

Half year results

Six months ended 30 September 2023

Thurs 16 November 2023



Louise Beardmore

Chief Executive



Today's agenda

1. PR24 business plan submission highlights
2. Operational performance
3. Financial performance

Q&A



PR24: Business Plan Submission Highlights



Highlights of our business plan submission

£13.7bn
totex plan
(2022/23 prices)



37%
real RCV growth
6.5% real CAGR
8.7% nominal CAGR



63 - 65%
average gearing¹
without recourse to equity



A3/A-
credit rating



c.£22
average real increase in
household bills, each year
(2022/23 prices)



£525m
affordability support –
>1 in 6 customers



60%
reduction
in storm overflow activations
in the decade to 2030



25%
reduction in pollutions,
from a sector-leading start point

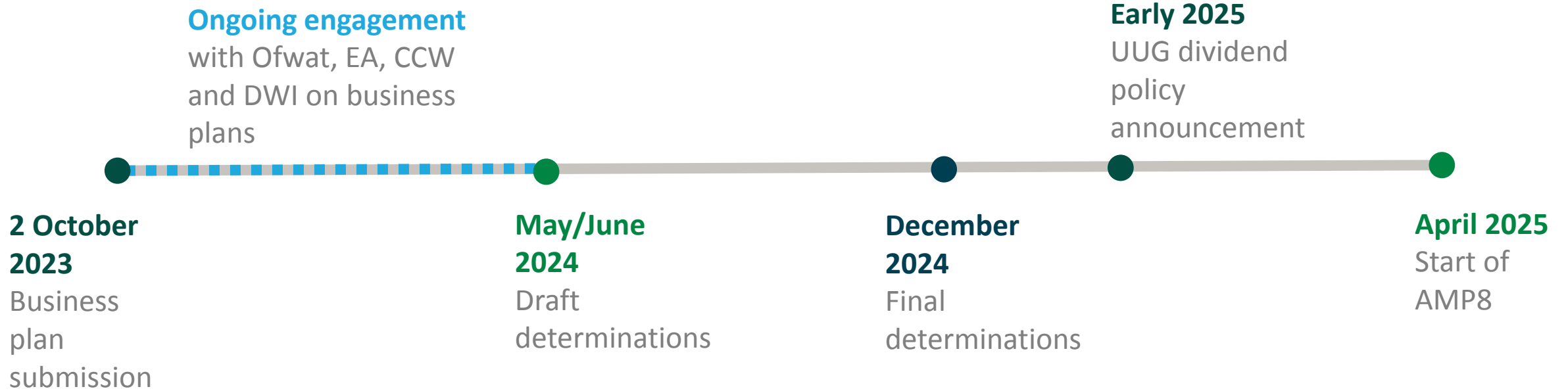


32%
reduction in internal sewer
flooding



¹ 63% average gearing based on Frontier Economics WACC and £12.7bn Adaptive Planning totex scenario as set out in our business plan submission presentation dated 2 October 2023

Timeline



Operational performance



Water performance



Continue to **put water quality first**, ahead of target and glidepath on reducing water quality contacts



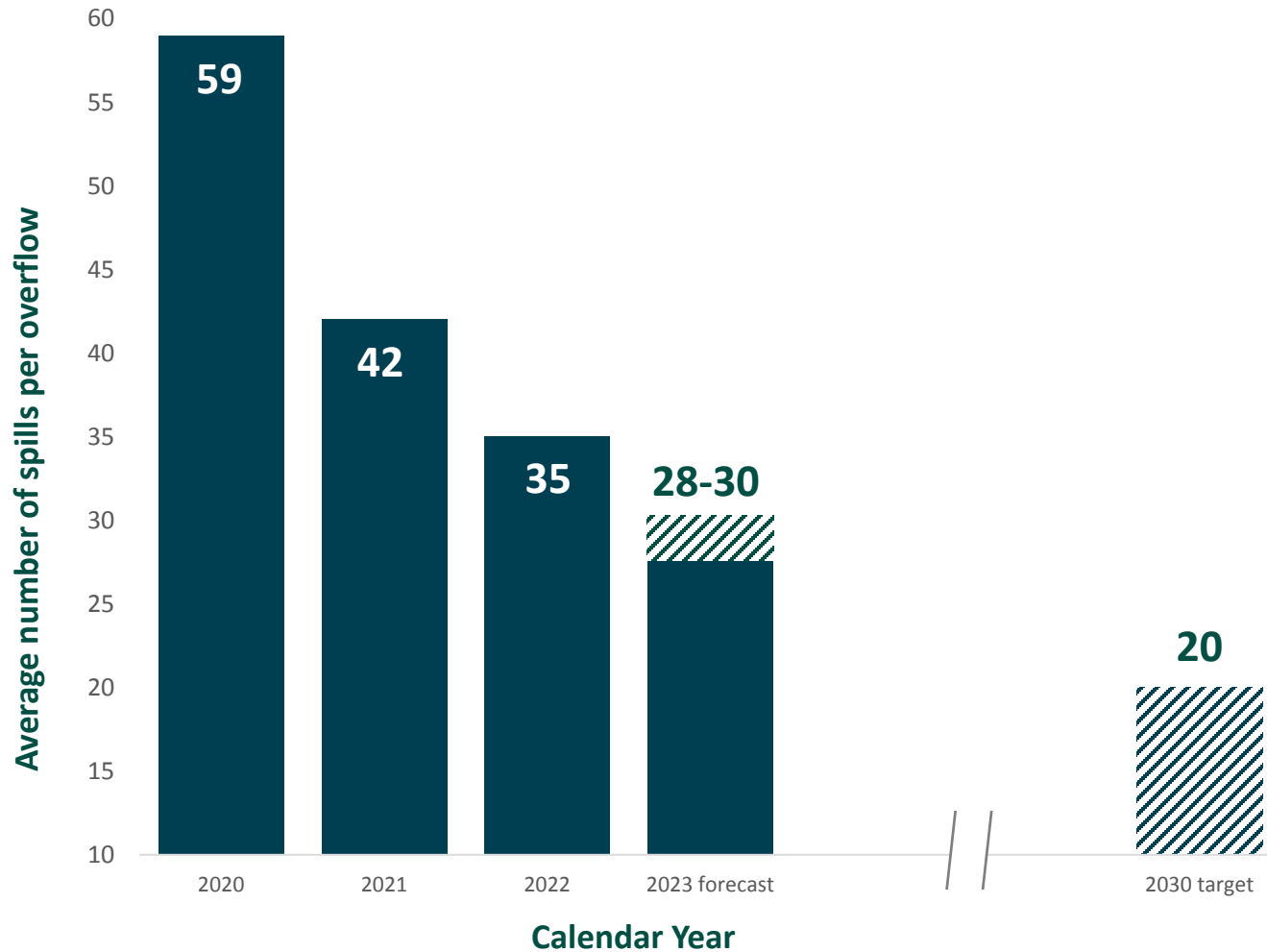
Strong **water supply levels** as we approach the winter



