



United Utilities Group PLC

Half year results

Six months ended 30 September 2018

 **United
Utilities**
helping life flow smoothly

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.

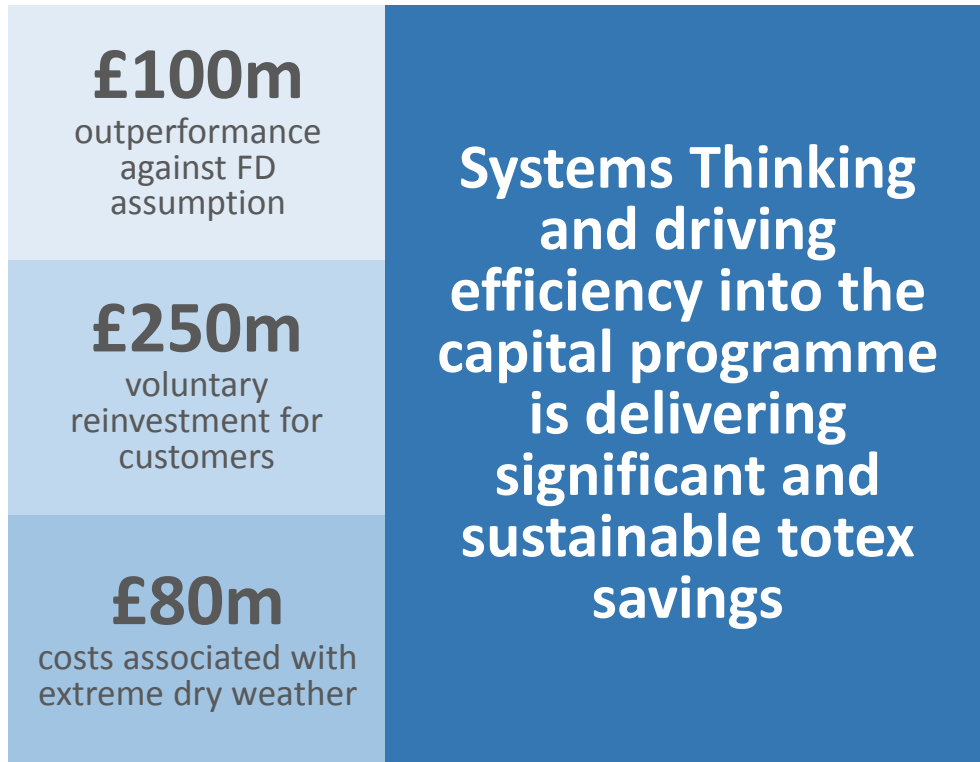


Steve Mogford Chief Executive



AMP6 targets on track

Totex



Outcome Delivery Incentives (ODIs)

- ✓ AMP6 net reward of **£0 - £30m** expected
- ✓ Successfully **mitigated downside risk**
- ✓ Forecast performance around the **top quartile** – strong performance

Service Incentive Mechanism (SIM)

- ✓ Expect **AMP6 reward** of **£11m** or more

Sustained excellence

Significant and wide ranging evidence across many areas of strong operational performance



Environment

Assessed as 4* by the EA for three consecutive years



Resilience

One of the best performers highlighted in Ofwat's report following freeze/thaw



Leading customer service

Expect a reward in AMP6 of £11m or more for SIM



Innovation & Systems Thinking

Five year lead on Systems Thinking – the “most sophisticated approach in the sector”



Drinking water quality

Top WaSC for Mean Zonal Compliance
Most improved company in 2017



Leakage

Met our leakage target for 12 consecutive years



Top wholesale performer

Awarded top place by business retailers for performance and ease of doing business

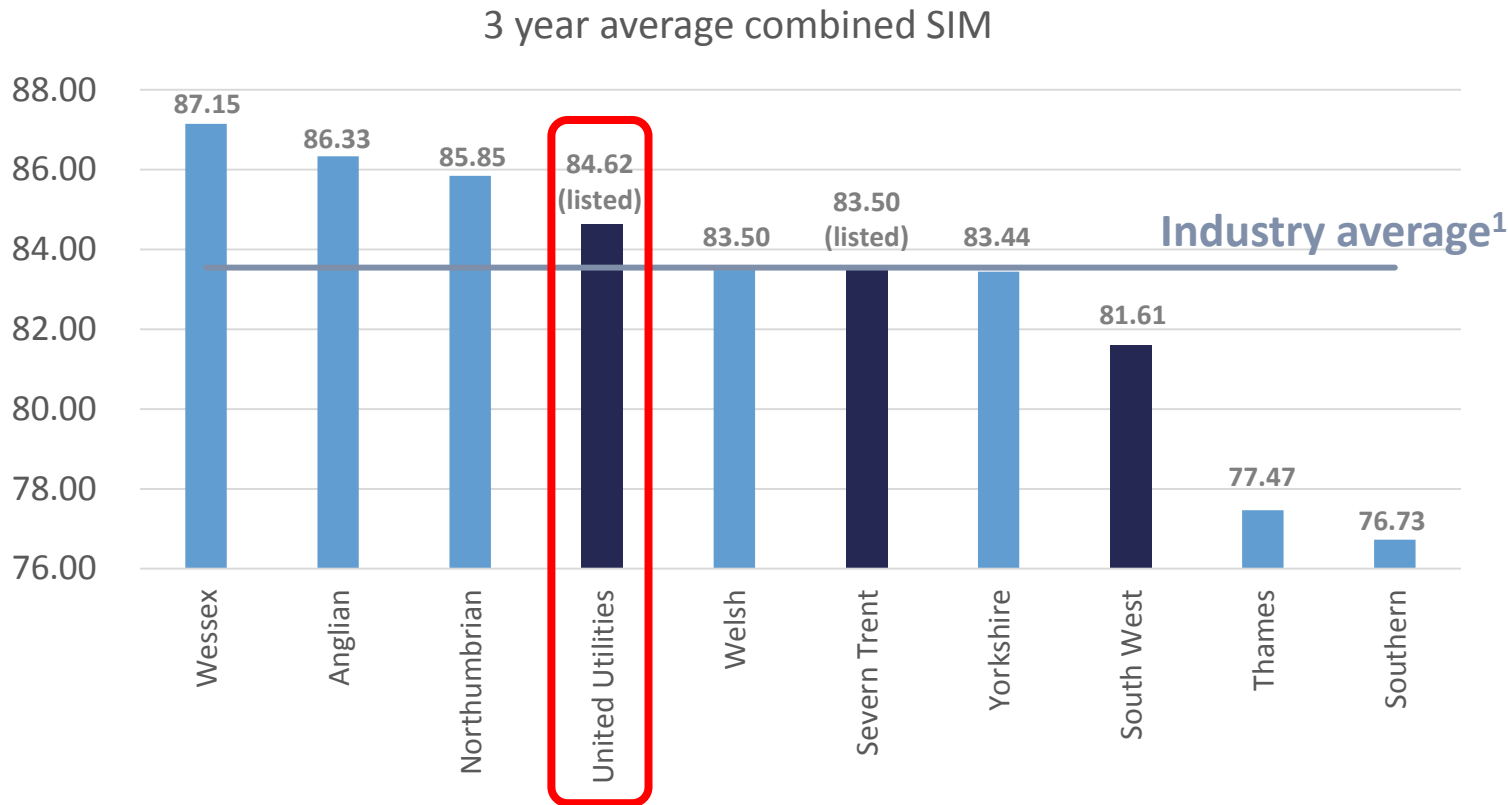


Governance

World class status in Dow Jones Sustainability Index for 11 consecutive years and self-assured for reporting with Ofwat

Leading customer service

Now expect to be eligible for a SIM reward of £11 million or more in AMP6



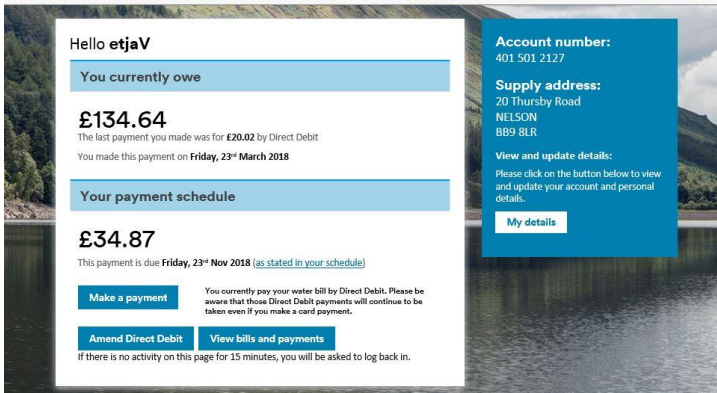
34%
34% reduction in stage 1 complaints

64%
64% reduction in stage 2 complaints

¹ Industry average based on all companies including water only companies as we believe this is aligned with how SIM rewards and penalties will be calculated

Innovation in customer service

Improved customer service whilst reducing cost – cost to serve reduced from over **£50 to £38**



