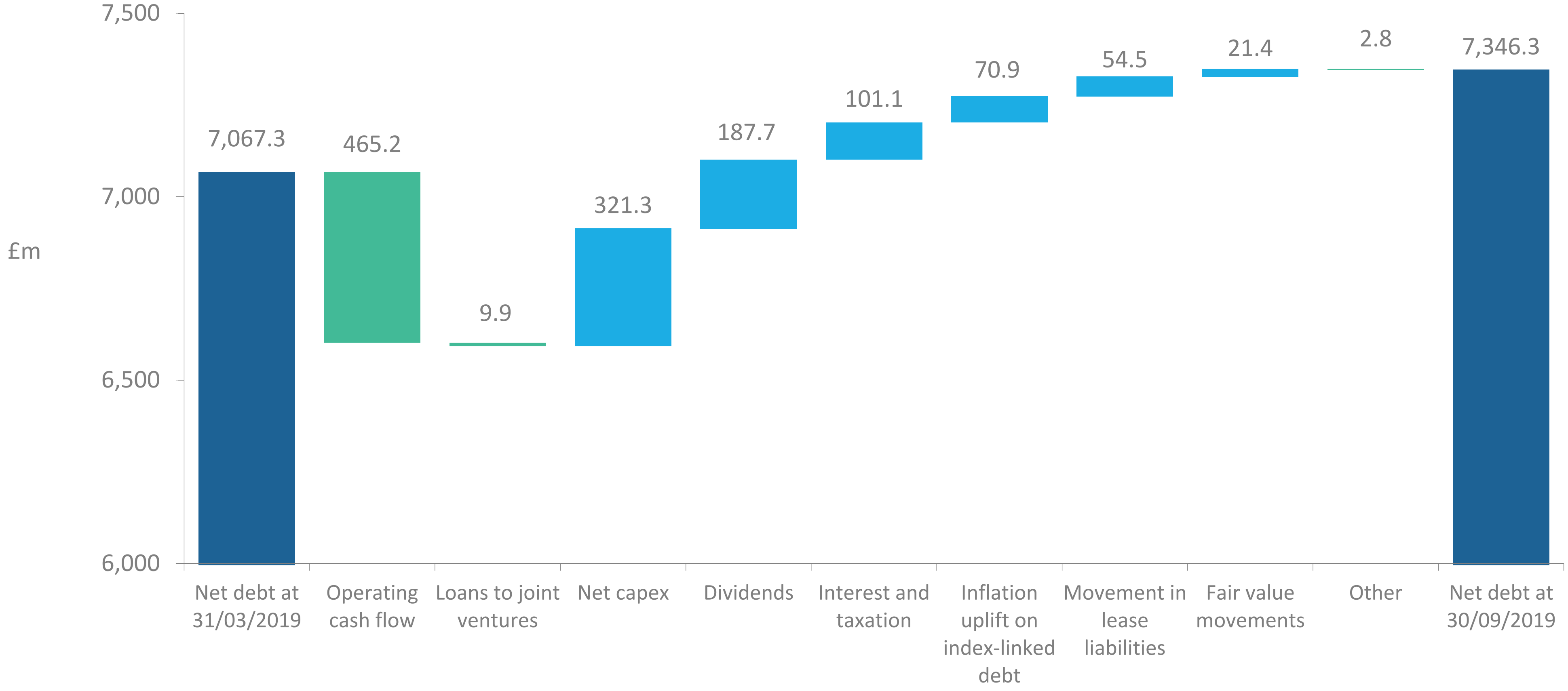


The UU AMP6 investment programme on this chart does not constitute a forecast and is subject to change.