Leakage on track with a detailed programme enabling us to fix more leaks; forecasting to achieve our best ever performance this year

Wastewater performance

Storm overflow spills



On track for 4 star rating in the EA's EPA for 2023

Higher levels of rainfall & storms impacted sewer flooding performance in the first half

Expect to deliver a further reduction in average spills per overflow this year, despite higher levels of rainfall and storms

On track to have **100% of storm overflows monitored** by end of 2023

Customer performance



Ranked **1st WaSC** and **4th Utility company** out of **30** in the UK Customer Satisfaction Index (UKCSI)

Over 370,000 households on our **Priority Services Register**

Supported over 350,000 customers so far in AMP7 with affordability support

Cash collection remains strong and **bad debt charge stable**

ESG performance

E

Environment

- **Delivery of AMP7 environmental improvement programme** – 67% complete
- **EA EPA** – on track for the highest 4 star rating in 2023
- **Net zero** – supporting development of a pioneering carbon-capture facility at our HQ

S

Social

- **Graduates and apprentices** – welcomed our largest ever cohort in September
- **Great place to work** – Water Industry Skills Employer of the Year
- **Alleviating water poverty** – Around 100,000 customers lifted out of water poverty this AMP

G

Governance

- **Upper quartile performance across a range of ESG ratings** – including MSCI and Sustainalytics
- **Ofwat's Monitoring Financial Resilience report¹** – maintained highest financial resilience status
- **Fair Tax Mark** – accredited for 5 years in a row

¹ <https://www.ofwat.gov.uk/publication/monitoring-financial-resilience-report-2022-23/>

ODI performance

Highest performer in FY23: 83%

of performance commitments met or beaten

On track to double our FY23 reward: over £50m

forecast net customer ODI reward¹ for FY24

Consistently achieved c.80%

of performance commitments during AMP7 so far

Reiterate AMP7 guidance: £200m

total ODI reward¹



¹ Excluding per capita consumption, which Ofwat will be revisiting once there is a better understanding of the impact of COVID 19 and any enduring effects