Over **750,000** customers registered for My Account

Over **43%** customer contacts automated



51,133

Registered for UU app



£4.2 million

Payments made via app to date



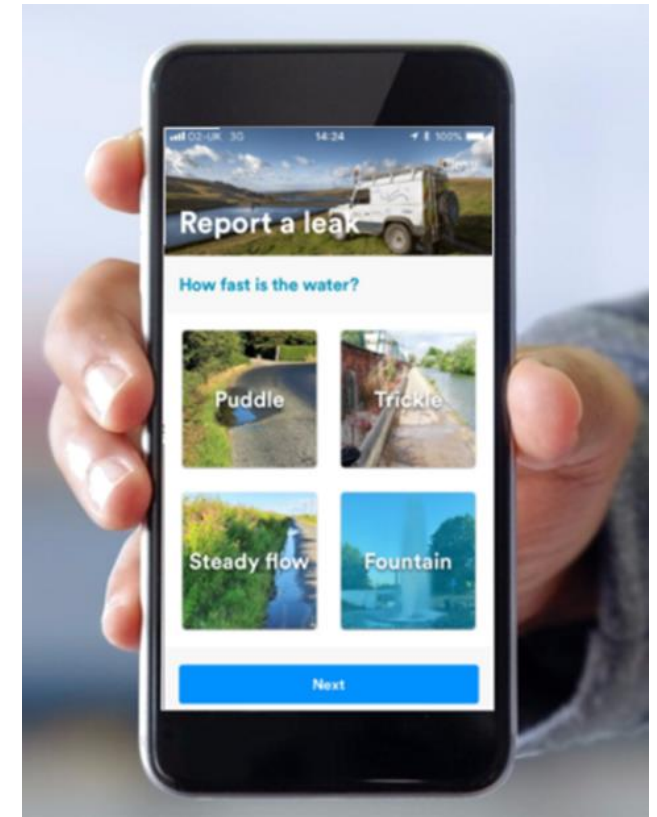
92 customers

registering for the app, on average, every day



25,900

Meter reads submitted this way



Bad debt and cash collection

Driving down bad debt

Household bad debt as a percentage of regulated revenue **reduced to 2.1%** for H1 2018/19 **from 2.5%** for H1 2017/18

Improving data

Credit sharing

Affordability schemes

Payment plans

Industry leading approach to affordability support



Chartered
Institute
of Credit
Management

BRITISH CREDIT AWARDS
2018

Winner of
**Responsible Approach
to Consumers**
CICM British Credit Awards
2018



Highly commended for
**Vulnerable Customer
Team of the Year**
The Credit Awards 2018



Shortlisted for
**Best Vulnerable
Customer Support
Team**
U&T Awards 2017

Support

We can help if you're struggling
to pay your water bill



Service recognition

Only listed water to achieve Service Mark with Distinction



- ✓ **Step change** in ranking and performance
- ✓ **Most improved** utility
- ✓ **First** out of the 10 water and wastewater companies
- ✓ Only listed water to achieve **Service Mark with Distinction**
- ✓ Only a small group of companies in the country have achieved a **'Distinction'**

Customer sentiment scores well compared with leading brands



Technology enabled performance

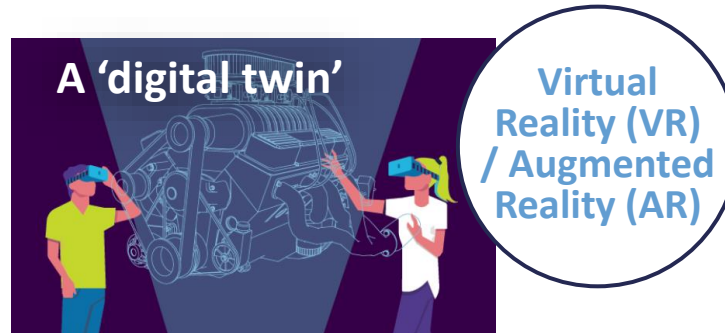
Innovation and Systems Thinking making a difference to sustainable long-term performance



Artificial Intelligence

Scalability and flexibility

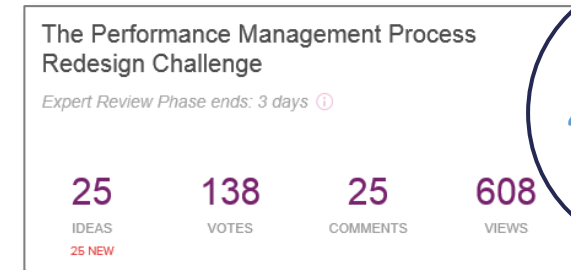
Savings around £10m per annum



Laser scanning to produce 3D models

Technology overlays virtual objects

90% reduction in downtime and 30% savings



Employee innovation app

Employees suggest ideas

Encourages and engages

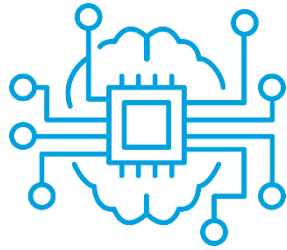
Co-creation

Resilient services

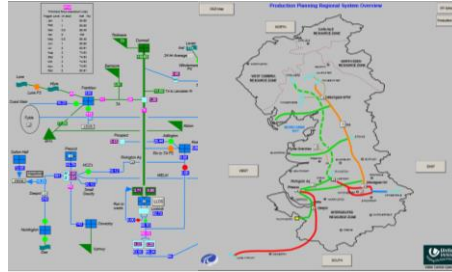
Systems Thinking helping combat the challenge of climate change



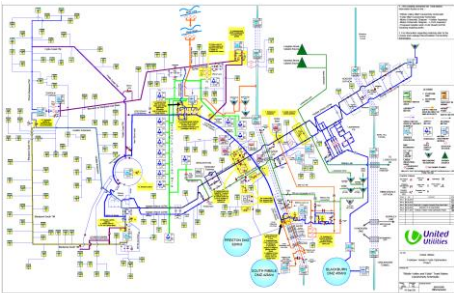
Integrated Control Centre (ICC)



Intelligent network management



Production planning



System visualisation



Alternative Supply Vehicles



Proactive customer communication



2018 has seen some exceptional periods of severe weather. The North West has experienced extremes in temperatures and in rainfall patterns.

Phil Aspin Group Controller



Reported income statement

Six months ended 30 September

£m

	2018	2017	Movement
Revenue	916.4	876.0	
Operating expenses	(386.3)	(348.9)	
EBITDA	530.1	527.1	
Depreciation and amortisation	(191.0)	(185.3)	
Operating profit	339.1	341.8	
Investment income and finance expense	(82.9)	(104.6)	
Share of profits of joint ventures	3.4	5.1	
Profit before tax	259.6	242.3	
Tax	(47.1)	(44.9)	
Profit after tax	212.5	197.4	15.1
Basic earnings per share (pence)	31.2	28.9	
Interim dividend per ordinary share (pence)	13.76	13.24	

Underlying income statement

Six months ended 30 September

£m

	2018	2017	Movement
Revenue	916.4	876.0	40.4
Operating expenses	(276.8)	(276.9)	
Infrastructure renewals expenditure	(80.8)	(69.8)	
EBITDA	558.8	529.3	
Depreciation and amortisation	(191.0)	(185.3)	
Operating profit	367.8	344.0	23.8
Net finance expense	(130.9)	(154.8)	
Share of profits of joint ventures	3.4	5.1	
Profit before tax	240.3	194.3	46.0
Tax	(43.4)	(34.2)	
Profit after tax	196.9	160.1	36.8
Earnings per share (pence)	28.9	23.5	
Interim dividend per ordinary share (pence)	13.76	13.24	

Underlying operating costs

Six months ended 30 September £m	2018	2017	Movement
Revenue	916.4	876.0	
Employee costs	(75.4)	(72.6)	(2.8)
Hired and contracted services	(45.7)	(46.1)	0.4
Property rates	(45.6)	(42.6)	(3.0)
Materials	(38.2)	(32.6)	(5.6)
Power	(32.5)	(31.9)	(0.6)
Bad debts	(13.2)	(14.8)	1.6
Regulatory fees	(16.9)	(14.9)	(2.0)
Cost of properties disposed	(2.9)	(7.7)	4.8
Settlement of commercial claims	9.9	-	9.9
Other expenses	(16.3)	(13.7)	(2.6)
	(276.8)	(276.9)	0.1
Infrastructure renewals expenditure (IRE)	(80.8)	(69.8)	(11.0)
Depreciation and amortisation	(191.0)	(185.3)	(5.7)
Total underlying operating expenses	(548.6)	(532.0)	(16.6)
Underlying operating profit	367.8	344.0	
<u>Adjustments:</u>			
Dry weather event	(25.0)	-	
Flooding incidents (net of insurance proceeds)	-	0.1	
Non-household retail market reform ¹	-	(1.0)	
Restructuring costs	(3.7)	(1.3)	
Reported operating profit	339.1	341.8	

¹ Relates to market reform restructuring costs incurred preparing the business for open competition in the non-household retail market