Impact of IFRS 16

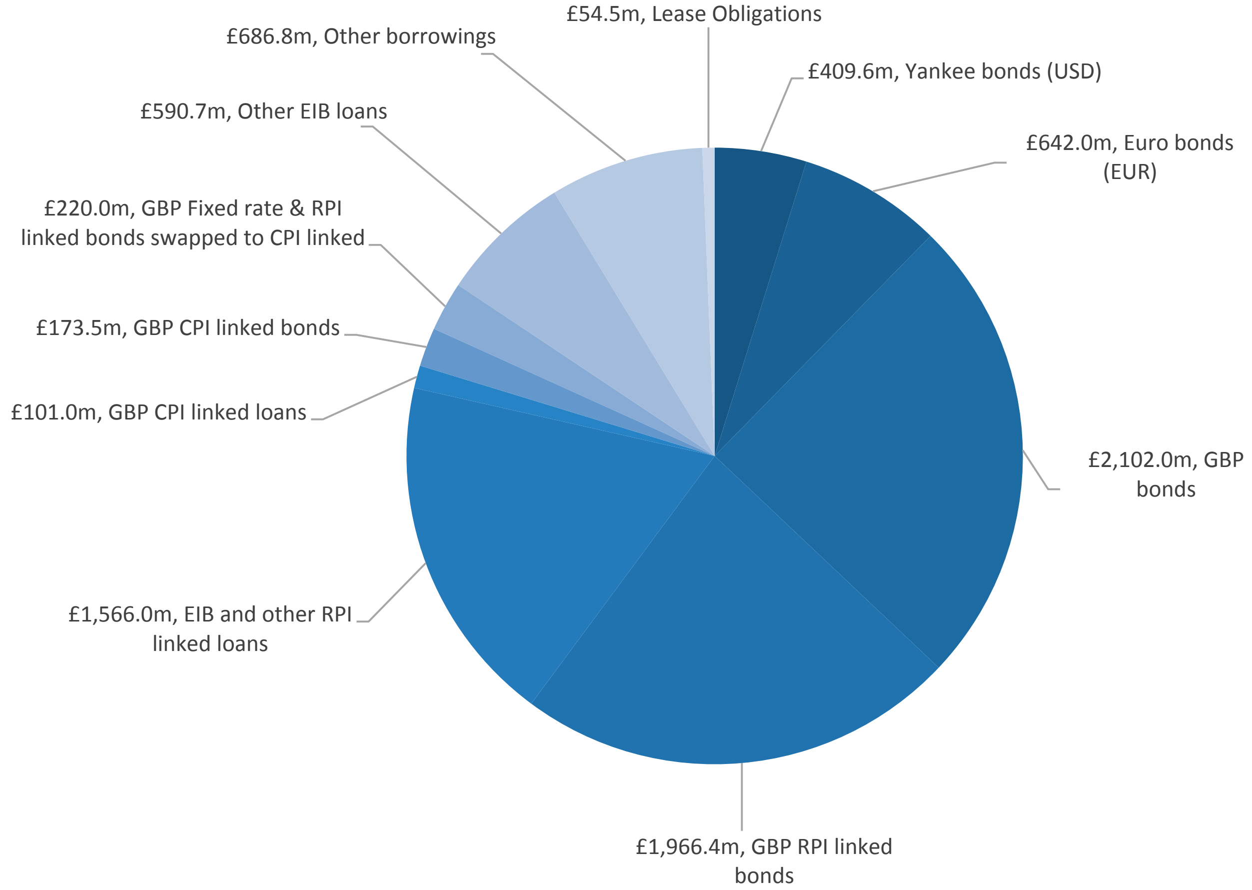
- **IFRS 16** effective from 1 April 2019
- **£55m lease liability** brought onto the statement of financial position as at 1 April 2019
- Corresponding **£55m lease asset** also brought onto the statement of financial position as at 1 April 2019
- In 2019/20, expect the lease asset to be **depreciated by £2.2m** and a **finance cost of £1.6m**
- Prior to adoption of IFRS 16 would have expected an operating lease cost of £3.7m for these leases
- Impact of adoption of IFRS 16 is an **additional net cost of £0.1m** in 2019/20
    - Absent further changes, **additional cost in early years would reverse over the life of the leases**

