

United Utilities Group PLC

Full year results

Year ended 31 March 2019



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



Going from strength to strength

Delivering against our targets year on year



Consistently **improving customer satisfaction**



Early investment **delivering performance** against tough targets



Resilient through extreme weather



Leakage target met for 13 consecutive years



Fast-track PR19 business plan, awarded **highest grades in sector**



Expect to be eligible for AMP6 **SIM reward of around £16m**



£19m wholesale ODI reward for 2018/19, **£30m** cumulative AMP6 reward expected



£100m totex outperformance against FD scope



£100m additional investment for AMP7 flying start; total AMP6 reinvestment of **£350m**

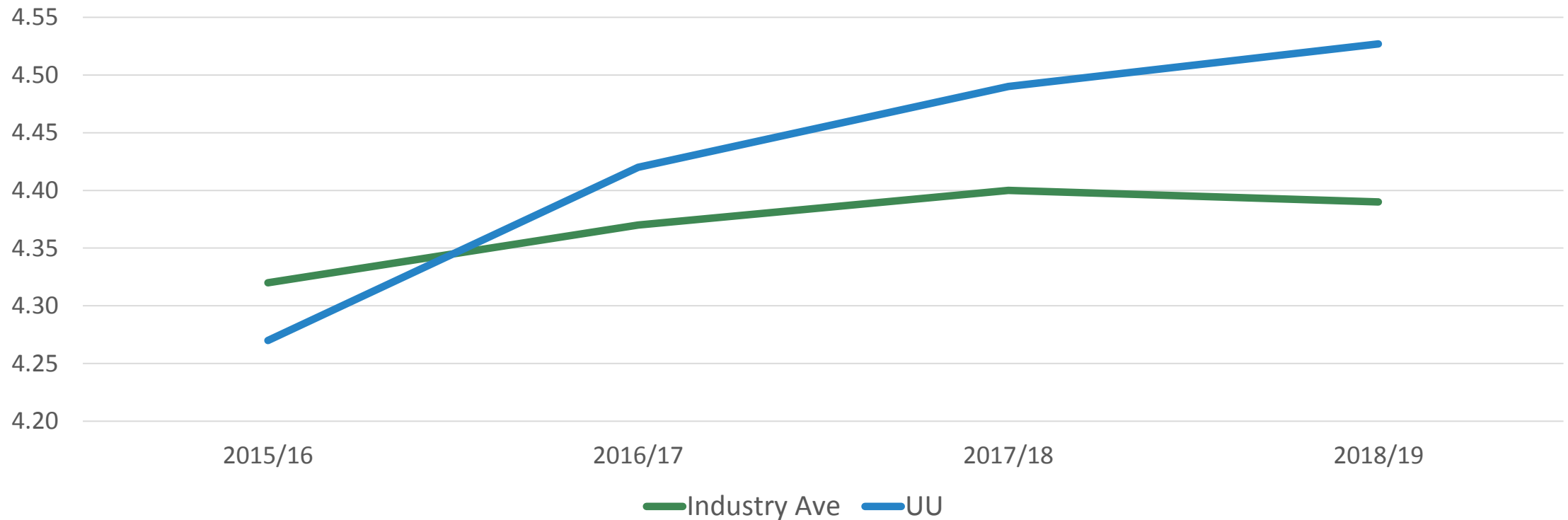


Fast-track reward; **£24m additional revenue** in AMP7, **greater clarity** with a year to prepare