Operational summary

Strong water quality performance

On track for 4* EPA rating

Further reductions in average spills per overflow forecast for this year

Over 350,000 customers supported so far this AMP

Continued strong track record on ESG

Over £50m ODI reward forecast for FY24



Phil Aspin

CFO



Financial highlights

Revenue

£982m

**HY22/23:
£919m**

Underlying operating profit¹

£271m

**HY22/23:
£259m**

Reported operating profit¹

£241m

**HY22/23:
£259m**

Underlying EPS¹

13.2p

**HY22/23:
(1.8)p**

Interim DPS

16.59p

**HY22/23:
15.17p**

RCV gearing²

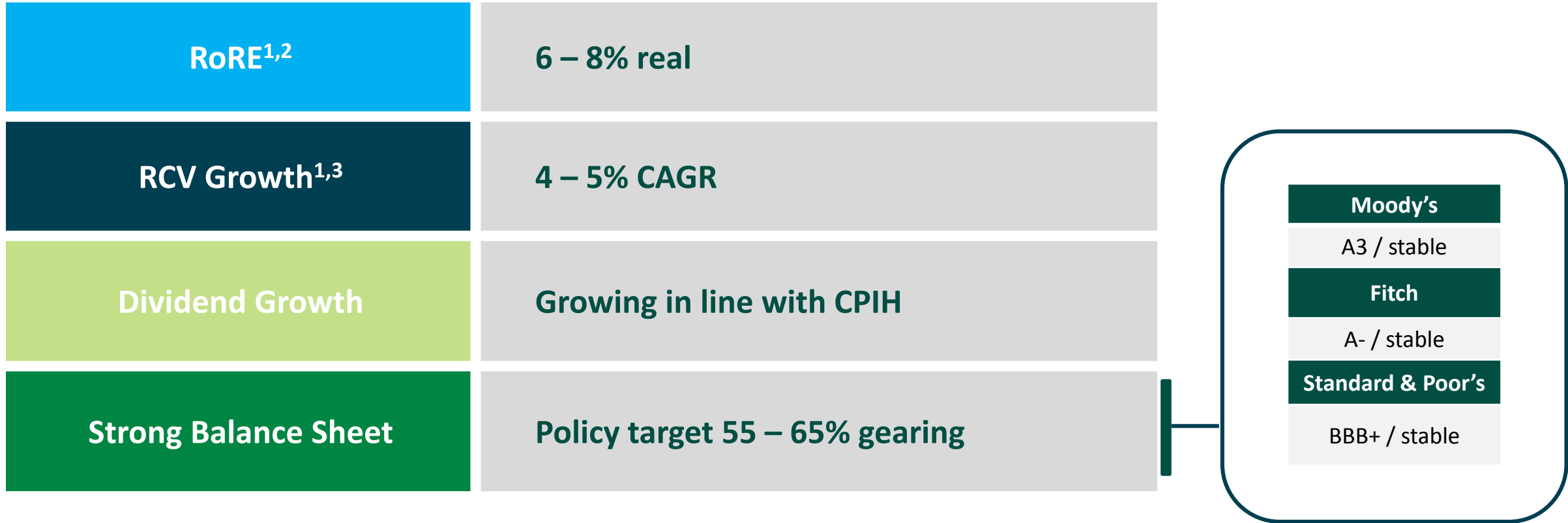
59%

**HY22/23:
58%**

1. Underlying profit measures are reconciled to reported profit measures in the appendices to this presentation
2. RCV gearing calculated as group net debt including loan receivable from joint venture/United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior period figures have been re-presented for comparative purposes