Movement in net debt



Financing and liquidity as at 30 September 2019

Gross debt = £8,512.5m



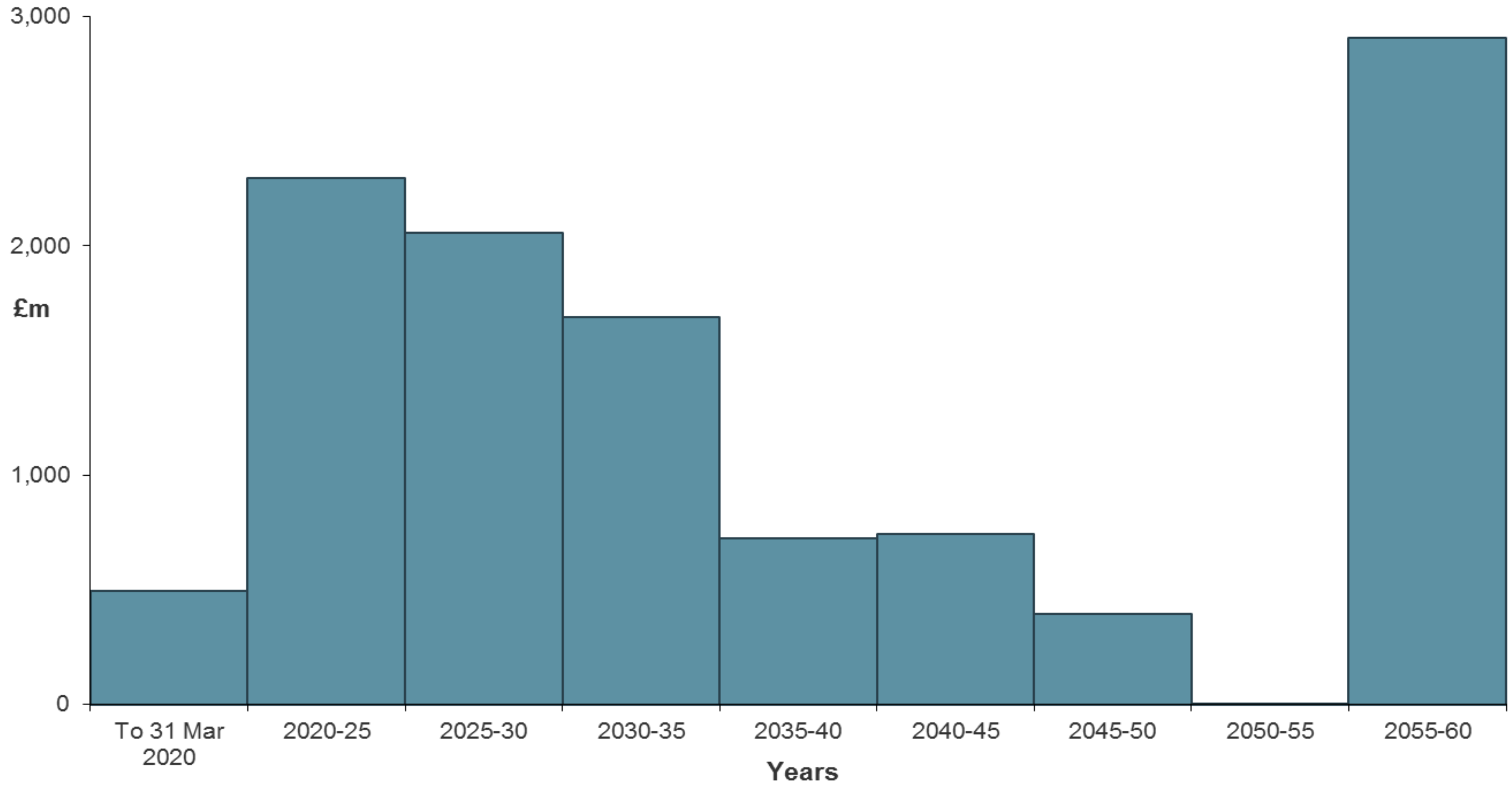
Headroom / prefunding = £716.1m

	£m
Cash and short-term deposits	621.5
Medium-term committed bank facilities[1]	800.0
Short-term debt	(183.5)
Term debt maturing within one year	(521.9)
Total headroom / prefunding	**716.1**

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

Term debt maturity profile as at 30 September 2019[1]

Average term to maturity of just under 20 years



[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%

Debt structure at 30 September 2019

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB negative; A- stable[6]

Yankees:
- $400m in 28s

Other debt:
- Short-term loans £100m

United Utilities Water Limited
A3 stable; A- negative; A- stable[6]
Ring-fenced and regulated by Ofwat