Sector beating SIM improvement

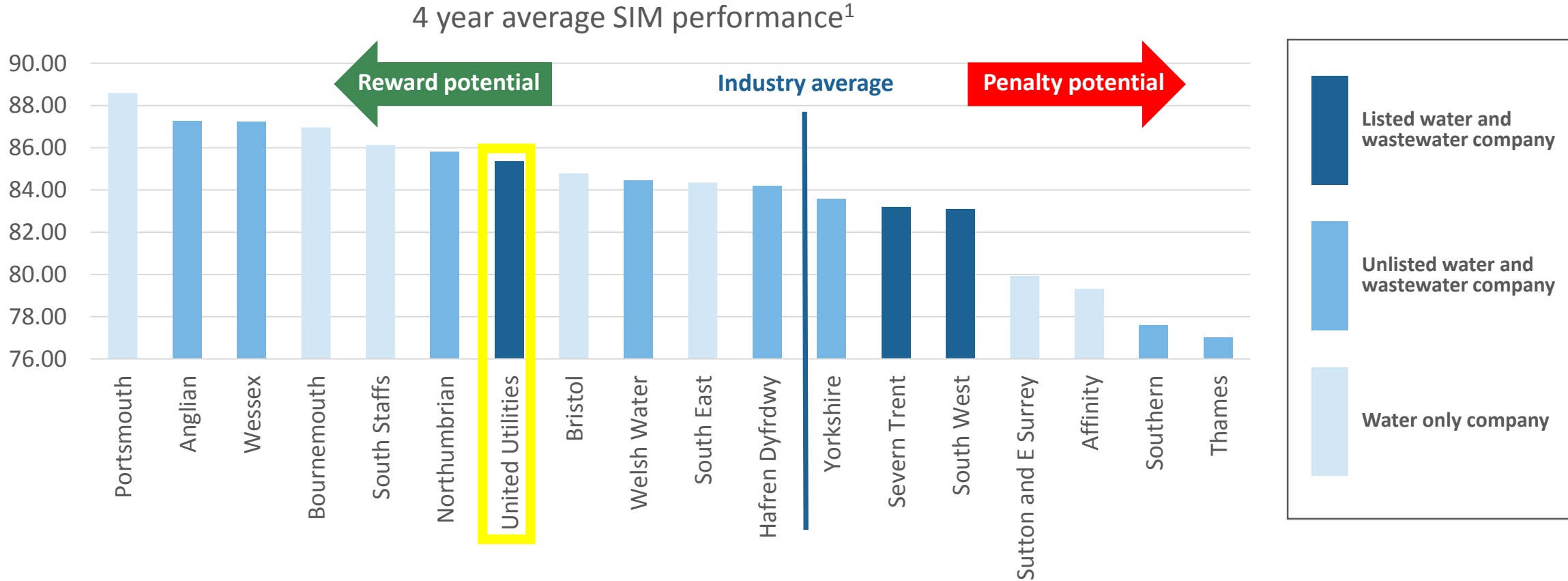
One of the leading companies

4 year qualitative SIM scores 2015-2019



Reward for good SIM performance

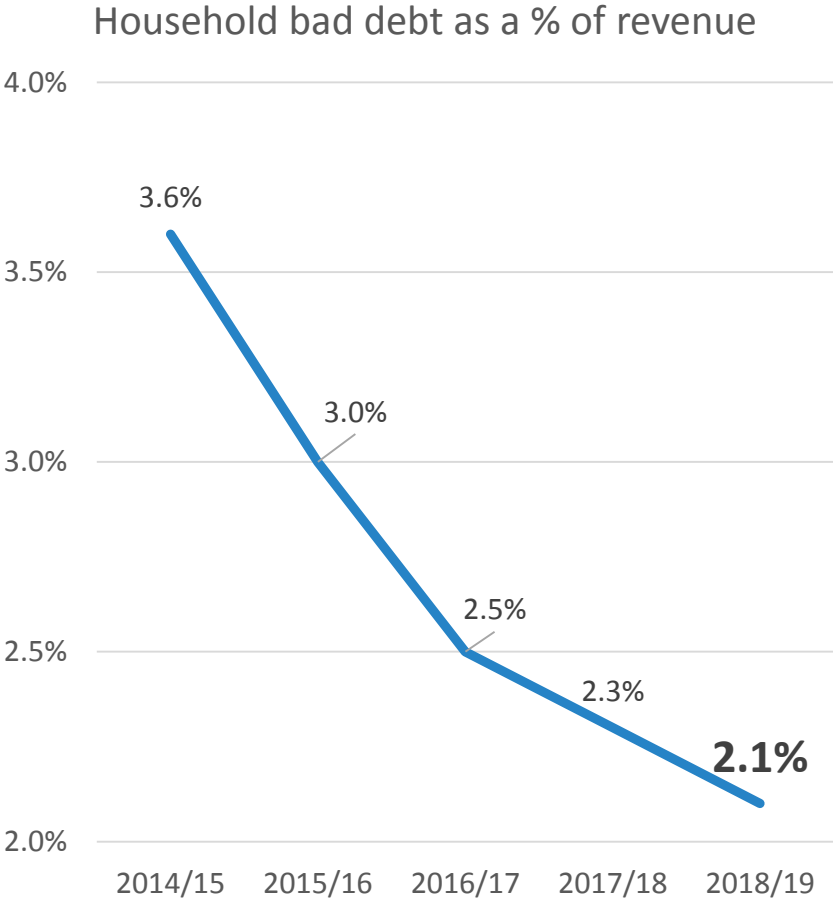
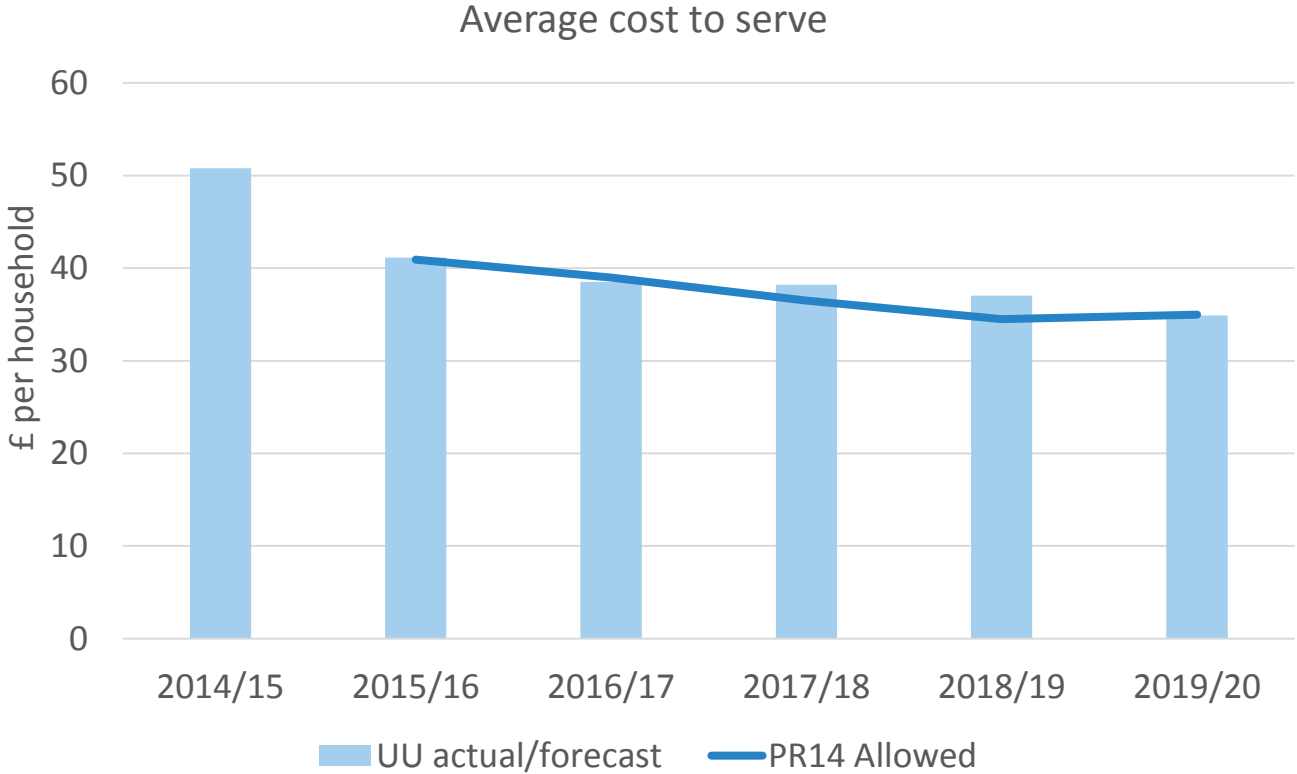
Expect to be eligible for a SIM reward of around £16m for AMP6 performance



¹ Based on 4 year actual qualitative performance, 3 year actual quantitative performance and forecast quantitative performance for year 4

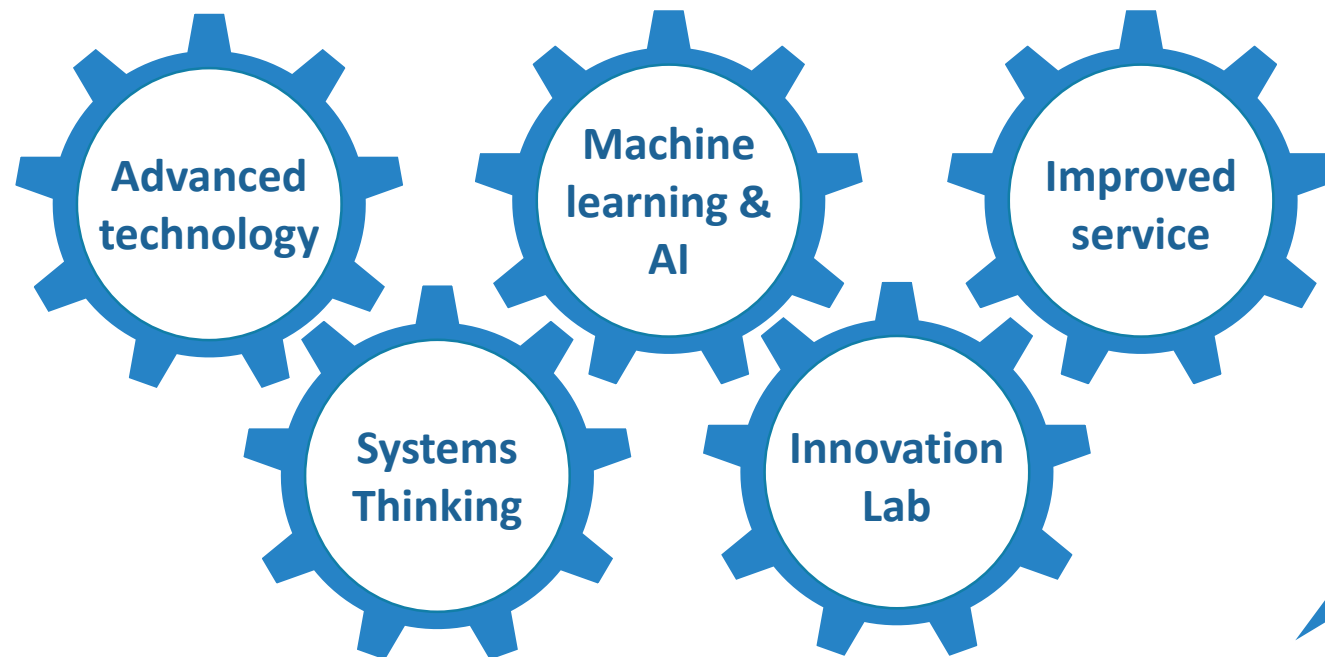
Good service costs less

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



Sector's most embedded innovation culture

Use of technology delivering efficiencies and improved service



“Out of all the water company business plans we have assessed, United Utilities’ plan has the best evidence of an embedded culture of innovation.”

Ofwat: DD, April 2019

Outcome Delivery Incentives (ODIs)

A good year earning a £19m reward

	Reward / (Penalty) (£m)	
	1 year 2018-19	4 years 2015-19
Private sewers service index	7.4	29.5
Wastewater category 3 pollution incidents	3.3	13.1
Thirlmere transfer to West Cumbria	0.0	0.0
Total leakage at or below target	0.0	9.1
Reliable water service index	0.0	(23.9)
Average minutes supply lost per property	11.3	5.3
Water quality service index	(3.6)	(10.6)
Other 12 wholesale ODIs	0.8	(1.1)
Total wholesale ODIs	19.2	21.4

Good all round performance
at the **top of our**
estimates

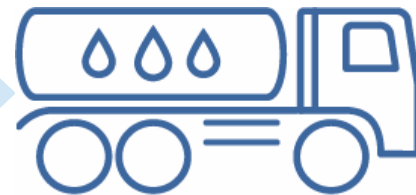
£19m net reward for
2018/19

£30m net reward
expected for AMP6

Alternative supply vehicles

Restoring water to 95% of customers within 3 hours

1 million litres of water on wheels



Restoring water to **95% of customers**, within **3 hours**, **24/7**



Centrally planned, co-ordinated and controlled



Better response to big bursts and in the **right areas**



Vital for **customer service**, and **customer minutes lost ODI**



The largest fleet of “water on wheels”, providing temporary supply of water during planned and unplanned interruptions

A fast-track company

Leading on a forward looking basis

A = High quality, ambitious and innovative plan with evidence that overall is sufficient and convincing.

B = High quality plan, not sufficiently ambitious and innovative to be exceptional with evidence that overall is sufficient and convincing.