AMP7 financial framework

Framework unchanged from full year

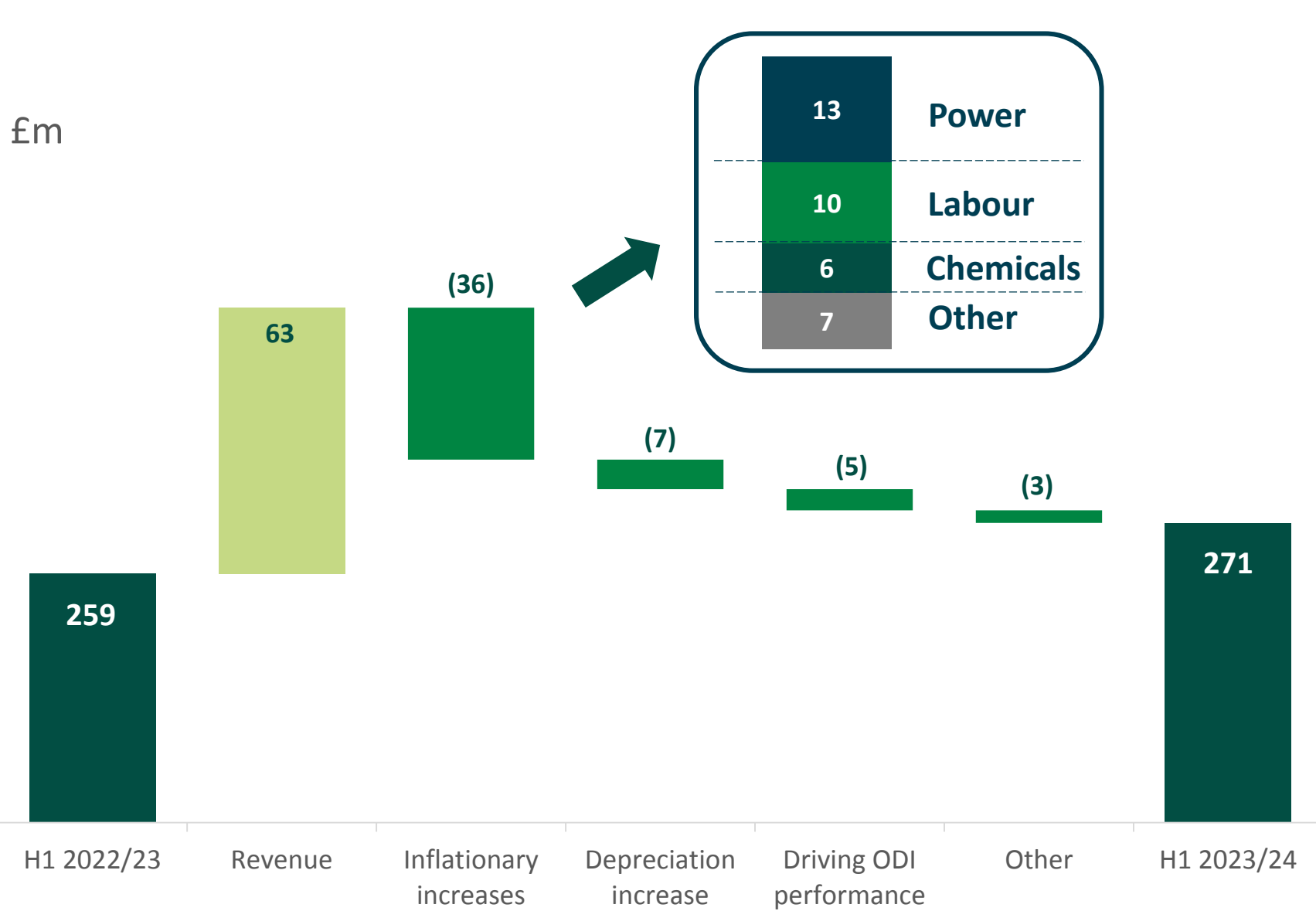


1. Based on CPIH of 3.9% at Mar-24 and 2.3% at Mar-25

2. Average RoRE performance over AMP7, real RPI/CPIH blended basis

3. Average AMP7 CAGR. Includes the full expected value of AMP7 ex-post adjustment mechanisms as an adjustment to RCV

Underlying operating profit



Revenue: **£982m**

- Revenue cap increase: **£53m**
- FY24 guidance: **up c.£150m**

Power: **£74m**

- FY23: **£131m**
- FY24 guidance: **up c.£20m**

Chemicals: **£32m**

- FY23: **£57m**
- FY24 guidance: **costs stabilising**

FY24 Opex & IRE Guidance:

- FY23: **£960m**
- FY24 guidance reiterated y-o-y increase of **c.£60m**

Interest, tax and earnings

Underlying net finance expense

HY23/24: £180m

HY22/23: £267m

Inflation charge on index-linked debt of £183m (HY22/23: 289m)

Cash interest of £60m (HY22/23: £54m) - £6m increase due to the rising interest rate environment

FY24 guidance: at least **£150m** lower

Underlying tax

HY23/24: nil

HY22/23: £4m charge

'Full expensing' to continue to provide a **tax benefit** such that we expect a **FY current tax charge of nil**

Underlying profit/(loss) after tax

HY23/24: £90.3m

HY22/23: £(12.2)m

Underlying EPS of 13.2p

HY22/23: -1.8p

Financial flexibility

RCV¹ (£bn)



Net debt (£bn)



RCV gearing²

59%

HY22/23: 58%

Funding raised

c. £750m

Now fully pre-funded our AMP7 financing requirements

Pension position

Buy-in transaction

covering 2/3rds of our liabilities & representing a significant milestone in our de-risking journey

Liquidity

c. £800m

Cash coverage into 2026

1. Includes the full expected value of AMP7 ex-post adjustment mechanisms as an adjustment to RCV.
2. RCV gearing calculated as group net debt including loan receivable from joint venture/United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior period figures have been re-presented for comparative purposes.

Financial summary

Solid financial result

- Underlying operating profit: £271m
- FY24 guidance reiterated

Financial Flexibility

- RCV Gearing of 59%¹
- Fully funded pension scheme

Strong funding and liquidity position

- AMP7 financing requirements fully funded
- Liquidity extended into 2026

Dividend

- HY23/24 Interim Dividend: 16.59p
- Policy of growth in line with CPIH

1. RCV gearing calculated as group net debt including loan receivable from joint venture/United Utilities Water Limited's shadow (adjusted for actual spend and timing difference) RCV, Including full expected value of AMP7 ex-post adjustment mechanisms. Prior period figures have been re-presented for comparative purposes.



Summary

Ambitious and high quality PR24 business plan

an affordable, financeable, deliverable plan

Backed by a strong track record

of delivering for stakeholders

Financial flexibility

driven by low level of gearing, solid credit ratings and fully funded pension scheme

Delivering in AMP7

strong performance positioning us for success in AMP8

Supporting customers

through sector-leading affordability packages

Already started work on tackling storm overflows

supported by Accelerated Infrastructure Delivery Project



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

1. Technical guidance 2023/24
2. AMP7 additional investment
3. Outcome Delivery Incentives
4. Underlying income statement
5. Underlying operating costs
6. Profit before tax reconciliation
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8. Finance expense
9. Finance expense: index-linked debt
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11. Statement of financial position
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13. Financing Performance
14. Financing and liquidity
15. Debt structure
16. Term debt maturity profile

	FY23	y-o-y	
Revenue	£1,824m	▲	Expected to increase by around £150m, largely reflecting CPIH inflation of 9.4%, partially offset by £20m net impact of over/under-recovery in FY23 and FY22
Underlying operating costs	£960m	▲	Expected to be around £60m higher, largely driven by inflation, with largest inflationary pressures to power, labour and chemical costs, along with operating cost impact of additional investments
Underlying finance expense	£475m	▼	At least £150m lower, due to lower expected y-o-y inflation increase. Every 1% change in inflation gives rise to a c£45m swing in interest charge
Underlying tax	c.£25m credit	▼	'Full expensing' expected to provide a tax benefit of c£45m, resulting in no expected current tax charge
Capex	£694m	▲	Expected to be in the range of £720 -800m, reflecting additional investment, green recovery, and AMP8 acceleration capital programmes
ODI rewards	£25m	▲	Targeting a net reward of over £50m, consistent with £200m total AMP7 guidance

Outcome Delivery Incentives

Net ODI Rewards £m (real, 2017-18)	PRE-TAX	Tax Impact	POST-TAX
AMP7			
Year ending Mar-2021 ¹	£21m	£5m	£26m
Year ending Mar-2022 ²	£25m	£8m	£33m
Year ending Mar-2023 ²	£25m	£8m	£33m
Year ending Mar-2024 ²	>£50m	>£15m	>£65m
Total AMP7 Guidance	c.£200m	c.£65m	c.£265m

1. Effective tax rate 19%
2. Effective tax rate 25%

AMP7 additional investment

Approved incremental base investment

Subject to existing regulatory mechanisms established at PR19 and Green Recovery
e.g. WINEP scheme at Bolton