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

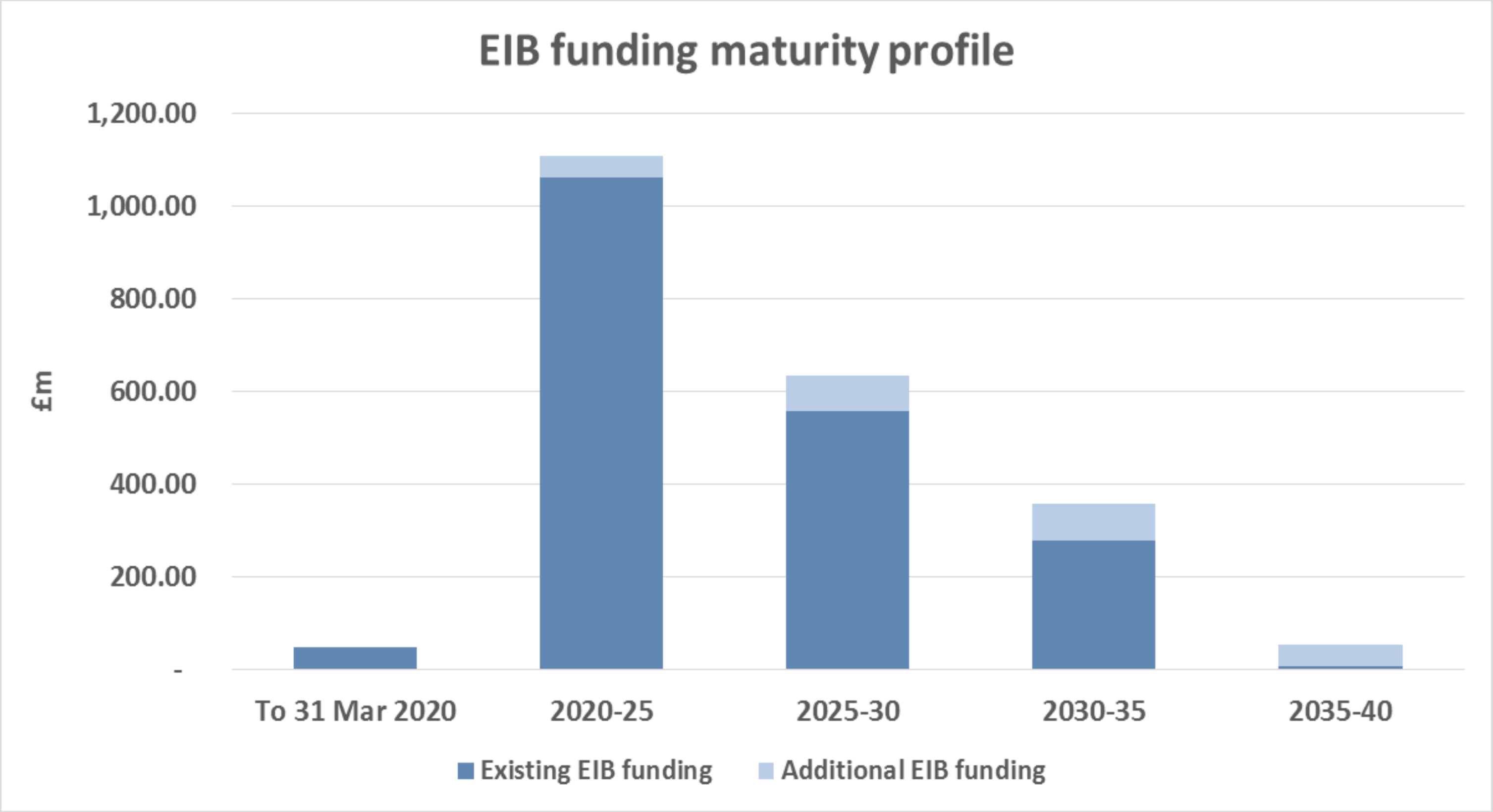
Other debt:
- EIB RPI-linked loans £990m[1]
- Other RPI-linked loans £300m[1]
- CPI-linked loans £100m[2]
- Other EIB loans £591m
- Short-term loans £66m
- ¥10bn dual currency loan
- Other sterling loans £127m

United Utilities Water Finance PLC[5]
Guaranteed by United Utilities Water Ltd

Euro MTNs:
- £25m in 25s[1]
- £450m in 25s
- HK$739m in 26s
- HK$320m in 26s
- HK$830m in 27s
- €52m in 27s
- £20m in 28s[1]
- £35m in 30s[1]
- €30m in 30s
- €30m in 31s
- £350m in 31s[4]
- HK$600m in 31s
- £38m in 31s[3]
- £20m in 31s[2]
- €26m in 32s
- €28m in 32s
- £250m in 33s
- €30m in 33s
- £27m in 36s[3]
- £29m in 36s[3]
- £20m in 36s[2]
- £60m in 37s[2]
- £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] A £100m fixed rate tranche of this bond has been swapped to CPI linked
[5] 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
[6] Senior unsecured debt ratings published by Moody's; Standard & Poor's; Fitch respectively

EIB funding maturity profile



Notes

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

Dark blue areas represent EIB loans currently drawn and outstanding.

Light blue areas represent a further £250m AMP6 loan assuming this will be signed and drawn in FY2019/20 (being the second tranche of a £500m AMP6 funding package approved by EIB in 2016). It is assumed that this loan will be drawn down in floating rate tranches on an amortising repayment basis with an average loan life of approximately 10-years.