C = Concerns with the plan: Plan falls short of high quality and/or evidence is insufficient and/or unconvincing in some areas.

D = Substantial concerns with the plan: Plan falls significantly short of required quality and/or little or no evidence, or no convincing evidence.

Test Area	Water and sewerage companies								Water only companies								
	Anglian Water	Dwr Cymru	Hafren Dyfrdwy	Northumbrian Water	Severn Trent Water	South West Water	Southern Water	Thames Water	United Utilities Water	Wessex Water	Yorkshire Water	Affinity Water	Bristol Water	Portsmouth Water	South East Water	South Staffs Water	SES Water
Engaging customers	A	B	C	B	B	B	C	C	B	B	B	C	B	C	C	B	C
Addressing affordability and vulnerability	B	B	D	B	B	B	B	C	A	B	C	C	C	C	B	C	B
Delivering outcomes for customers	B	C	D	C	C	B	C	C	C	C	C	C	C	C	B	C	C
Securing long-term resilience	C	C	D	C	C	B	D	D	B	C	C	D	C	C	C	D	C
Targeted controls, markets and innovation	B	C	C	C	C	C	C	C	B	B	B	C	C	C	B	C	C
Securing cost efficiency	D	D	B	C	B	B	D	D	B	C	C	C	C	B	C	C	D
Aligning risk and return*	C	C	D	B	C	B	C	C	C	D	C	D	C	C	C	C	C
Accounting for past delivery*	B	C	D	C	B	D	D	D	B	B	B	C	D	C	D	B	B
Securing confidence and assurance	D	A	C	C	B	C	C	C	B	C	C	C	C	C	B	C	D

* Highest possible assessment for these test areas was B

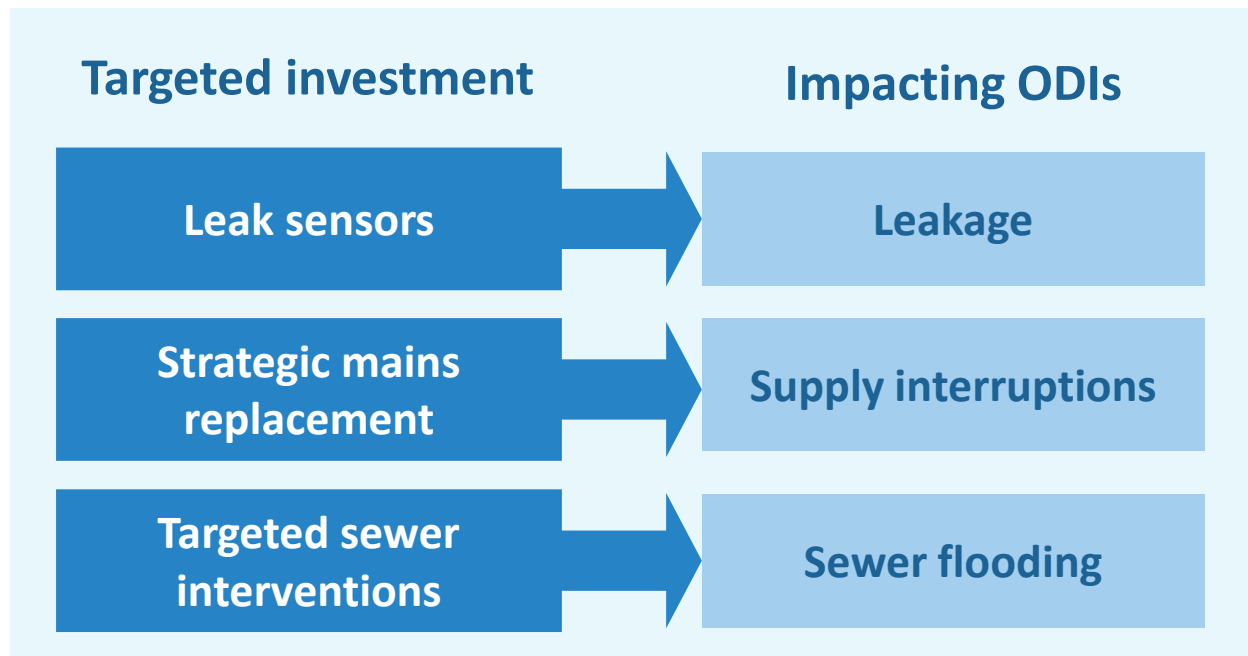
Source: Ofwat, PR19 Initial assessment of plans: Summary of test area assessment

A flying start to AMP7

£100m additional investment; total for AMP6 now £350m



Fast-track status gives greater clarity of areas to target investment



£350m total
outperformance sharing

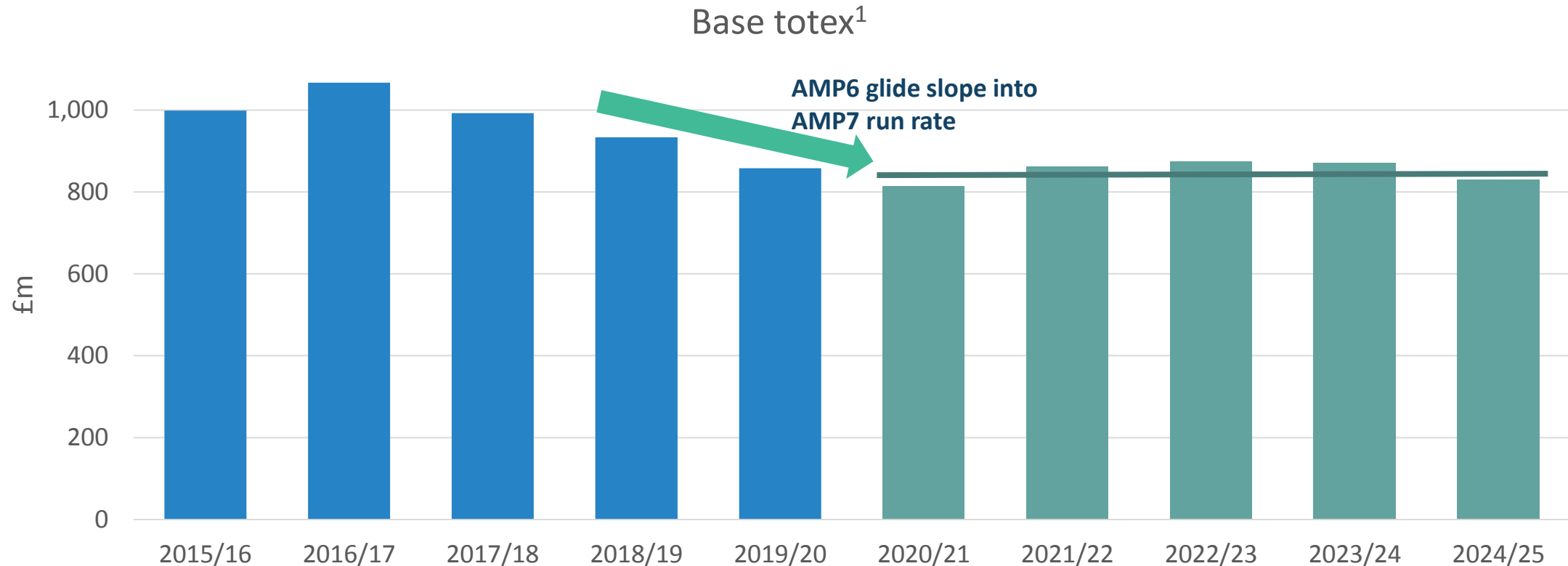


£250m delivering enhanced resilience for customers

£100m for AMP7 flying start

Base totex run rate on target

AMP6 investment delivering efficiencies to be sustained in AMP7



Source: Company PR19 business plan submission, September 2018

— £850m AMP7 annual average

¹ Base totex includes maintenance capex, opex and IRE but excludes enhancement capex, 2017/18 prices. This includes the base totex elements of the £250m AMP6 additional investment but not the further £100m announced today.