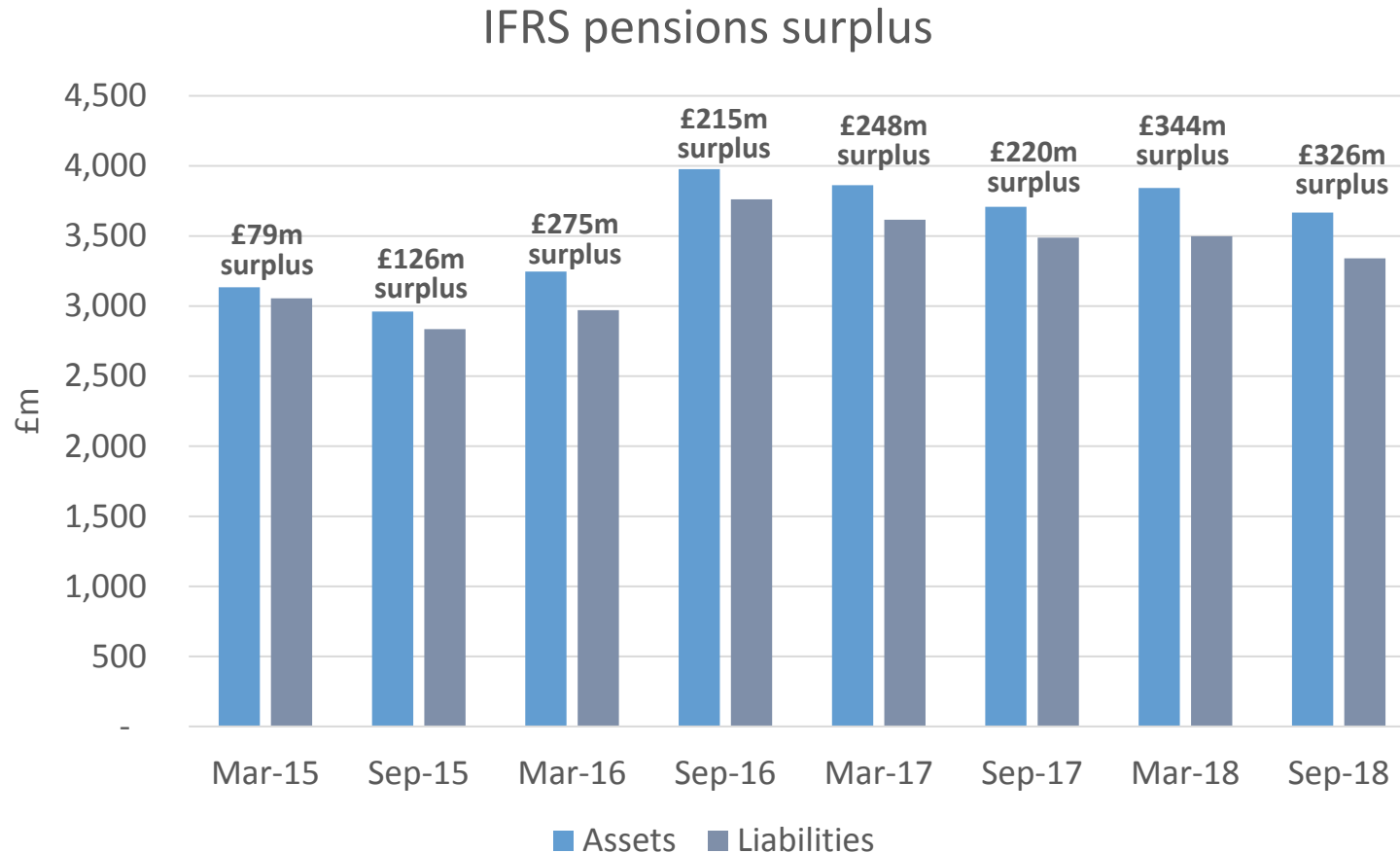
Financial position

At £m	30 Sep 2018	31 Mar 2018	Movement
Property, plant and equipment	10,944.3	10,790.5	153.8
Retirement benefit surplus	326.3	344.2	
Other non-current assets	443.9	421.1	
Cash	259.6	510.0	(250.4)
Other current assets	305.5	302.2	
Total derivative assets	607.3	635.5	(28.2)
Total assets	12,886.9	13,003.5	
Gross borrowings	(7,706.8)	(7,912.3)	205.5
Other non-current liabilities	(1,784.5)	(1,741.5)	
Other current liabilities	(358.0)	(297.8)	
Total derivative liabilities	(74.2)	(101.0)	26.8
Total liabilities	(9,923.5)	(10,052.6)	
TOTAL NET ASSETS	2,963.4	2,950.9	
Share capital	499.8	499.8	
Share premium	2.9	2.9	
Retained earnings	2,119.9	2,120.3	
Other reserves	340.8	327.9	
SHAREHOLDERS' EQUITY	2,963.4	2,950.9	
NET DEBT¹	(6,914.1)	(6,867.8)	(46.3)

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

Pensions

Fully hedged for inflation and interest rates



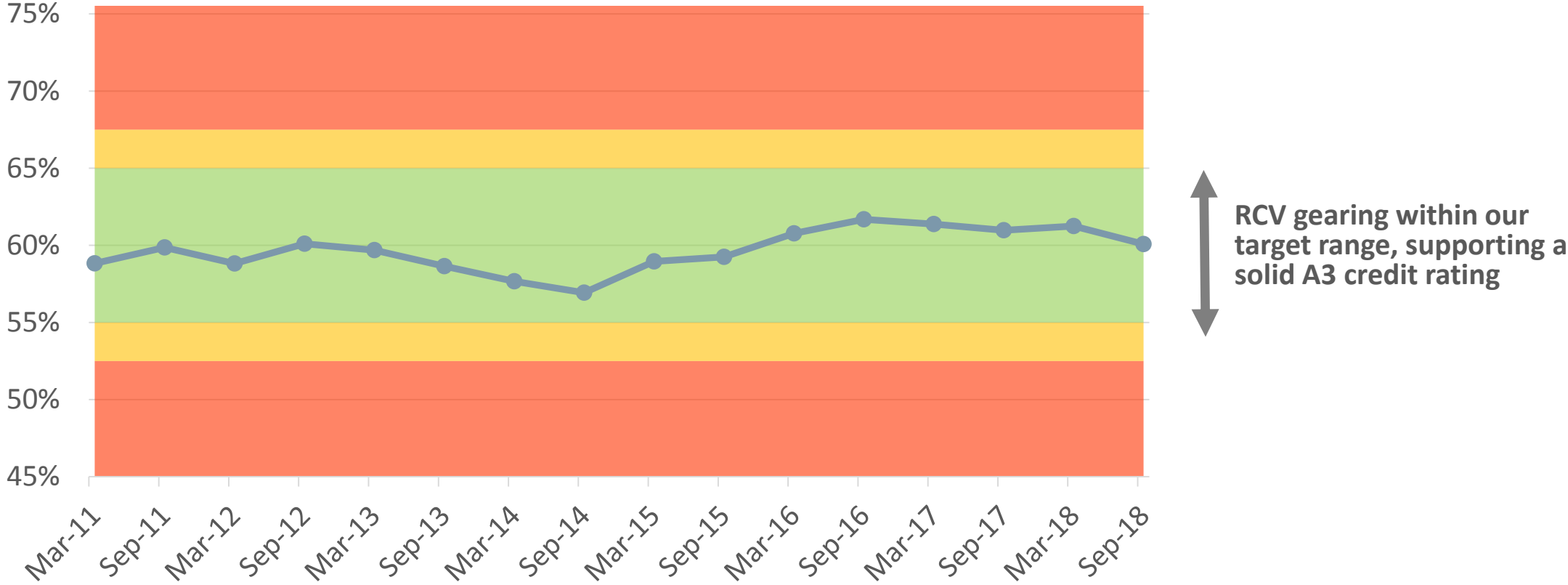
Low risk corporate bonds and gilts

Interest rate risk fully hedged in the external market

Inflation risk fully hedged in the external market (IFM replaced)

RCV gearing

RCV gearing supports robust capital structure



Cash flow statement

Six months ended 30 September

£m

2018

2017

Net cash generated from operating activities

438.2

411.6

Net cash used in investing activities

(300.6)

(330.6)

Net cash used in financing activities

(399.4)

(228.4)

Net movement in cash

(261.8)

(147.4)