Business case supported investment

Driving improved customer performance and ODIs
e.g. £100m investment in Dynamic Network Management (DNM) and £100m investment in drinking water quality improvements

Investment of outperformance to improve environmental outcomes

e.g. Accelerating delivery against Environment Act requirements and improving river health alongside additional emerging environmental scope



Accelerated Infrastructure Project

In April 2023, Ofwat gave draft approval to bring forward c.£200m of AMP8 investment for key environmental improvements in the region



Underlying income statement

Six months ended 30 September

£m

	2023	2022	Change (%)
Revenue	982.0	919.3	+7%
Operating expenses	(401.3)	(361.8)	
Infrastructure renewals expenditure	(96.2)	(92.2)	
EBITDA	484.5	465.3	+4%
Depreciation and amortisation	(213.4)	(206.8)	
Operating profit	271.1	258.5	+5%
Net finance expense	(179.7)	(266.6)	
Share of (losses)/profits of joint ventures	(1.1)	0.2	
Profit/(loss) before tax	90.3	(7.9)	N/A
Tax	-	(4.3)	
Profit/(loss) after tax	90.3	(12.2)	N/A
Earnings per share (pence)	13.2	-1.8	N/A
Interim dividend per ordinary share (pence)	16.59	15.17	+9%

Underlying operating costs

Six months ended 30 September £m	2023	2022	Change (%)
Revenue	982.0	919.3	+7%
Employee costs	(104.5)	(95.2)	+10%
Power	(74.3)	(54.7)	+36%
Hired and contracted services	(51.4)	(48.7)	+6%
Materials	(67.8)	(61.7)	+10%
Property rates	(42.0)	(45.7)	-8%
Regulatory fees	(18.9)	(18.3)	+3%
Bad debts	(12.6)	(11.2)	+13%
Other expenses	(29.8)	(26.3)	+13%
	(401.3)	(361.8)	+11%
Infrastructure renewals expenditure (IRE)	(96.2)	(92.2)	+4%
Depreciation and amortisation	(213.4)	(206.8)	+3%
Total underlying operating expenses	(710.9)	(660.8)	+8%
Underlying operating profit	271.1	258.5	+5%

Profit before tax reconciliation

Six months ended 30 September

£m

	2023	2022
Operating profit	240.6	258.5
Net finance (expense)/ income	(79.5)	136.4
Share of (losses)/profits of joint ventures	(1.1)	0.2
Profit on disposal of United Utilities Renewable Energy	-	31.2
Reported profit before tax	160.0	426.3
<u>Adjustments:</u>		
Fleetwood outfall pipe fracture	30.5	-
Fair value gains on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(100.2)	(403.0)
Profit on disposal of United Utilities Renewable Energy	-	(31.2)
Underlying (loss)/profit before tax	90.3	(7.9)

Profit after tax reconciliation

Six months ended 30 September	2023	2022
£m		
Reported profit after tax	116.8	353.0
<u>Adjustments:</u>		
Fair value gains on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(100.2)	(403.0)
Deferred tax adjustment	43.2	69.0
Fleetwood outfall pipe fracture	30.5	-
Profit on disposal of United Utilities Renewable Energy Limited	-	(31.2)
Underlying profit after tax	90.3	(12.2)
Basic earnings per share (pence)	17.1p	51.8p
Underlying earnings per share (pence)	13.2p	(1.8)p

Finance expense

Six months ended 30 September

£m

	2023	2022
Investment income	40.4	19.1
Finance (expense)/income	(120.0)	117.3
	(79.6)	136.4
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(100.2)	(403.0)
Underlying net finance expense	(179.7)	(266.6)
Adjustment for net pension interest income	(14.2)	(14.4)
Adjustment for capitalised borrowing costs	(55.8)	(62.9)
Effective net finance expense	(249.8)	(343.9)
Average notional net debt	8,351	7,679
Average effective interest rate	6.0%	9.0%
Effective interest rate on index-linked debt	8.0%	13.7%
Effective interest rate on other debt	3.4%	2.5%

Finance expense: index-linked debt

Six months ended 30 September

£m

	2023	2022
Interest on index-linked debt	(4.6)	(13.1)
RPI adjustment (£2.4bn debt at Mar-23/3.9% charge for 6 months to Sep-23; £2.3bn debt at Mar-22/8.0% charge for 6 months to Sep-22) – 3 month lag ¹	(91.5)	(181.2)
CPI adjustment (£1.3bn debt at Mar-23/3.6% charge for 6 months to Sep-23; £1.1bn debt at Mar-22/6.6% charge for 6 months to Sep-22) – 3 month lag ²	(44.7)	(74.8)
RPI adjustment (£0.9bn debt at Mar-23/5.0% charge for 6 months to Sep-23; £0.8bn debt at Mar-21/4.0% charge for 6 months to Sep-22) – 8 month lag ³	(46.8)	(33.4)
Finance expense on index-linked debt⁴	(187.6)	(302.6)
Interest on other debt (including fair value option debt and derivatives)	(62.2)	(41.3)
Effective net finance expense	(249.8)	(343.9)

¹ Affected by movement in RPI between January 2023 and July 2023

² Affected by movement in CPI between January 2023 and July 2023

³ Affected by movement in RPI between July 2022 and January 2023

⁴ Adjusted to overlay the impact of inflation swaps

Derivative analysis

At 30 September

£m

	2023	2022
Derivatives hedging debt	(112.4)	(30.1)
Derivatives hedging interest rates	295.9	360.3
Derivatives hedging commodity prices	(0.3)	290.0
Total derivative assets and liabilities	183.2	620.2

- 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 Group financial statements.