Trust and confidence in reporting

Awarded top self-assurance status for third consecutive year

	Exceeds expectations
	Meets expectations
	Minor concerns
	Serious concerns

	Financial monitoring framework	Charges engagement	Outcomes	Risk & compliance statement	Assurance plan	Water resources mgt plan	Case work	Financial flows	Long term viability statement	Cost assessment	PR19 IAP data consistency	PR19 IAP data quality	Category	Mvt from 2017
United Utilities													Self-assurance	↔
Welsh													Targeted	↑
Anglian														↔
Bristol														↑
Northumbrian														↓
Portsmouth														↔
Severn Trent														↔
South East														↓
South Staffs														↔
South West														↔
SES Water														↔
Thames														↑
Wessex														↔
Yorkshire														↔
Affinity														Prescribed
Harfren Dyfrdwy													↔	
Southern Water													↔	

Russ Houlden Chief Financial Officer



Reported income statement

Year ended 31 March

£m

	2019	2018
Revenue	1,818.5	1,735.8
Operating expenses	(790.4)	(722.6)
EBITDA	1,028.1	1,013.2
Depreciation and amortisation	(393.2)	(376.8)
Operating profit	634.9	636.4
Investment income and finance expense	(205.4)	(206.6)
Share of profits of joint ventures	6.7	2.3
Profit before tax	436.2	432.1
Tax	(72.8)	(77.5)
Profit after tax	363.4	354.6
Basic earnings per share (pence)	53.3	52.0
Total dividend per ordinary share (pence)	41.28	39.73

Underlying income statement

Year ended 31 March

£m

	2019	2018	Movement
Revenue	1,818.5	1,735.8	82.7
Operating expenses	(575.9)	(566.8)	
Infrastructure renewals expenditure	(164.6)	(147.1)	
EBITDA	1,078.0	1,021.9	
Depreciation and amortisation	(393.2)	(376.8)	
Operating profit	684.8	645.1	39.7
Net finance expense	(231.2)	(277.2)	
Share of profits of joint ventures	6.7	2.3	
Profit before tax	460.3	370.2	90.1
Tax	(81.6)	(65.3)	
Profit after tax	378.7	304.9	73.8
Earnings per share (pence)	55.5	44.7	
Total dividend per ordinary share (pence)	41.28	39.73	

Underlying operating costs

Year ended 31 March £m	2019	2018	Movement
Revenue	1,818.5	1,735.8	82.7
Employee costs	(154.4)	(147.0)	(7.4)
Hired and contracted services	(96.2)	(95.4)	(0.8)
Property rates	(94.7)	(90.5)	(4.2)
Materials	(72.9)	(66.7)	(6.2)
Power	(70.0)	(70.4)	0.4
Regulatory fees	(32.5)	(29.7)	(2.8)
Bad debts	(26.5)	(20.8)	(5.7)
Cost of properties disposed	(4.7)	(9.8)	5.1
Settlement of commercial claims	9.9	-	9.9
Other expenses	(33.9)	(36.5)	2.6
	(575.9)	(566.8)	(9.1)
Infrastructure renewals expenditure (IRE)	(164.6)	(147.1)	(17.5)
Depreciation and amortisation	(393.2)	(376.8)	(16.4)
Total underlying operating expenses	(1,133.7)	(1,090.7)	(43.0)
Underlying operating profit	684.8	645.1	
<u>Adjustments:</u>			
Dry weather event	(36.1)	-	
GMP equalisation	(6.6)	-	
Flooding incidents (net of insurance proceeds)	-	(1.7)	
Non-household retail market reform ¹	-	(1.0)	
Restructuring costs	(7.2)	(6.0)	
Reported operating profit	634.9	636.4	

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

Financial position

At 31 March £m	2019	2018	Movement
Property, plant and equipment	11,153.4	10,790.5	362.9
Retirement benefit surplus	483.9	344.2	
Other non-current assets	441.3	421.1	
Cash	339.3	510.0	(170.7)
Other current assets	280.8	302.2	
Total derivative assets	489.1	635.5	(146.4)
Total assets	13,187.8	13,003.5	
Gross borrowings	(7,815.8)	(7,912.3)	96.5
Other non-current liabilities	(1,843.3)	(1,741.5)	
Other current liabilities	(338.0)	(297.8)	
Total derivative liabilities	(79.9)	(101.0)	21.1
Total liabilities	(10,077.0)	(10,052.6)	
TOTAL NET ASSETS	3,110.8	2,950.9	
Share capital	499.8	499.8	
Share premium	2.9	2.9	
Retained earnings	2,269.8	2,120.3	149.5
Other reserves	338.3	327.9	
SHAREHOLDERS' EQUITY	3,110.8	2,950.9	
NET DEBT¹	(7,067.3)	(6,867.8)	(199.5)

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

Pensions – the importance of self-sufficiency

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

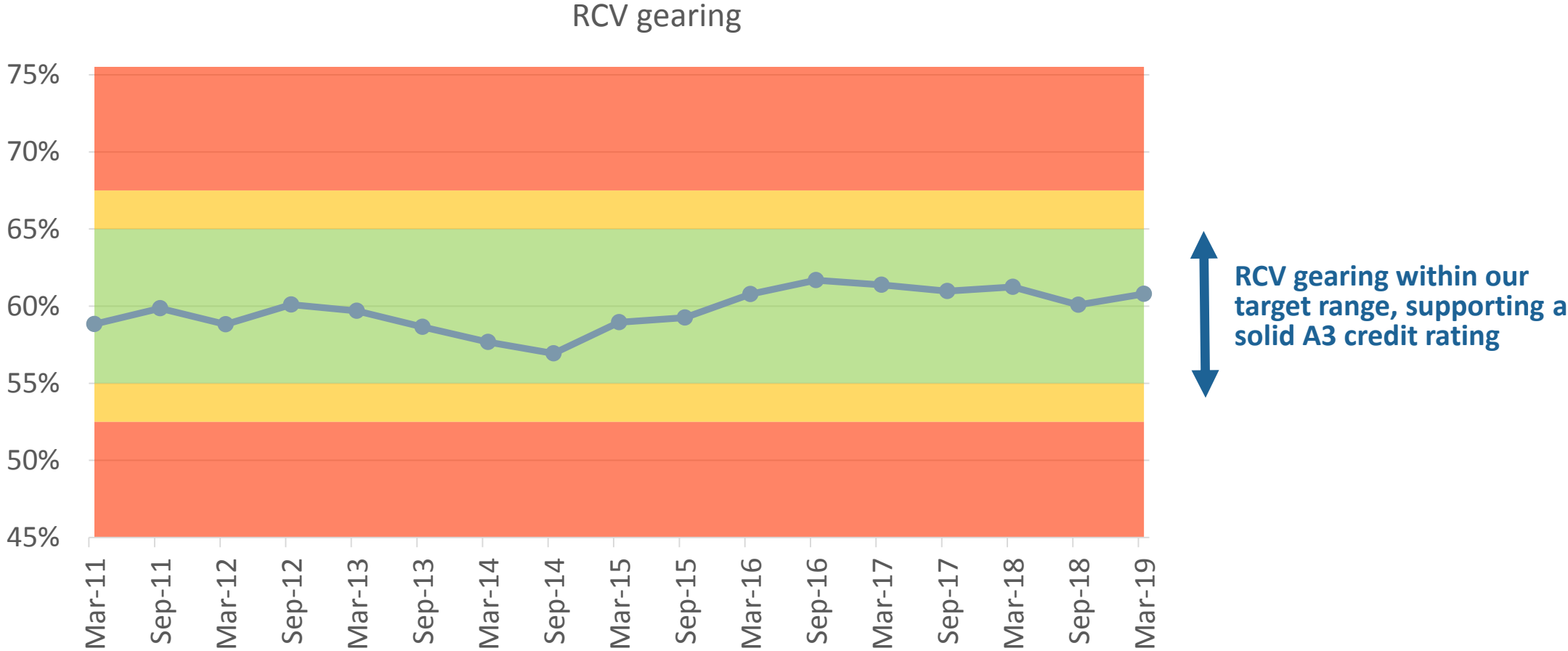
Basis of surplus / deficit	Objective	Typical discount rate applied to liabilities	United Utilities
IFRS	Intercompany comparison (full disclosure of assumptions)	Gilts +70/+110	£484m surplus
Funding	Stepping stone to self-sufficiency	?	£nil
Self-sufficiency (aka LTFT)	Minimal reliance on company	Gilts +0/+50	£nil

Responsible stewardship mitigating risk for all stakeholders

References: <https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/understanding-db-scheme-funding.ashx>
<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-annual-funding-statement-2019.ashx>

RCV gearing

RCV gearing supports robust capital structure



Cash flow statement

Year ended 31 March

£m

2019

2018

Net cash generated from operating activities

832.3

815.6

Net cash used in investing activities

(627.7)

(723.2)

Net cash (used in) / generated from financing activities

(377.4)