Financing

Headroom out to 2020



c£2.3bn of
c£2.5bn AMP6
financing already
raised

Headroom to
2020

Index-linked

£165m CPI-linked raised previously

£711m RPI-linked raised previously

Nominal

£1,433m raised previously

£50m additional tap of £300m public bond during period

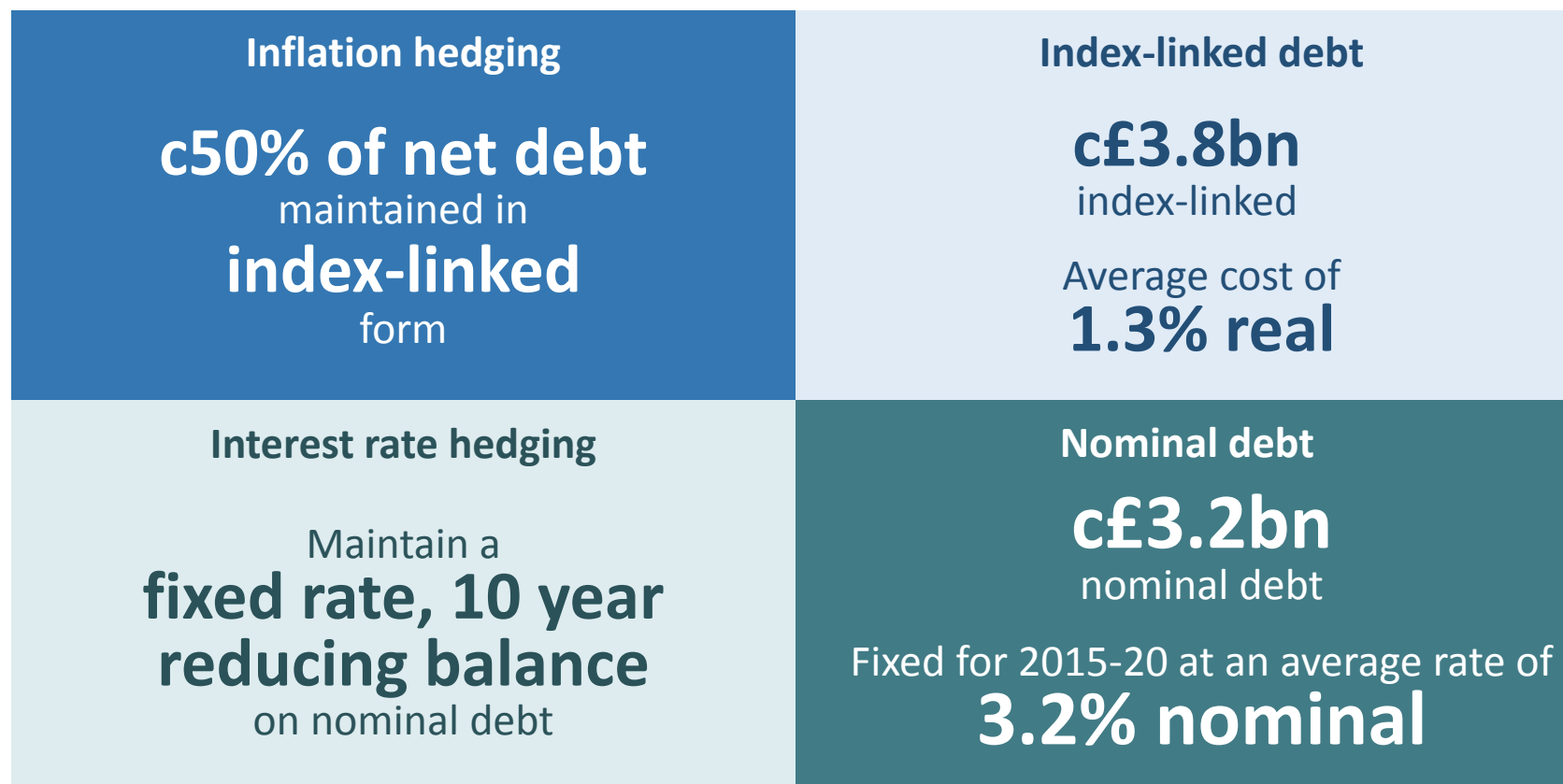
Committed bank facilities

£50m committed bank facilities renewed for initial 5-year term

£100m committed bank facilities extended a year out to 2023

Cost of debt and hedging

Delivering significant financing outperformance



Financial summary

Delivering in AMP6 and prepared for AMP7



Good results

Good set of results, maintaining tight cost control



Financing outperformance

Delivering significant financing outperformance in AMP6



Financial resilience

Sector leading financial resilience for the long-term



Prepared for AMP7

Current position and revised hedging policies mean we are well prepared for AMP7

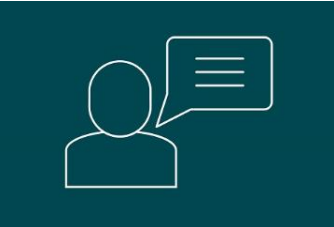


Steve Mogford Chief Executive



PR19 – our business plan for 2020-2025

Trusted to deliver value, transparently, every day



Executive summary
– trusted to deliver
value, transparently,
every day



**Voice of the
customer: our
approach to
engagement**



**Addressing
affordability and
vulnerability**



**Delivering long-
term resilience**



**Great service to
customers**



**Using markets and
innovation**



**Securing
efficient cost**



**Accounting for
past delivery**



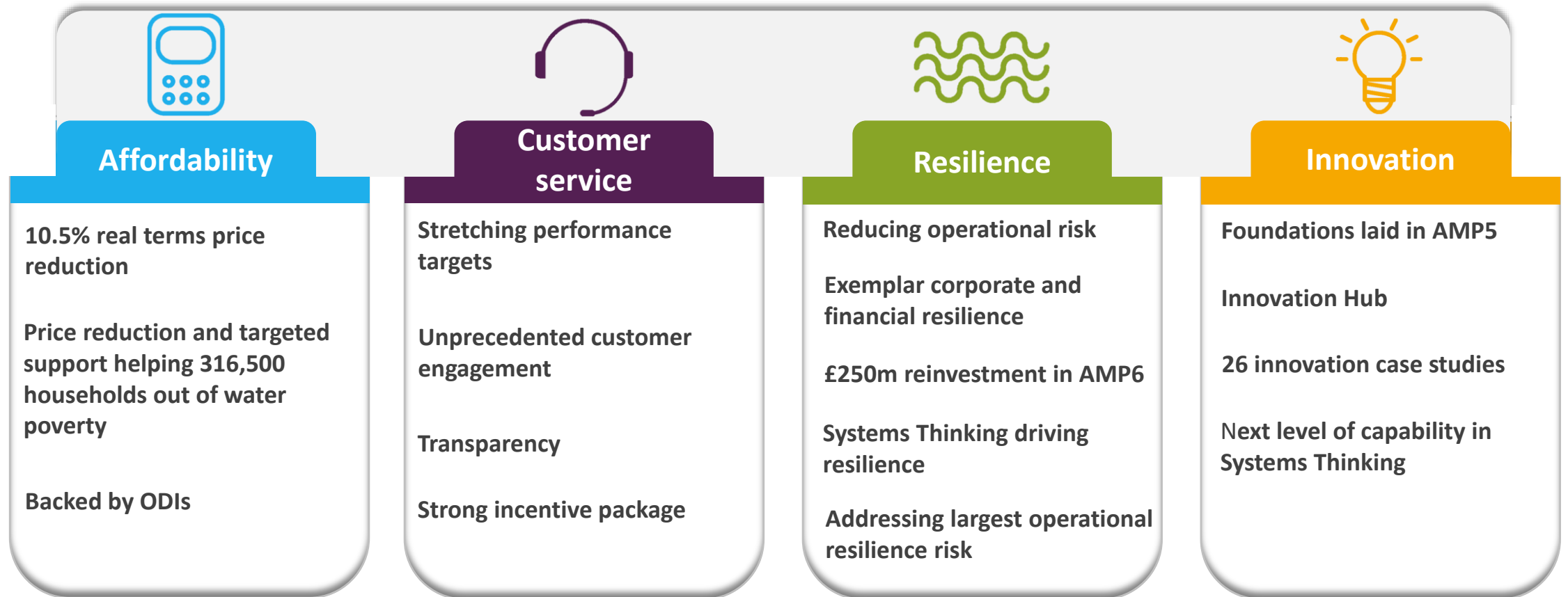
**Aligning risk
and return**



**Confidence
and assurance**

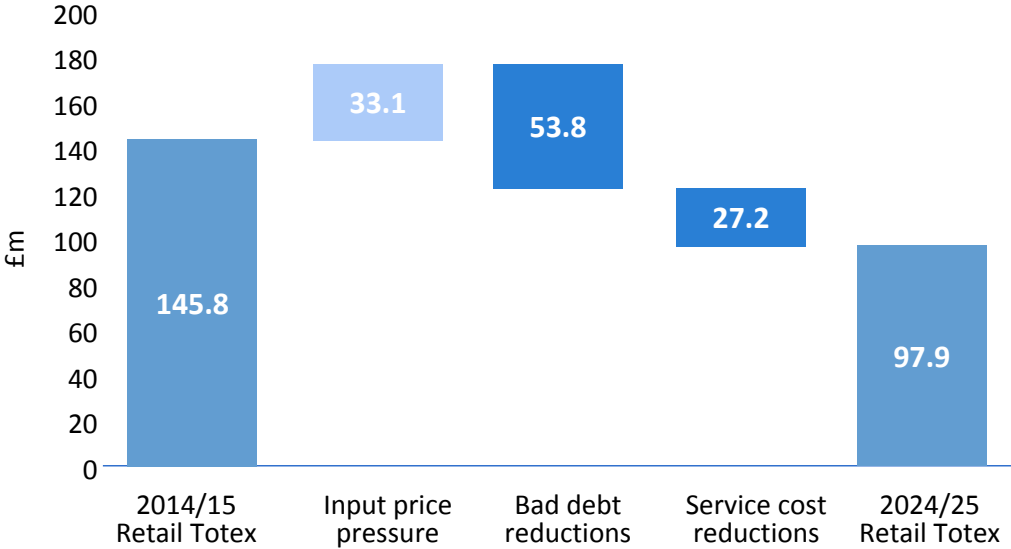
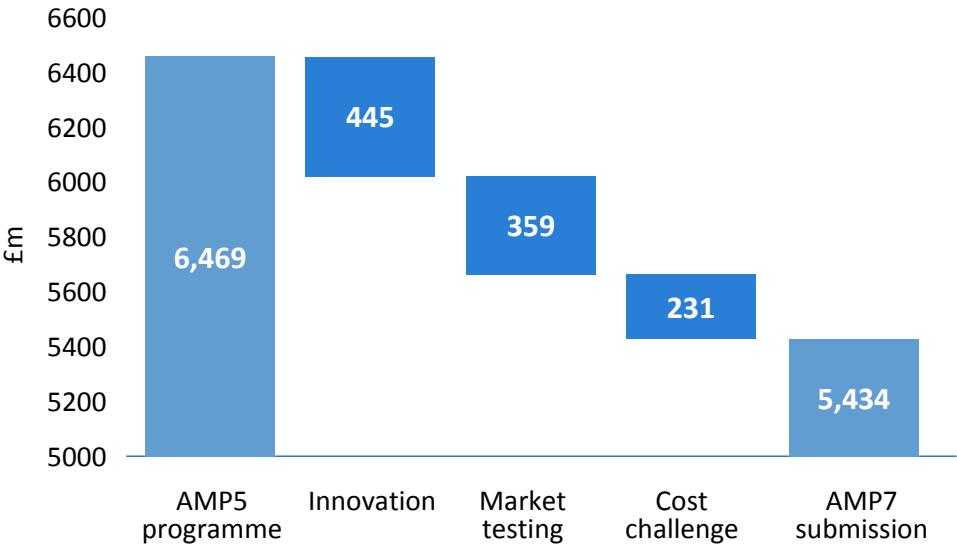
Delivering in all key areas

A compelling proposition of lowering prices and improving services



Efficiency in wholesale, efficiency in retail

We have stepped up to the efficiency challenge ahead of AMP7



Innovation, market testing and cost challenge leading to **£1bn reduction in wholesale totex**