Statement of financial position

At £m	30 Sep 2023	31 Mar 2023	Change (%)
Property, plant and equipment	12,823.9	12,570.7	+2%
Retirement benefit surplus	268.9	600.8	-55%
Other non-current assets	225.7	235.7	-4%
Cash	828.8	340.4	+143%
Other current assets	379.1	302.5	+25%
Total derivative assets	488.4	477.1	+2%
Total assets	15,014.8	14,527.2	+3%
Gross borrowings	(9,148.6)	(8,435.4)	+8%
Other non-current liabilities	(2,877.6)	(2,940.5)	-2%
Other current liabilities	(509.1)	(389.8)	+31%
Total derivative liabilities	(305.2)	(252.8)	+21%
Total liabilities	(12,840.5)	(12,018.5)	+7%
TOTAL NET ASSETS	2,174.3	2,508.7	-13%
Share capital	499.8	499.8	-
Share premium	2.9	2.9	-
Retained earnings	1,338.4	1,652.6	-19%
Other reserves	333.2	353.4	+6%
SHAREHOLDERS' EQUITY	2,174.3	2,508.7	-13%
ADJUSTED NET DEBT¹	(8,466.3)	(8,125.0)	

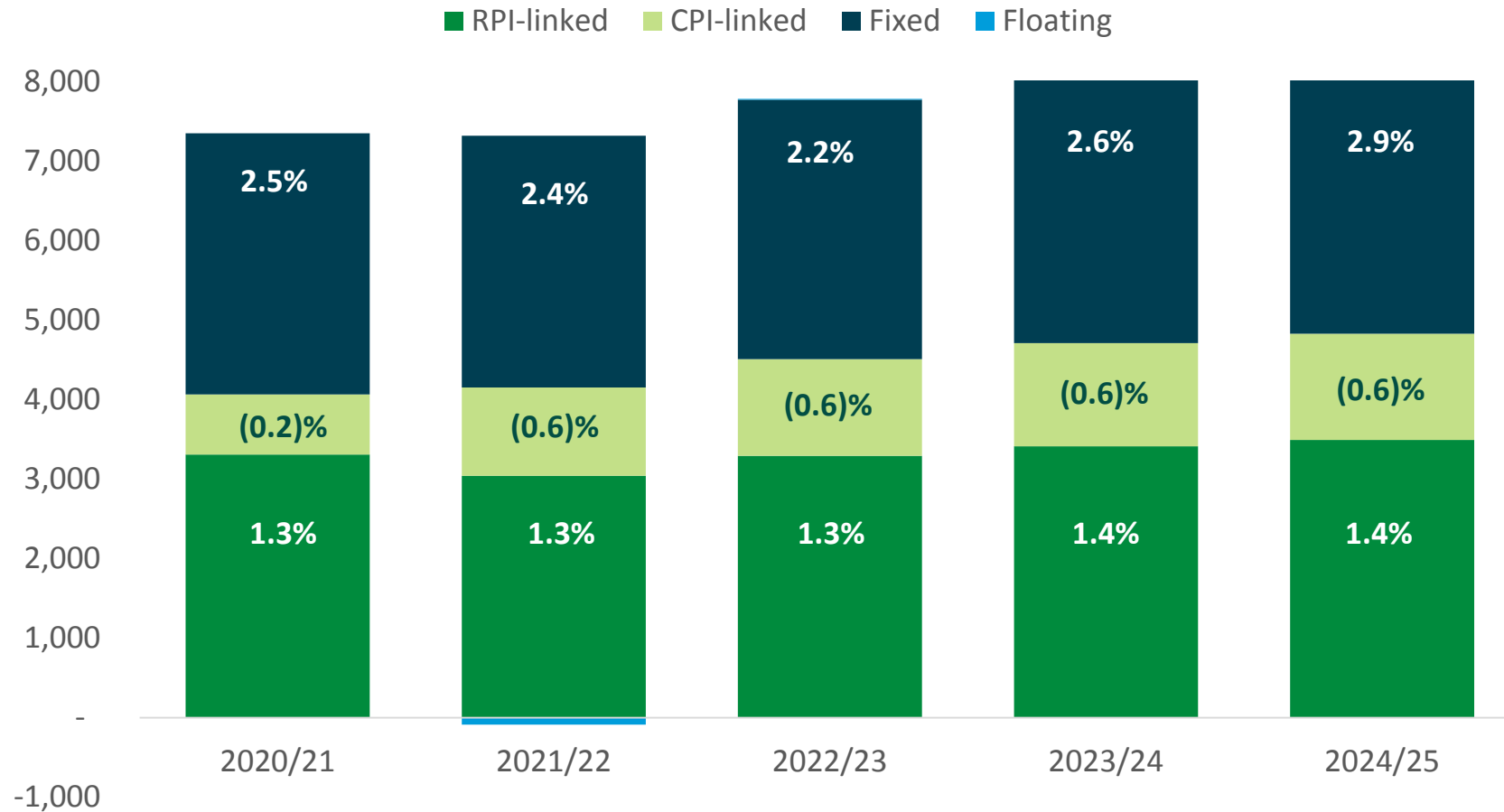
¹Net debt reconciliation can be found on the next slide