184.7

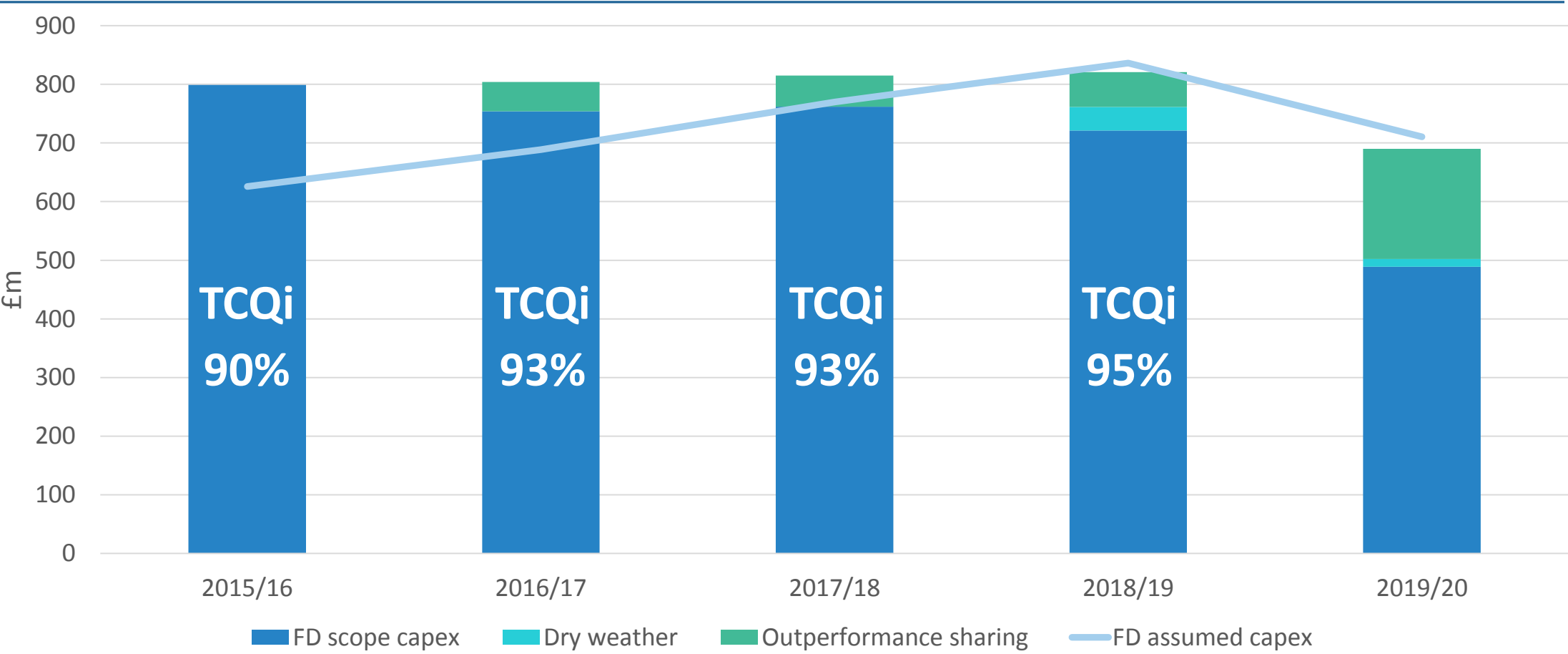
Net movement in cash

(172.8)

277.1

Net regulatory capital spend profile

A further £821m invested this year



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

Financing

AMP6 financing requirement fully funded with headroom out to the end of 2020

Index-linked

£711m RPI-linked raised previously

£165m CPI-linked raised previously

£100m CPI-linked bank loan with 10-year maturity in April 2019

£100m RPI/CPI swaps in April 2019

Nominal

£1,483m raised previously

HKD320m private placement raising **£32m** with 7-year maturity

£100m additional tap of 2025 public bond taking total to £450m

£250m public bond issue with 12-year maturity

Committed bank facilities

New £50m committed bank facilities signed for 5-year term

£100m 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

<p>Inflation hedging</p> <p>c50% of net debt maintained in index-linked form</p>	<p>Index-linked debt</p> <p>c£3.8bn index-linked</p> <p>Average cost of 1.3% real</p>
<p>Interest rate hedging</p> <p>Maintain a fixed rate, 10 year reducing balance on nominal debt</p>	<p>Nominal debt</p> <p>c£3.3bn nominal debt</p> <p>Fixed for 2015-20 at an average rate of 3.2% nominal</p>

Financial summary

Delivering in AMP6 and prepared for AMP7



Good results

Good set of results, maintaining tight cost control



Fully funded pension on self-sufficiency basis

Responsible stewardship of pension scheme mitigating risk for all stakeholders



Financial resilience

Sector leading financial resilience for the long-term



Financing outperformance

Delivering financing outperformance in AMP6 and well prepared for AMP7



Steve Mogford Chief Executive



External recognition for best practice

Awards and accreditations reflecting leading performance



Summary

Going from strength to strength



Innovation and **Systems Thinking** delivering operational improvements



PR19 business plan awarded **fast-track status**



Anticipate a **£16m SIM reward**



£100m additional investment for **AMP7 flying start**; total AMP6 reinvestment **£350m**



£100m totex saving against AMP6 final determination scope



Fully funded pension on a self-sufficiency basis, not expected to be a constraint in AMP7



£19m wholesale ODI reward for 2018/19, **£30m** cumulative AMP6 reward expected



Stakeholders can have the **highest level of trust and confidence** in the information we report

A young child with curly hair is sitting at a table, holding a white mug to their mouth. The child is wearing a patterned shirt and a red bib. The background is a 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. Impact of IFRS16
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

Year ended 31 March	2019	2018
£m		
Wholesale water charges	767	719
Wholesale wastewater charges	906	876
Household retail charges	105	111
Other appointed revenue	6	6
UU Water appointed	1,784	1,712
UU Water non-appointed	14	5
Non-UU Water	21	19
Revenue	1,819	1,736

Profit before tax reconciliation

Year ended 31 March	2019	2018
£m		
Operating profit	634.9	636.4
Investment income and finance expense	(205.4)	(206.6)
Share of profits of joint ventures	6.7	2.3
Reported profit before tax	436.2	432.1
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	-	1.7
Non-household retail market reform ¹	-	1.0
Dry weather event	36.1	-
GMP equalisation	6.6	-
Restructuring costs	7.2	6.0
Net fair value gains on debt and derivative instruments	(9.5)	(47.3)
Interest on derivatives and debt under fair value option	30.6	23.5
Net pension interest income	(9.5)	(7.1)
Capitalised borrowing costs	(37.4)	(39.7)
Underlying profit before tax	460.3	370.2

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

Profit after tax reconciliation

Year ended 31 March	2019	2018
£m		
Reported profit after tax	363.4	354.6
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	-	1.7
Non-household retail market reform ¹	-	1.0
Dry weather event	36.1	-
GMP equalisation	6.6	-
Restructuring costs	7.2	6.0
Net fair value gains on debt and derivative instruments	(9.5)	(47.3)
Interest on derivatives and debt under fair value option	30.6	23.5
Net pension interest income	(9.5)	(7.1)
Capitalised borrowing costs	(37.4)	(39.7)
Agreement of prior years' tax matters	(4.2)	0.4
Tax in respect of adjustments to underlying profit before tax	(4.6)	11.8
Underlying profit after tax	378.7	304.9
Basic earnings per share (pence)	53.3	52.0
Underlying earnings per share (pence)	55.5	44.7

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

Dry weather event costs

Year ended 31 March	2019	2020
£m		
Capex	29.6	13.0
IRE	10.5	-
Opex	25.6	-
Totex	65.7	13.0

£36m of costs recognised as an adjusting item for the year to 31 March 2019

Finance expense

Year ended 31 March

£m

	2019	2018
Investment income	17.1	12.0
Finance expense	(222.5)	(218.6)
	(205.4)	(206.6)
Less net fair value gains on debt and derivative instruments	(9.5)	(47.3)
Adjustments for interest on derivatives and debt under fair value option	30.6	23.5
Adjustment for net pension interest income	(9.5)	(7.1)
Adjustment for capitalised borrowing costs	(37.4)	(39.7)
Underlying net finance expense	(231.2)	(277.2)
Average notional net debt	6,907	6,614
Average underlying interest rate	3.3%	4.2%
Effective interest rate on index-linked debt	3.9%	5.0%
Effective interest rate on other debt	2.7%	3.1%

Finance expense: index-linked debt

Year ended 31 March	2019	2018
£m		
Cash interest on index-linked debt	(48.8)	(47.8)
RPI adjustment to index-linked debt principal – 3 month lag ¹	(71.1)	(107.8)
CPI adjustment to index-linked debt principal – 3 month lag ²	(3.1)	(3.7)
RPI adjustment to index-linked debt principal – 8 month lag ³	(24.1)	(26.3)
Finance expense on index-linked debt	(147.1)	(185.6)
Interest on other debt (including fair value option debt and derivatives)	(84.1)	(91.6)
Underlying net finance expense	(231.2)	(277.2)