Overall **retail costs down by one third**; **bad debt down by half** by end of AMP7 vs start of AMP6

ODI opportunity

Forecast performance
at 0 to +£30m



AMP6



P10

P50

P90

£140m reward potential

AMP7
proposal



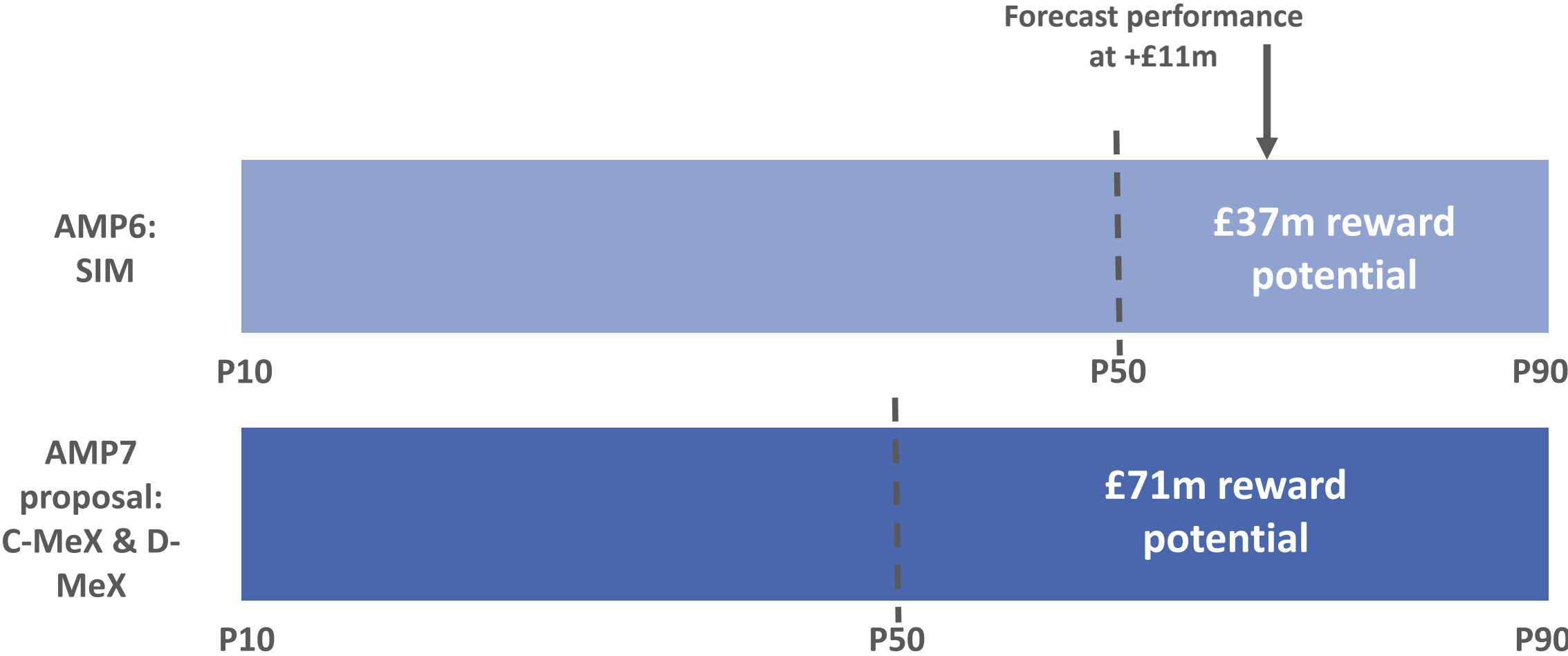
P10

P50

P90

£416m reward potential

Opportunity in retail



Summary

High performing in AMP6 and confident for AMP7



Operational performance

Wide ranging evidence across many areas of strong operational performance



Systems Thinking

Systems Thinking is making a substantive difference to long-term, sustainable, operational performance and financial performance



Outperforming in AMP6

Expect totex and financing savings plus ODI and SIM rewards enabling £250m reinvestment in enhanced resilience



Confident for AMP7

The work undertaken in AMP6 is a launchpad for AMP7 – we have submitted a high quality, ambitious PR19 business plan reflecting this

A young child with curly hair is sitting at a table, holding a white cup to their mouth. The child is wearing a patterned shirt and a red bib. The background is a softly blurred indoor setting. The text "Any questions?" is overlaid in large white font across the center of the image.

Any questions?

Supporting information

1. Revenue analysis
2. Profit before tax reconciliation
3. Profit after tax reconciliation
4. Dry weather event costs
5. Finance expense
6. Finance expense: index-linked debt
7. Derivative analysis
8. IFRS pension surplus (normalised)
9. Net regulatory capital spend profile
10. Regulatory capital value (RCV)
11. Movement in net debt
12. Financing and liquidity
13. Term debt maturity profile
14. Debt structure
15. EIB funding maturity profile
16. PR19 timetable

Revenue analysis

Six months ended 30 September

£m

	2018	2017
Wholesale water charges	383	361
Wholesale wastewater charges	461	436
Household retail charges	46	46
Other appointed revenue	15	13
UU Water appointed	905	856
UU Water non-appointed	3	4
Non-UU Water	8	16
Revenue	916	876

Profit before tax reconciliation

Six months ended 30 September

£m

	2018	2017
Operating profit	339.1	341.8
Investment income and finance expense	(82.9)	(104.6)
Share of profits of joint ventures	3.4	5.1
Reported profit before tax	259.6	242.3
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	-	(0.1)
Non-household retail market reform ¹	-	1.0
Dry weather event	25.0	-
Restructuring costs	3.7	1.3
Net fair value gains on debt and derivative instruments	(43.7)	(34.5)
Interest on derivatives and debt under fair value option	18.7	8.8
Net pension interest income	(4.5)	(3.3)
Capitalised borrowing costs	(18.5)	(21.2)
Underlying profit before tax	240.3	194.3

¹ Relates to market reform restructuring costs incurred preparing the business for open competition in the non-household retail market

Profit after tax reconciliation

Six months ended 30 September £m	2018	2017
Reported profit after tax	212.5	197.4
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	-	(0.1)
Non-household retail market reform ¹	-	1.0
Dry weather event	25.0	-
Restructuring costs	3.7	1.3
Net fair value gains on debt and derivative instruments	(43.7)	(34.5)
Interest on derivatives and debt under fair value option	18.7	8.8
Net pension interest income	(4.5)	(3.3)
Capitalised borrowing costs	(18.5)	(21.2)
Agreement of prior years' tax matters	-	1.6
Tax in respect of adjustments to underlying profit before tax	3.7	9.1
Underlying profit after tax	196.9	160.1
Basic earnings per share (pence)	31.2	28.9
Underlying earnings per share (pence)	28.9	23.5

¹ Relates to market reform restructuring costs incurred preparing the business for open competition in the non-household retail market

Dry weather event costs

Six months ended 30 September		2018
£m		
Capex		8.8
IRE		6.8
Opex		18.2
Totex		33.8

£25m of costs recognised as an adjusting item for the 6 months to 30 September 2018

Total dry weather event costs are estimated to be c£80m with the majority of spend in the second half of the year relating to in-flight capital expenditure.

Finance expense

Six months ended 30 September

£m

	2018	2017
Investment income	7.8	5.2
Finance expense	(90.7)	(109.8)
	(82.9)	(104.6)
Less net fair value gains on debt and derivative instruments	(43.7)	(34.5)
Adjustments for interest on derivatives and debt under fair value option	18.7	8.8
Adjustment for net pension interest income	(4.5)	(3.3)
Adjustment for capitalised borrowing costs	(18.5)	(21.2)
Underlying net finance expense	(130.9)	(154.8)
Average notional net debt	6,865	6,474
Average underlying interest rate	3.8%	4.8%
Effective interest rate on index-linked debt	4.8%	5.9%
Effective interest rate on other debt	2.6%	3.4%

Finance expense: index-linked debt

Six months ended 30 September

£m

	2018	2017
Cash interest on index-linked debt	(24.3)	(23.9)
RPI adjustment to index-linked debt principal – 3 month lag ¹	(56.4)	(75.3)
CPI adjustment to index-linked debt principal – 3 month lag ²	(2.2)	(1.8)
RPI adjustment to index-linked debt principal – 8 month lag ³	(8.5)	(5.9)
Finance expense on index-linked debt	(91.4)	(106.9)
Interest on other debt (including fair value option debt and derivatives)	(39.5)	(47.9)
Underlying net finance expense	(130.9)	(154.8)

- Cash interest payment of £24m on c£3.8bn of index-linked debt
- Decrease in indexation charge due to lower RPI, particularly on 3 month lagged debt
- RPI impact on RCV exceeds RPI impact on debt principal