Reconciliation of net debt

At £m	30 Sept 2023	31 Mar 2023
Cash	828.8	340.4
Total derivative assets	488.4	477.1
Gross borrowings	(9,148.6)	(8,435.4)
Total derivative liabilities	(305.2)	(252.8)
Balance sheet net debt	(8,136.6)	(7,870.7)
Exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	(255.7)	(201.2)
Inflation derivatives fixing future real interest rates	(148.6)	(103.3)
Electricity derivatives fixing future electricity costs	0.3	(25.6)
Include:		
Loan receivable from JV	74.3	75.8
Adjusted net debt	(8,466.3)	(8,125.0)

Financing performance

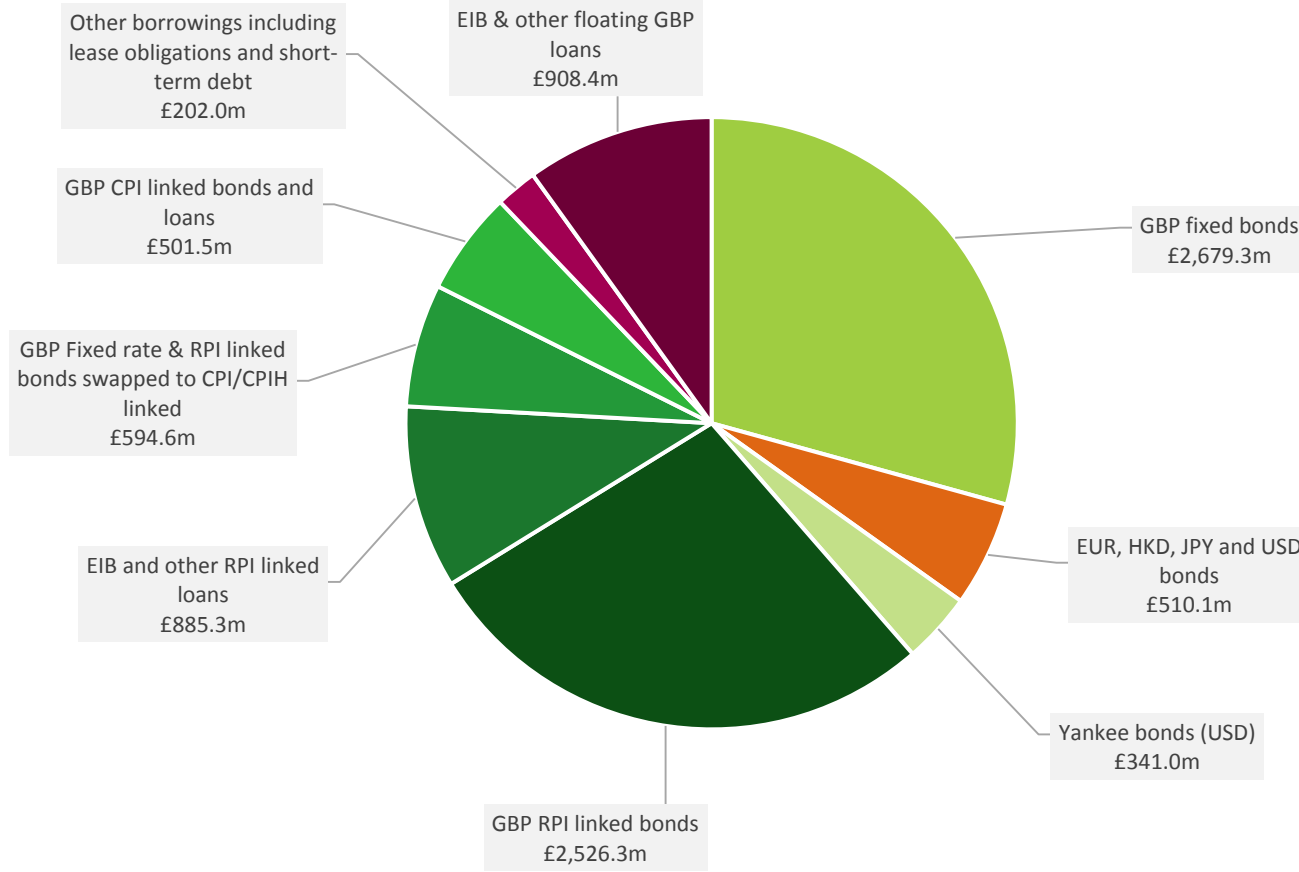
Existing debt locked in at rates favourable to the AMP7 allowed cost of embedded debt



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 2023

Gross Debt = £9,148.6m



Headroom / prefunding = £1464.6m

	£m
Cash and short-term deposits	830.9
Medium-term committed bank facilities ¹	800.0
Short-term debt	(48.5)
Term debt maturing within one year	(117.8)
Total headroom / prefunding	1,464.6

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

Debt structure at 30 September 2023

United Utilities Group PLC

United Utilities PLC
Baa1 stable; BBB- stable; A- stable⁷

United Utilities Water Limited
A3 stable; BBB+ stable; A- stable⁷
Ring-fenced and regulated by Ofwat

United Utilities Water Finance PLC⁶
Guaranteed by United Utilities Water Ltd

Yankees:
• \$400m in 28s on-lent at issue to UU Water

Euro MTNs:

- £300m in 27s
- £50m in 32s¹
- £200m in 35s
- £100m in 35s¹
- £35m in 37s¹
- £70m in 39s¹
- £100m in 40s¹
- £50m in 41s¹
- £100m in 42s¹
- £20m in 43s¹
- £50m in 46s¹
- £50m in 49s¹
- £510m in 56s¹
- £150m in 57s¹