- Cash interest payment of £49m on c£3.8bn of index-linked debt
- Decrease in indexation charge mainly 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 January 2019

² Affected by movement in CPI between January 2018 and January 2019

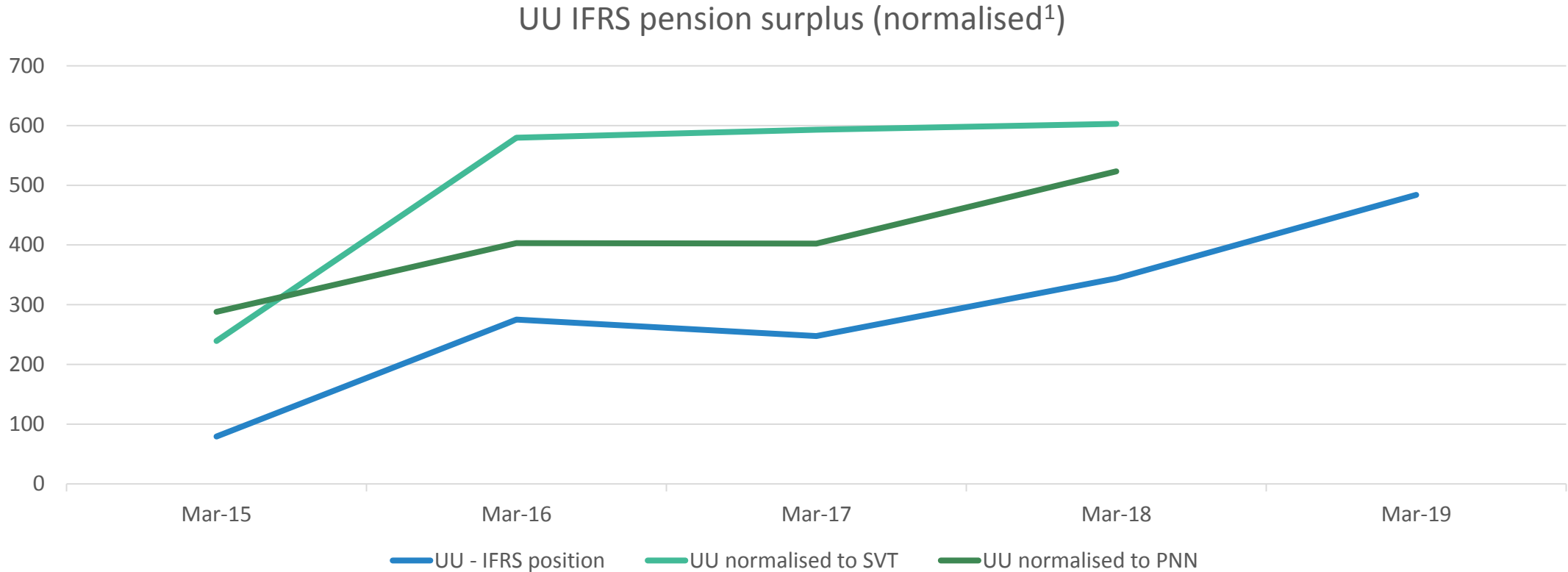
³ Affected by movement in RPI between July 2017 and July 2018

Derivative analysis

At 31 March	2019	2018
£m		
Derivatives hedging debt	479.6	585.5
Derivatives hedging interest rates	(69.9)	(50.1)
Derivatives hedging commodity prices	(0.5)	(0.9)
Total derivative assets and liabilities (slide 19)	409.2	534.5

- 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



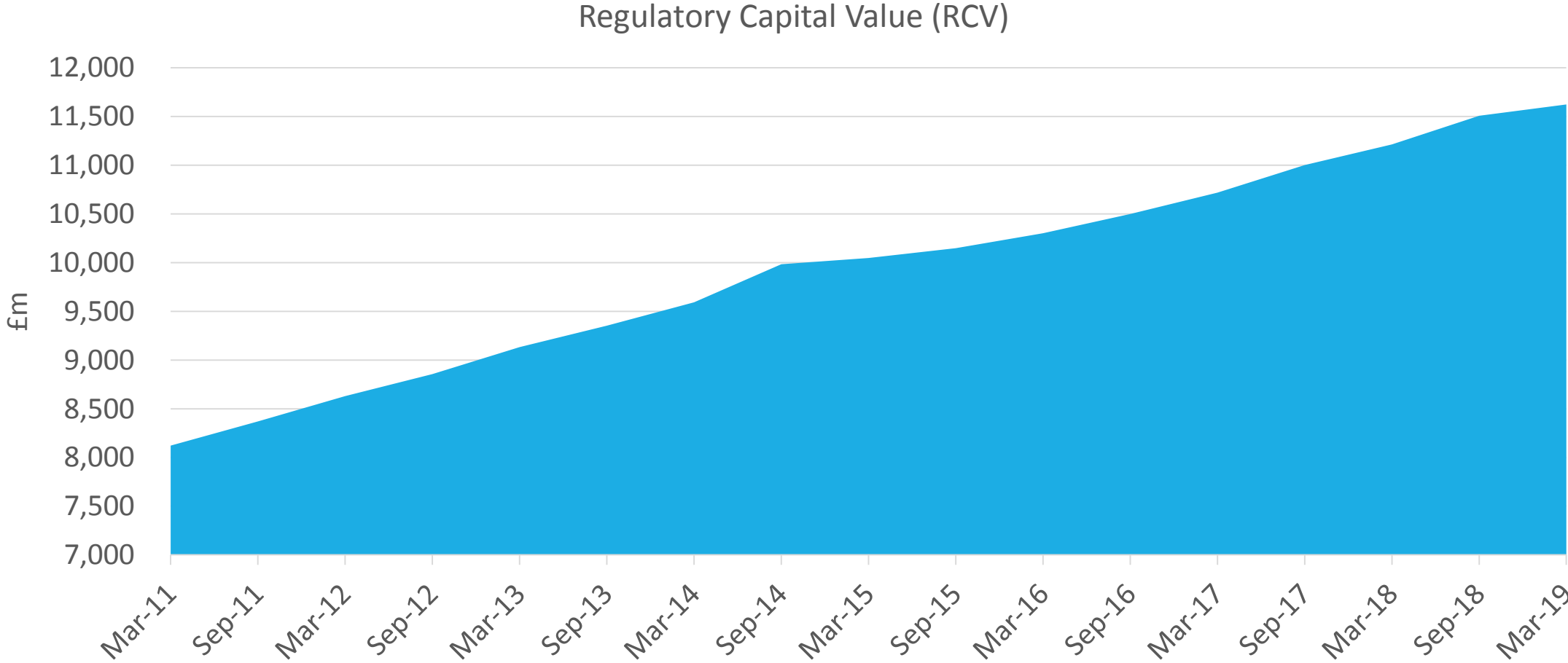
Source: Companies' annual report and accounts