¹ Affected by movement in RPI between January 2018 and July 2018

² Affected by movement in CPI between January 2018 and July 2018

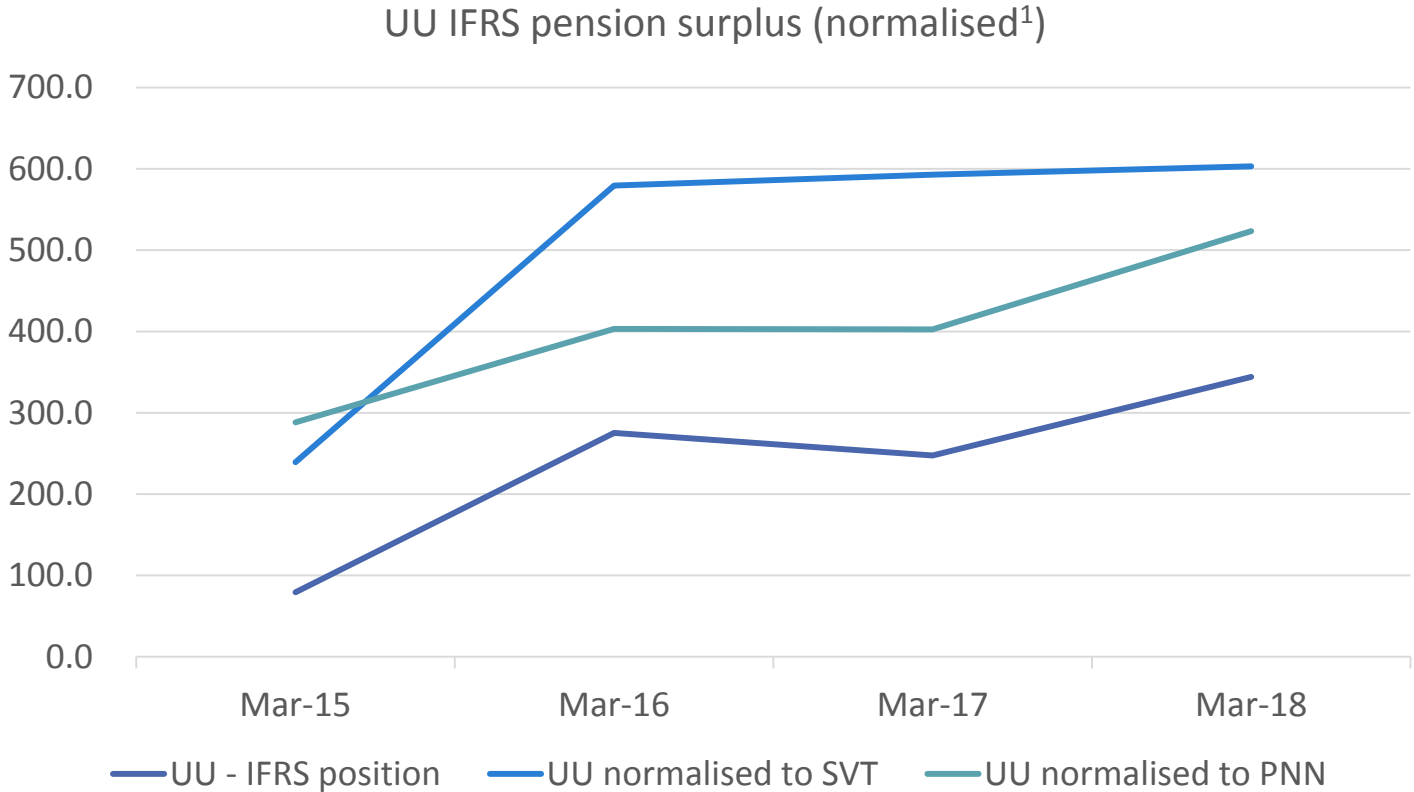
³ Affected by movement in RPI between July 2017 and January 2018

Derivative analysis

At 30 September	2018	2017
£m		
Derivatives hedging debt	546.1	723.6
Derivatives hedging interest rates	(25.4)	(85.9)
Derivatives hedging commodity prices	12.4	(6.1)
Total derivative assets and liabilities (slide 16)	533.1	631.6

- 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; fix our sterling interest rate exposure 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