Other debt:

- EIB RPI-linked loans £395m¹
- Other RPI-linked loans £200m¹
- **CPI-linked loans £100m²**
- Other EIB loans £445m
- Short-term loans £40m
- ¥10bn dual currency loan
- Other sterling loans £510m

Euro MTNs:

- £450m in 25s
- £25m in 25s¹
- HK\$320m in 26s
- HK\$739m in 26s
- €52m in 27s
- HK\$830m in 27s
- £20m in 28s¹
- £100m in 28s
- **£300m in 29s²**
- £35m in 30s¹
- ¥11bn in 30s
- €30m in 30s
- £425m in 31s⁴
- €30m in 31s
- HK\$600m in 31s
- US\$35m in 31s
- **£38m in 31s³**
- **£20m in 31s²**
- €28m in 32s
- €26m in 32s
- €30m in 33s
- £350m in 33s⁵
- £350m in 36s
- **£27m in 36s³**
- **£29m in 36s³**
- **£20m in 36s²**
- **£60m in 37s²**
- ¥8.5bn in 37s
- £325m in 38s
- £300m in 38s
- **£125m in 40s²**
- £300m in 42s
- **£32m in 48s²**

• **£33m in 57s²**

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

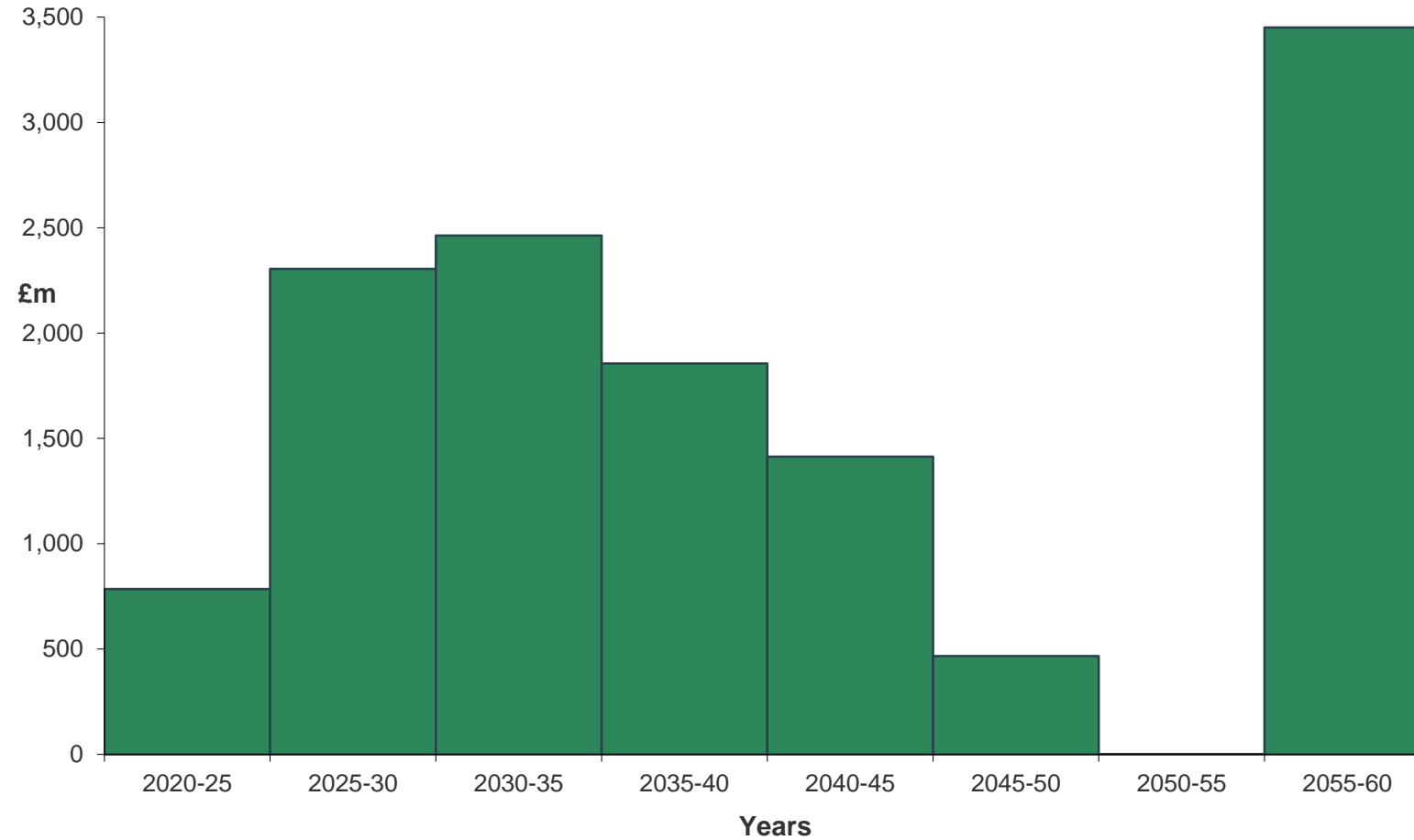
⁵ Two £50m fixed rate tranches of this bond have been swapped to CPI/CPIH linked

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 2023¹

Average term to maturity of approximately 17 years



¹ Future repayments of index-linked debt include RPI/CPI/CPIH market derived forecasts out to 2027, subsequently transitioning to an average annual RPI rate of 3% and an average annual CPI/CPIH rate of 2%