¹ Normalised for inflation, discount rate and mortality assumptions

Impact of IFRS 16

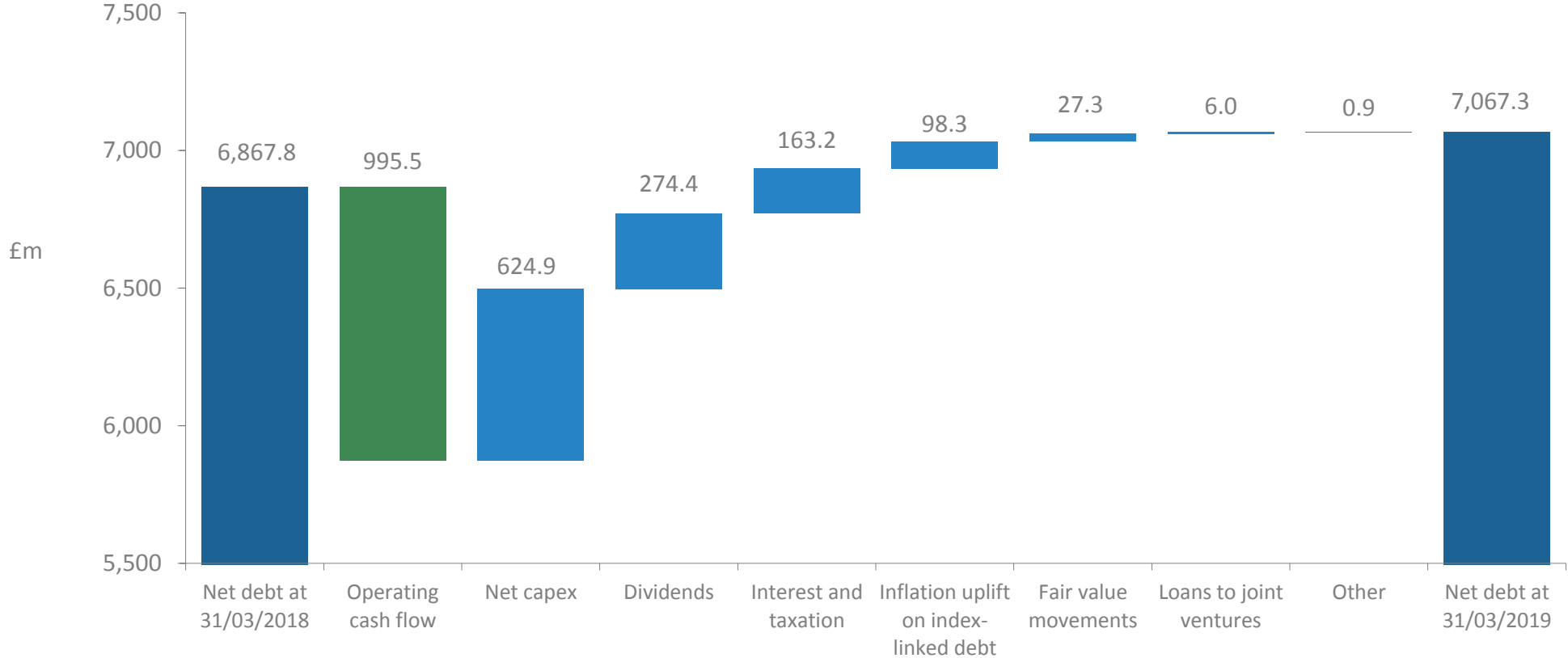
- **IFRS 16** effective from 1 April 2019
- **£55m lease liability** brought onto the statement of financial position as at 1 April 2019
- Corresponding **£55m lease asset** also brought onto the statement of financial position as at 1 April 2019
- In 2019/20, expect the lease asset to be **depreciated 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**

Regulatory capital value (RCV)



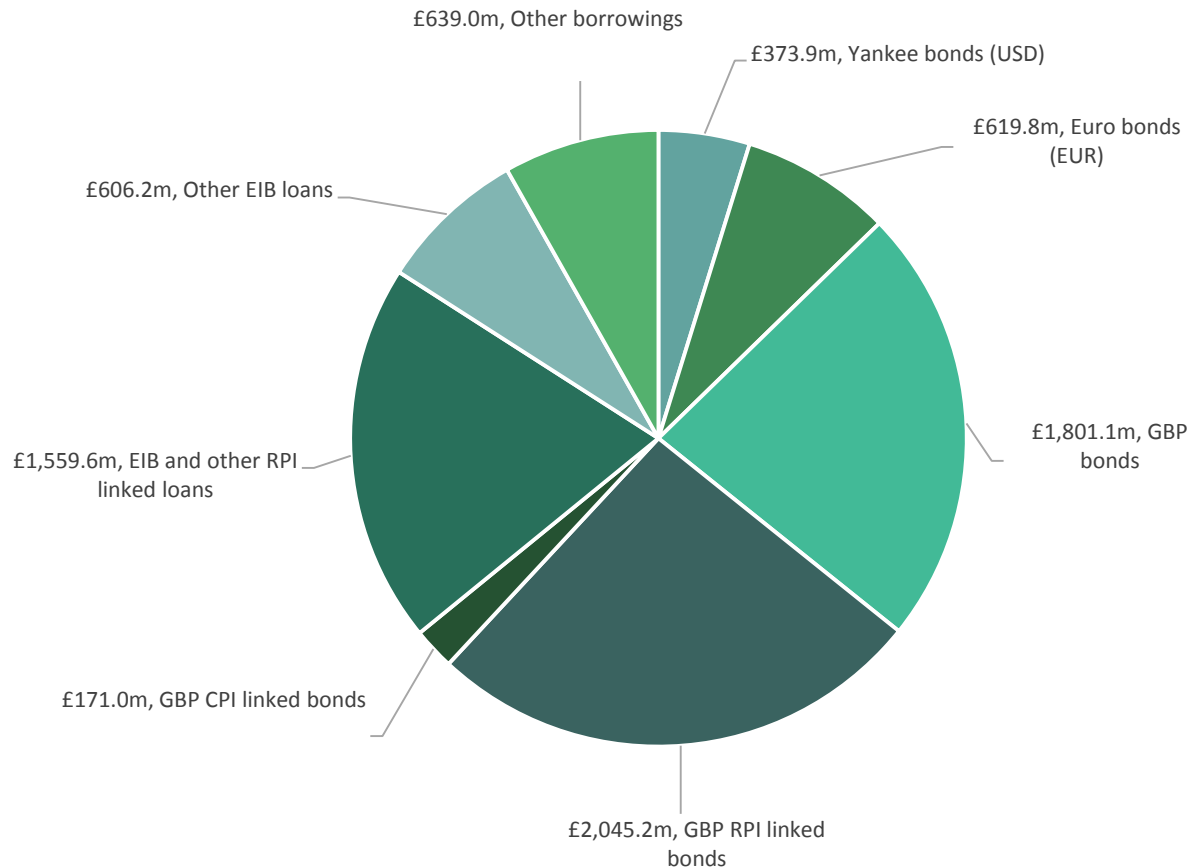
United Utilities Water's regulatory capital value (based on shadow RCV for AMP6, adjusted for actual spend) and presented in outturn prices. Shadow RCV at 31 March 2019 = £11,624m.