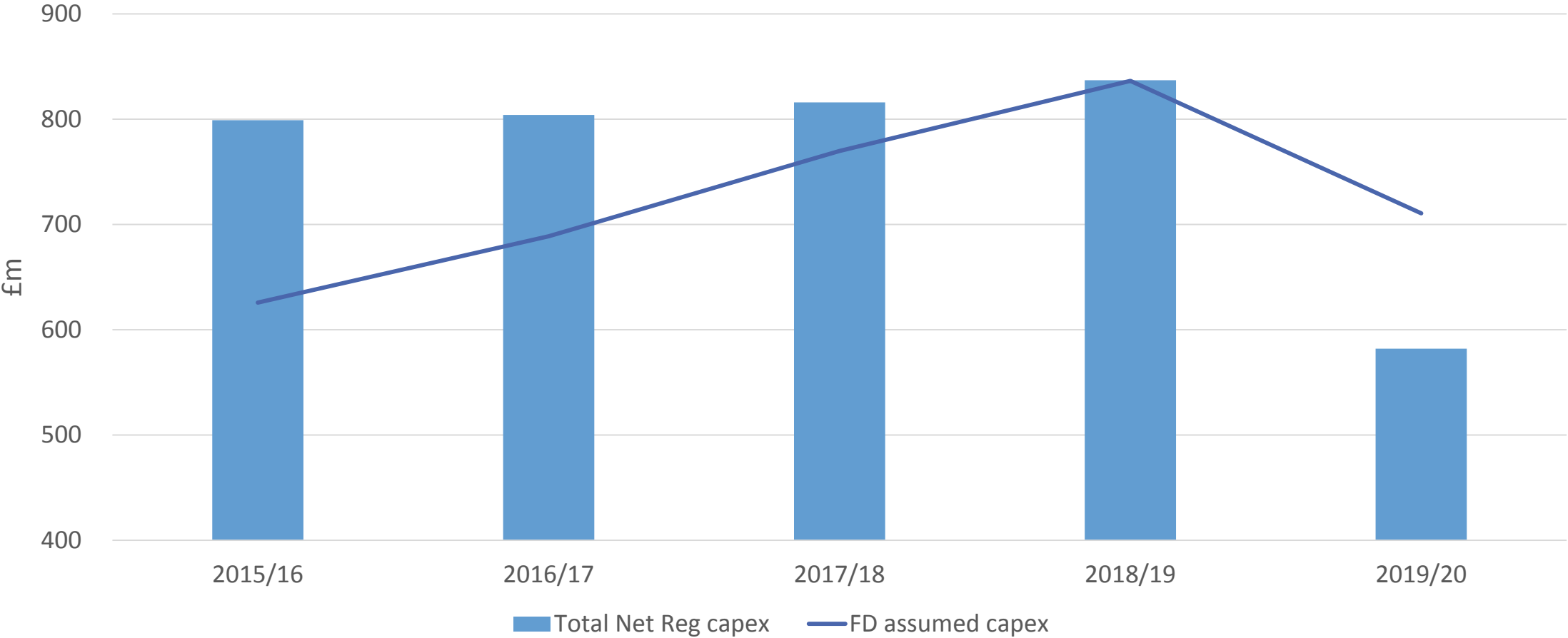
IFRS pension surplus normalised



Source: Companies' annual report and accounts

¹ Normalised for inflation, discount rate and mortality assumptions

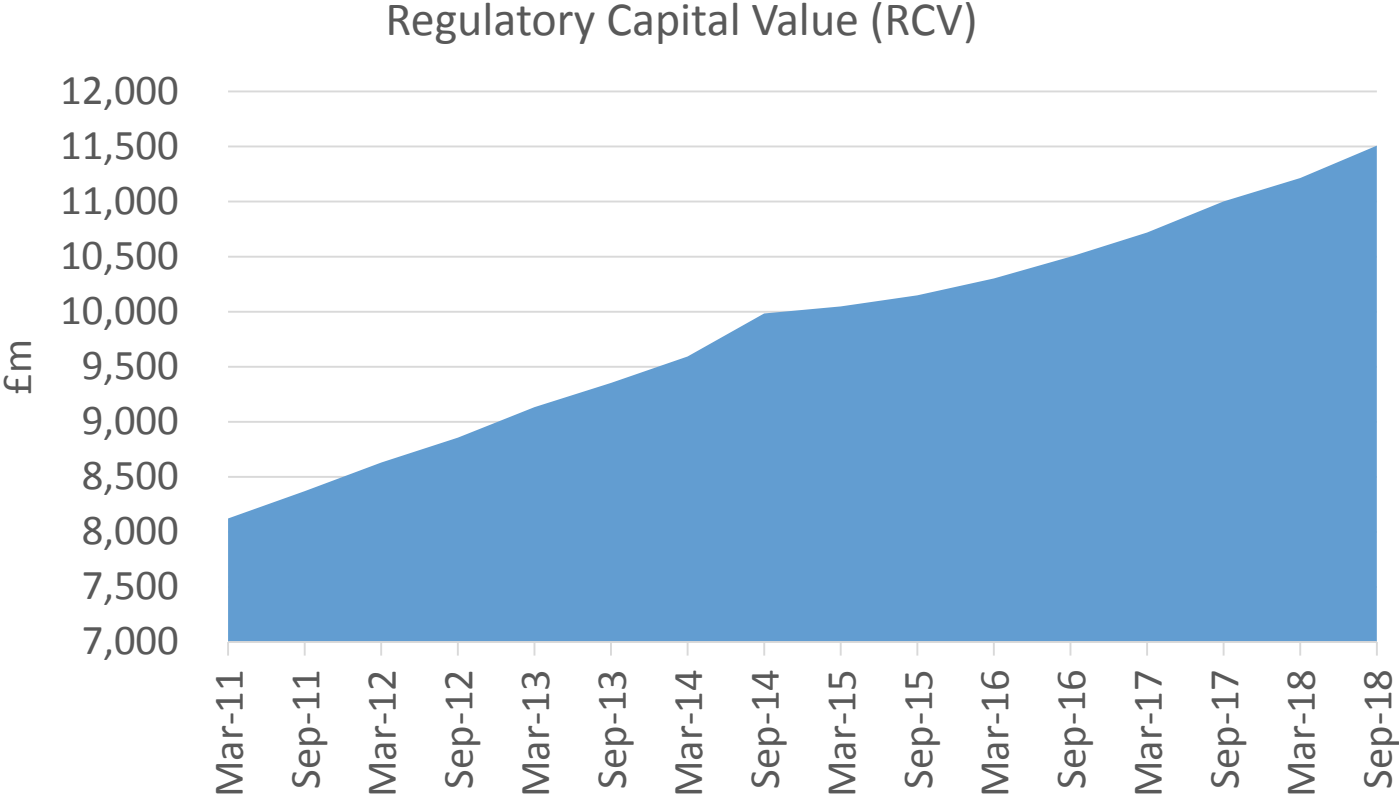
Net regulatory capital spend profile



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

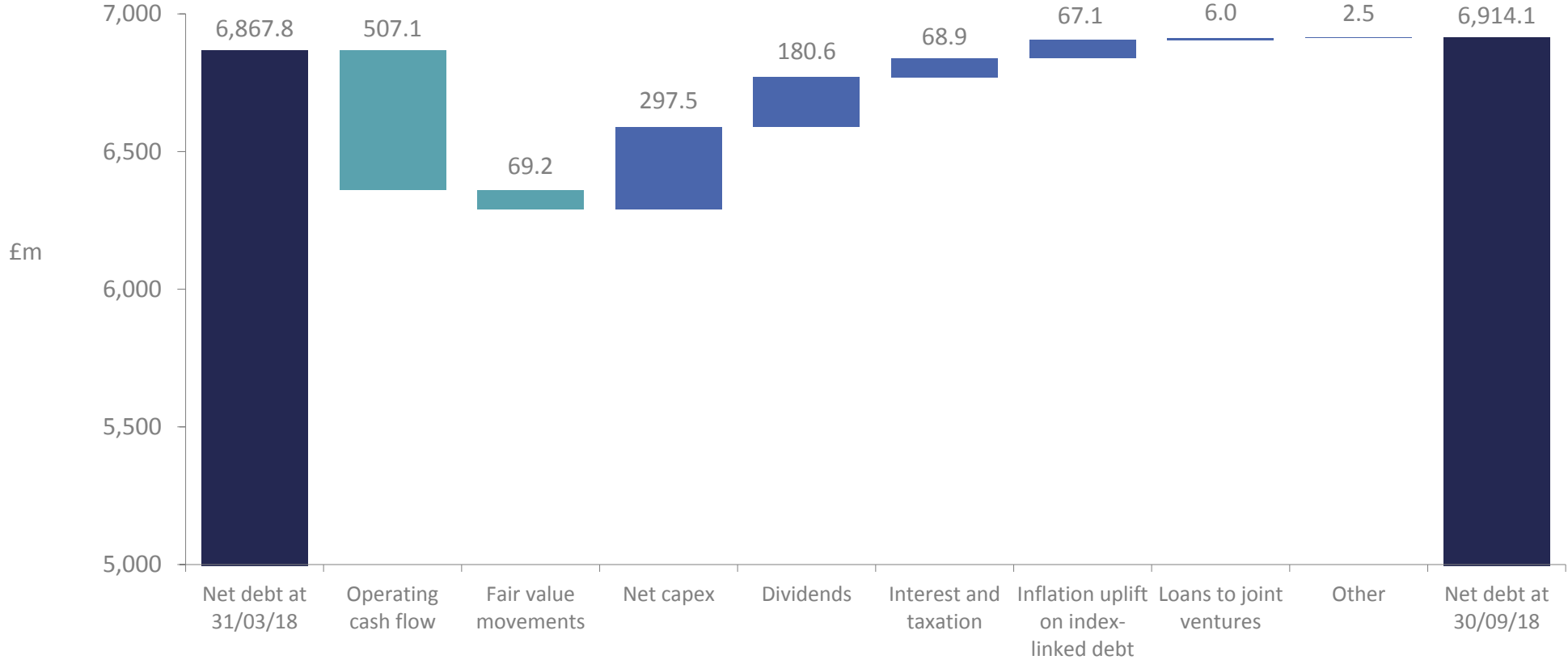
Regulatory capital value (RCV)

Inflation and net additions driving RCV growth



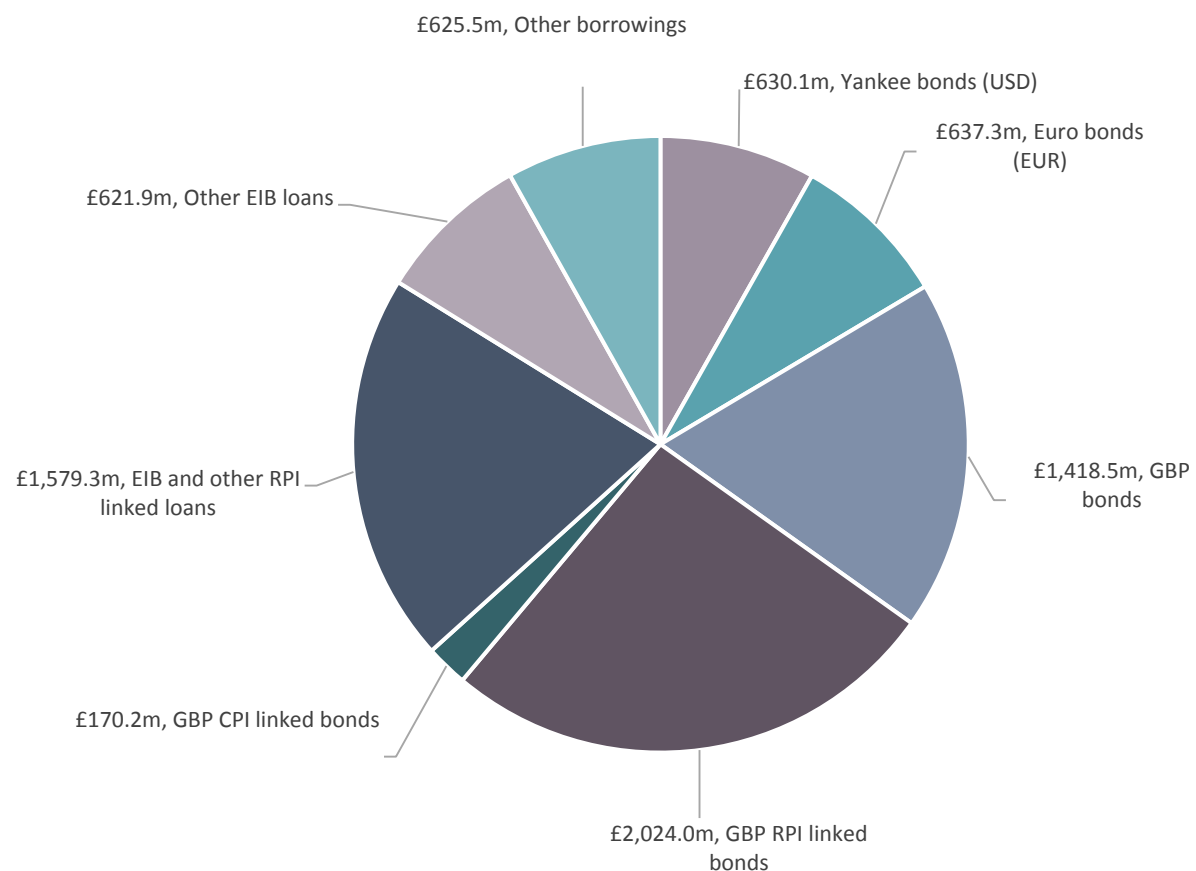
United Utilities Water’s regulatory capital value (based on shadow RCV for AMP6, adjusted for actual spend) and presented in outturn prices. Shadow RCV at 30 September 2018 = £11,508m.