Movement in net debt



Financing and liquidity

Gross debt = £7,815.8m



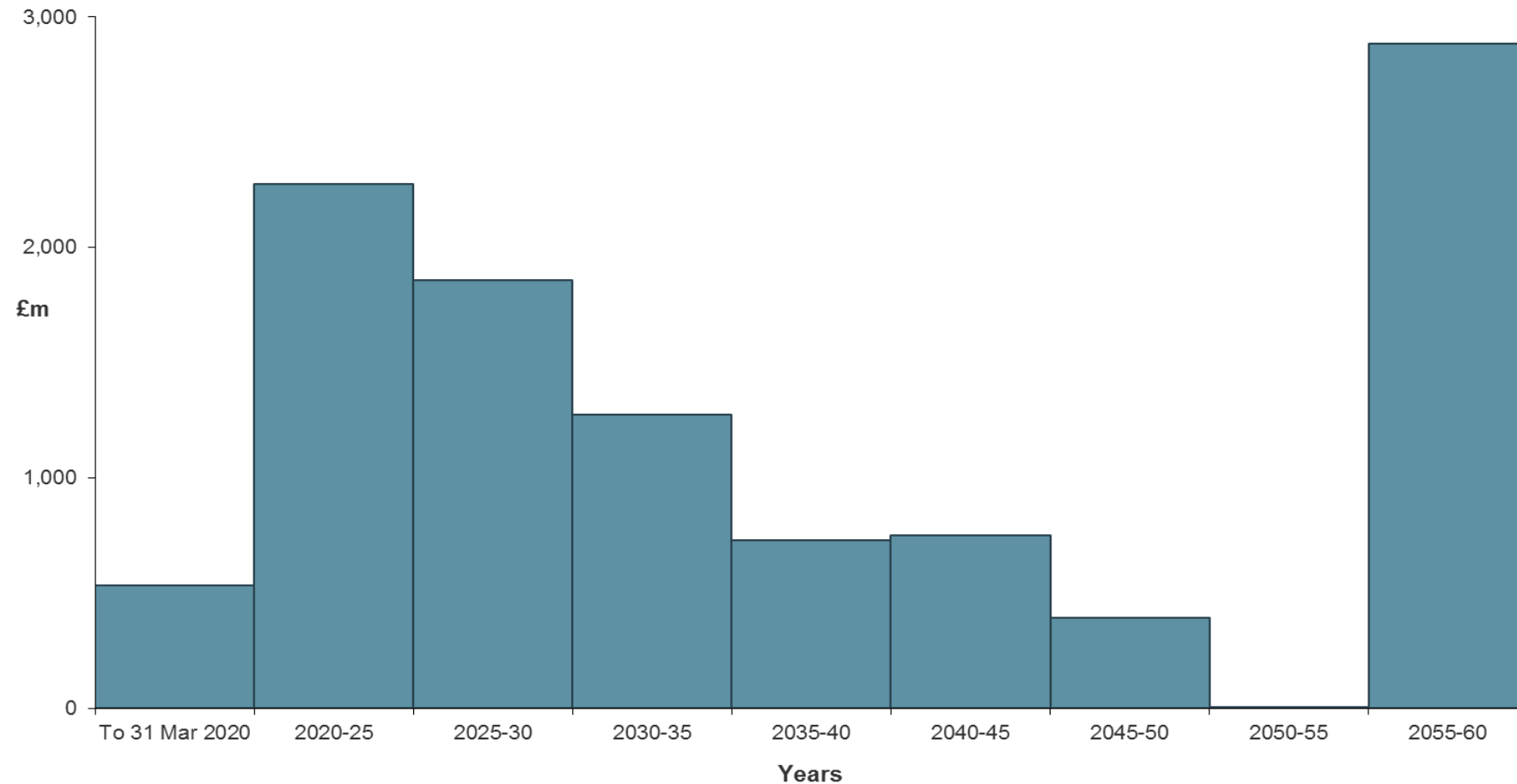
Headroom / prefunding = £357.4m

	£m
Cash and short-term deposits	339.3
Medium-term committed bank facilities ¹	700.0
Short-term debt	(166.7)
Term debt maturing within one year	(515.2)
Total headroom / prefunding	357.4

¹ Excludes £100m of facilities maturing within one year

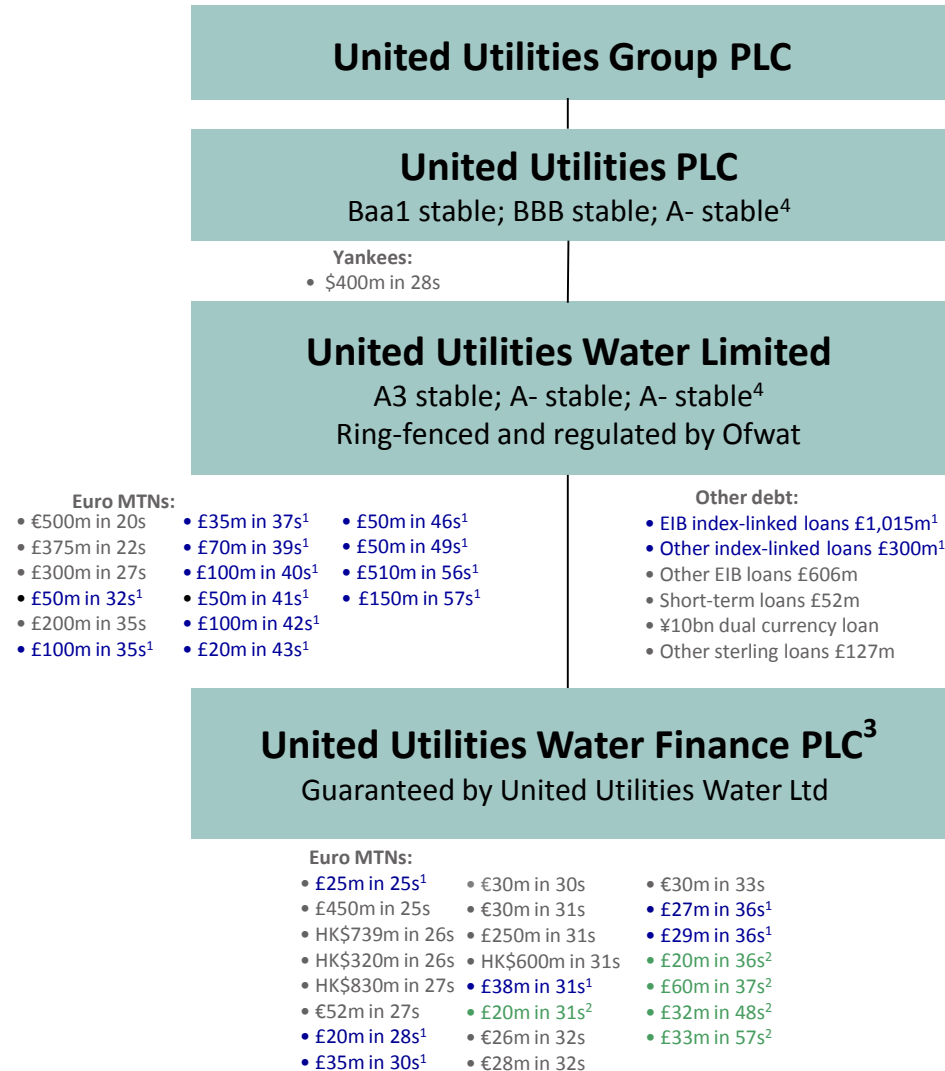
Term debt maturity profile

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



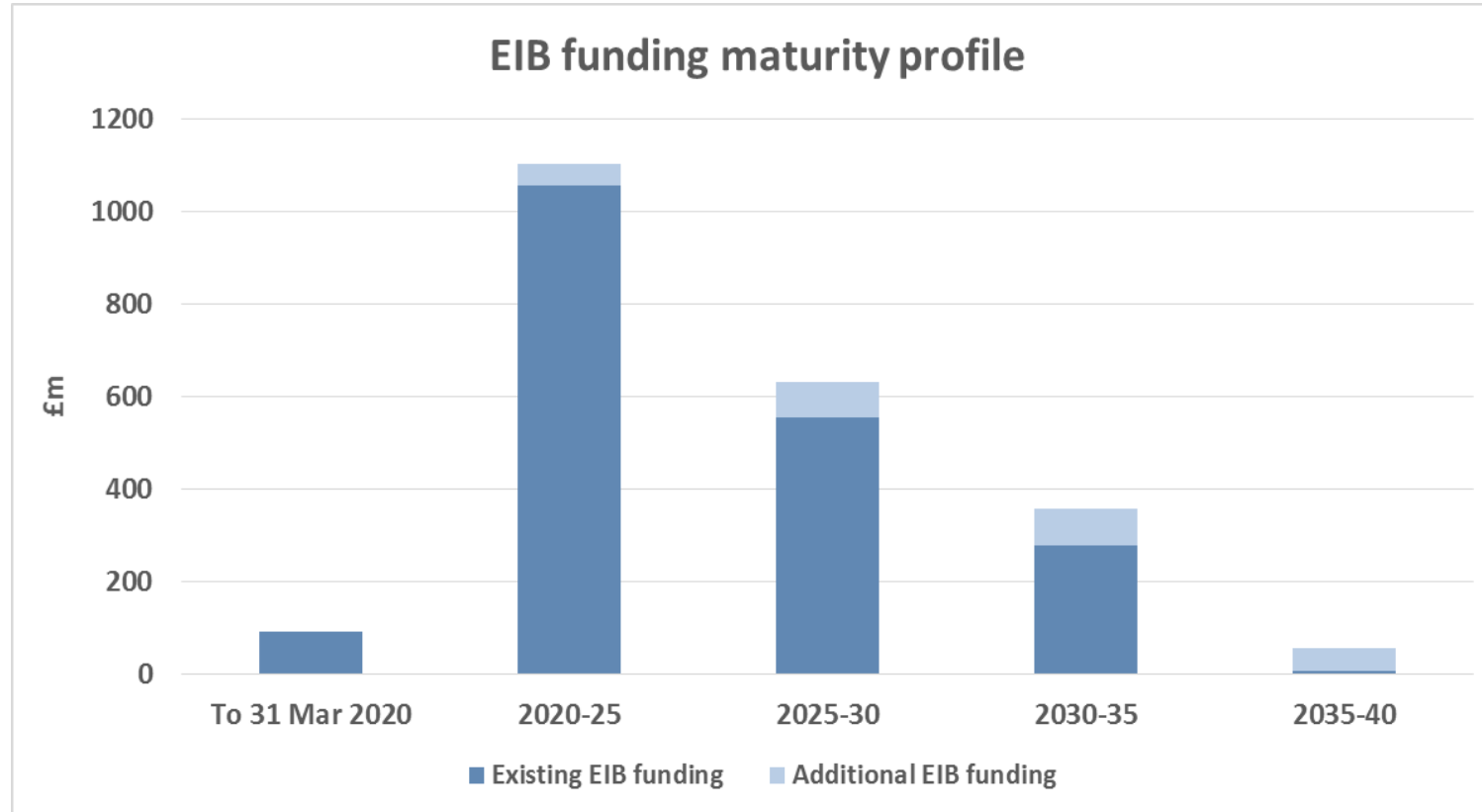
¹ RPI linked finance

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

⁴ 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.

PR19 timetable