Movement in net debt



Financing and liquidity

Gross debt = £7,706.8m

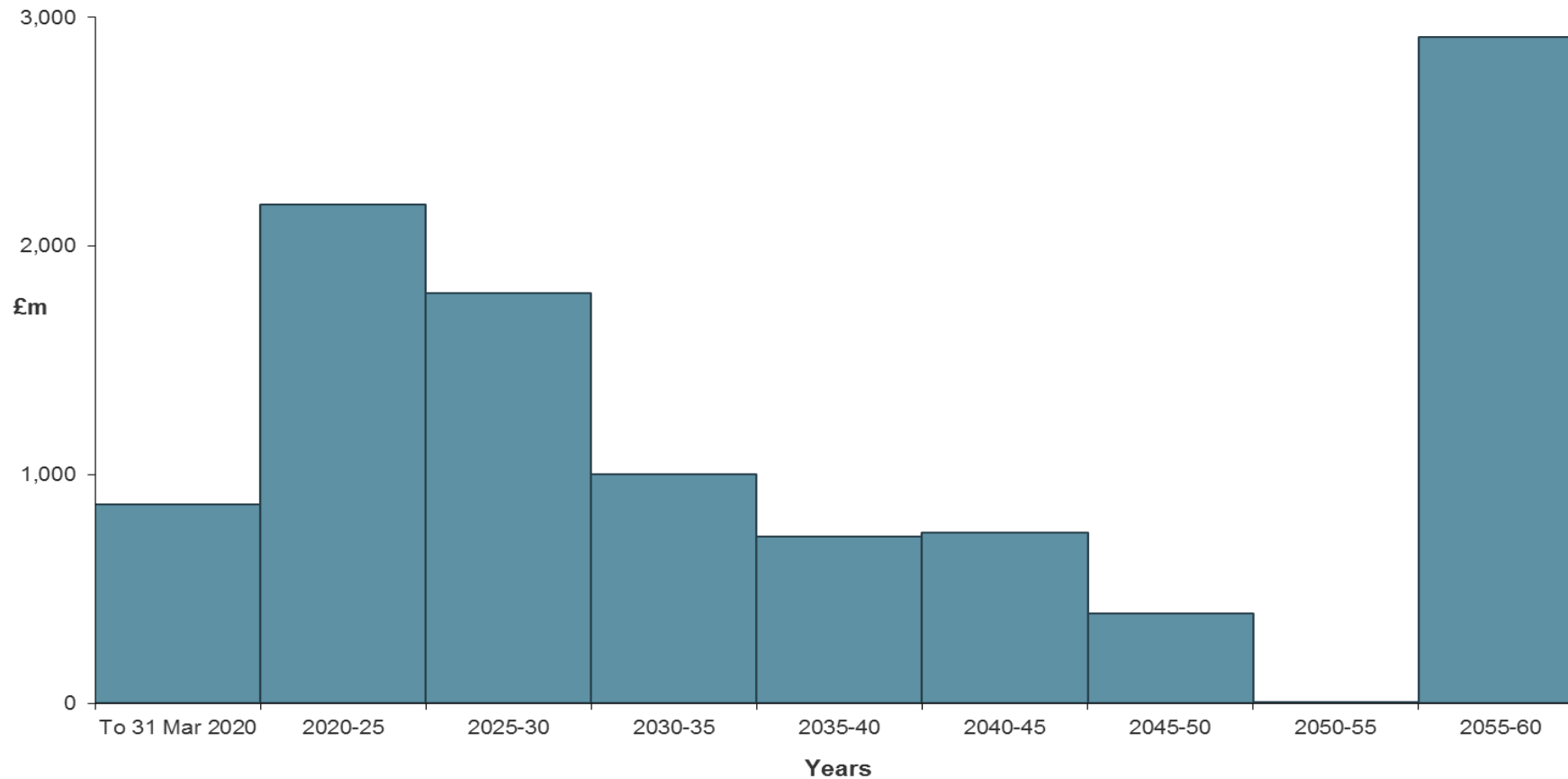


Headroom / prefunding = £426.5m

	£m
Cash and short-term deposits	259.6
Medium-term committed bank facilities ¹	650.0
Short-term debt	(205.1)
Term debt maturing within one year	(278.0)
Total headroom / prefunding	426.5

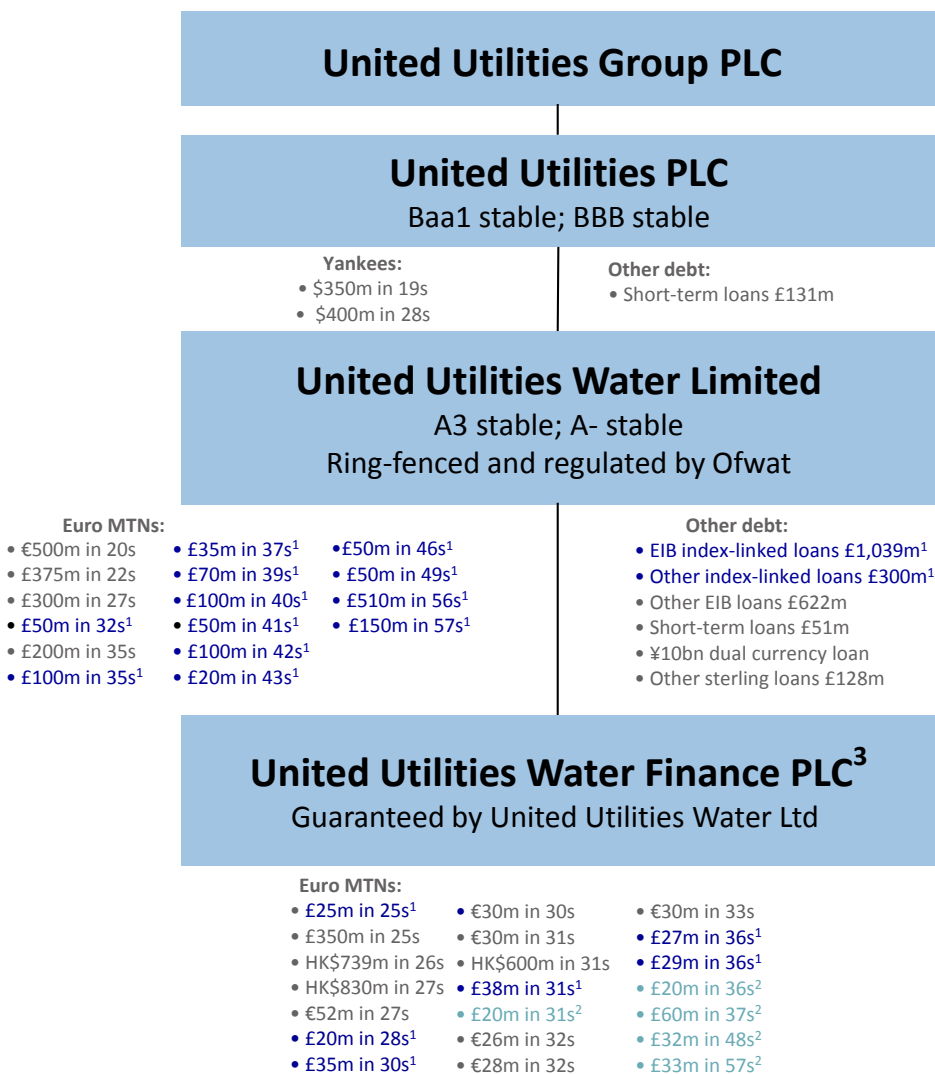
¹ Excludes £100m of facilities maturing within one year

Term debt maturity profile



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

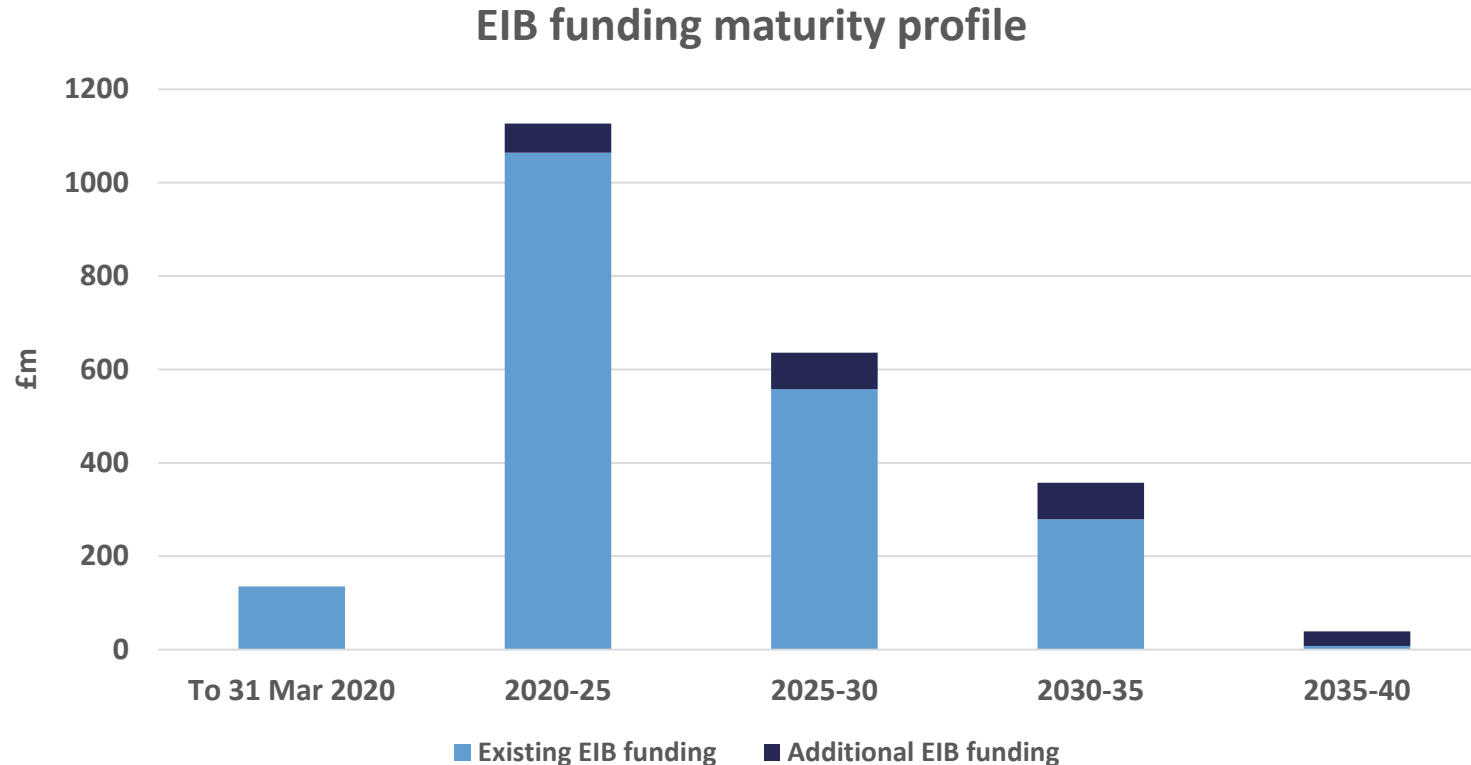


¹ RPI linked finance

² CPI linked finance

³ 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.

EIB funding maturity profile



Notes

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

Light blue areas represent EIB loans currently drawn and outstanding.

Dark blue areas represent a further £250m AMP6 loan assuming this will be signed and drawn in FY2018/19 (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.

PR19 timetable

Ofwat’s initial assessment of business plans expected in January 2019

