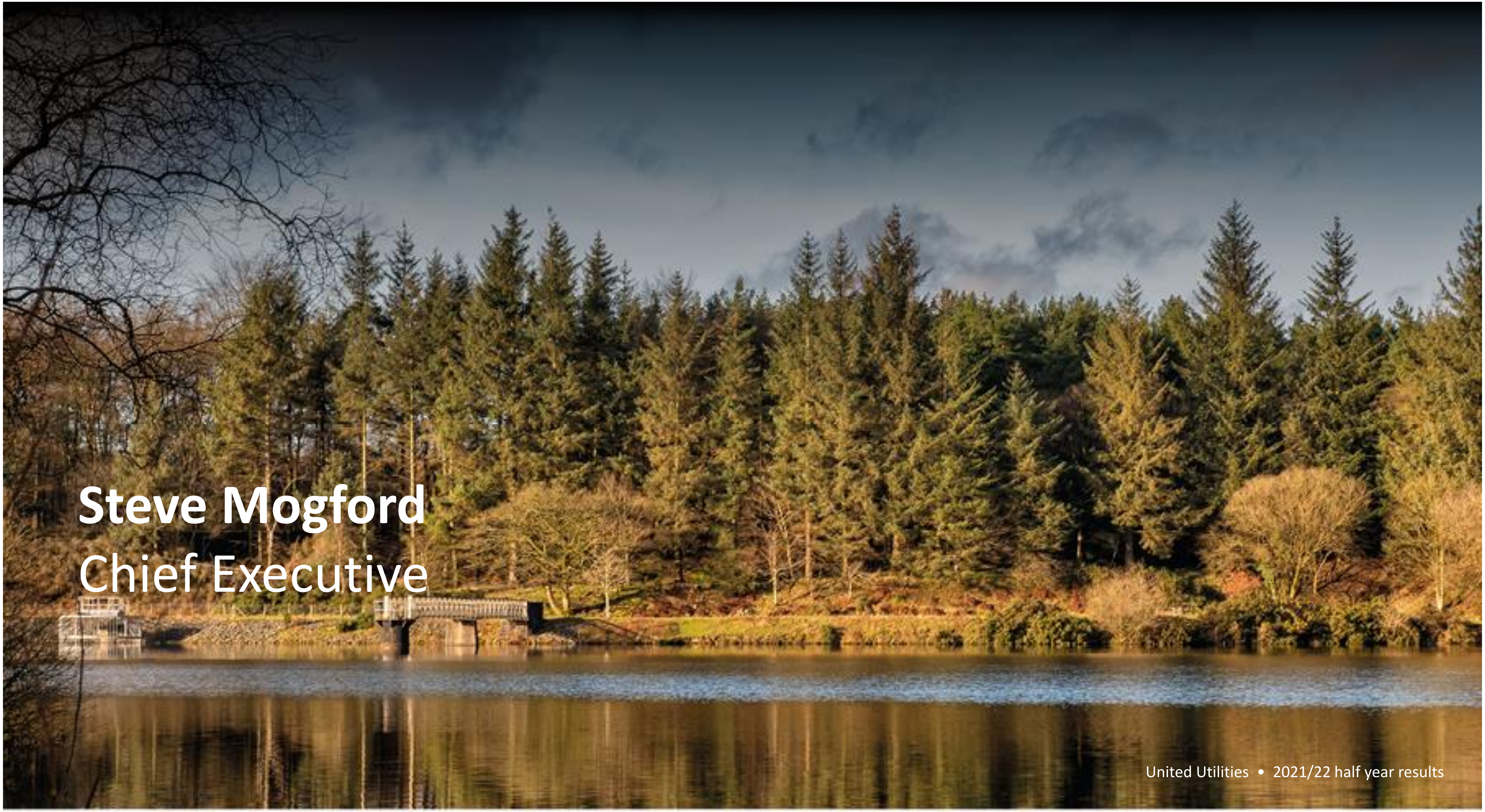
Half year results

Six months ended 30 September 2021

United Utilities Group PLC

United Utilities
Water for the North West



Steve Mogford

Chief Executive

Highlights

On track to deliver net zero and enhancing biodiversity

Strong financial performance; actively managing the impact of rising inflation

Investing for sustainable performance

A digital utility – delivering operational excellence

Delivering regulatory outperformance

Strong operational performance

Remain on track for c£20m ODI reward in 2021/22 and c£150m in total for AMP7

Water

70,000 sensors helping reduce leakage to lowest ever level

Water supply interruptions halved since the beginning of AMP7

Waste

Industry leading 4* environmental performance confirmed

£100m DNM[1] investment – anticipate net ODI reward across all flooding measures

Customer service

Achieved the Institute of Customer Service – Service Mark with Distinction

£15m extension to social tariff in each year of AMP7

Backing CCW's drive to launch a national social tariff

[1] Dynamic Network Management (DNM) is breakthrough application of Systems Thinking (refer to slide 23)

Mitigating the impact of climate change

1. Commitment to meet our science-based targets (scope 1&2)
2. 100% renewable electricity by 2021 ✓
3. 100% Green Fleet by 2028
4. 1,000 hectares of peat restoration by 2030
5. Planting 1 million trees to create 550 hectares of woodland by 2030
6. Commitment to set science-based scope 3 emissions target by 2021 ✓

BUSINESS AMBITION FOR 1.5°C

RACE TO ZERO

Adaptation – Securing climate resilience

1. Investment in digital utility delivering greater resilience to extremes of weather
2. Better visibility of performance, acting earlier to deal with issues
3. Integrating climate change into long-term planning to secure resilience of services
4. Third climate risk and adaptation report to be published this year
5. Key feature of PR24 business plan, driving ongoing investment and growth

TCFD disclosure in 2021 annual report: https://unitedutilities.annualreport2021.com/our-approach-to-climate-change/

Enhancing biodiversity

56,000 Ha
UK's largest corporate landowner

Leading the way
on catchment approach

Leveraging
partnership funding

Carbon pledges
enhance biodiversity

Haweswater Catchment

rspb giving nature a home

Environment Agency

NATURAL ENGLAND

Swindale Beck case study: https://www.youtube.com/watch?v=116HjMEXgWM

Phil Aspin

Chief Financial Officer

Financial highlights

Revenue
£932m
H1 2020/21: £894m

Household bad debt
1.8%
of revenue
H1 2020/21: 1.8%

Underlying operating profit[1,2]
£333m
H1 2020/21: £319m

Underlying EPS[1,2]
28.4p
H1 2020/21: 29.2p

Interim dividend per share
14.50p
H1 2020/21: 14.41p

Raising finance efficiently
Adding to financing outperformance

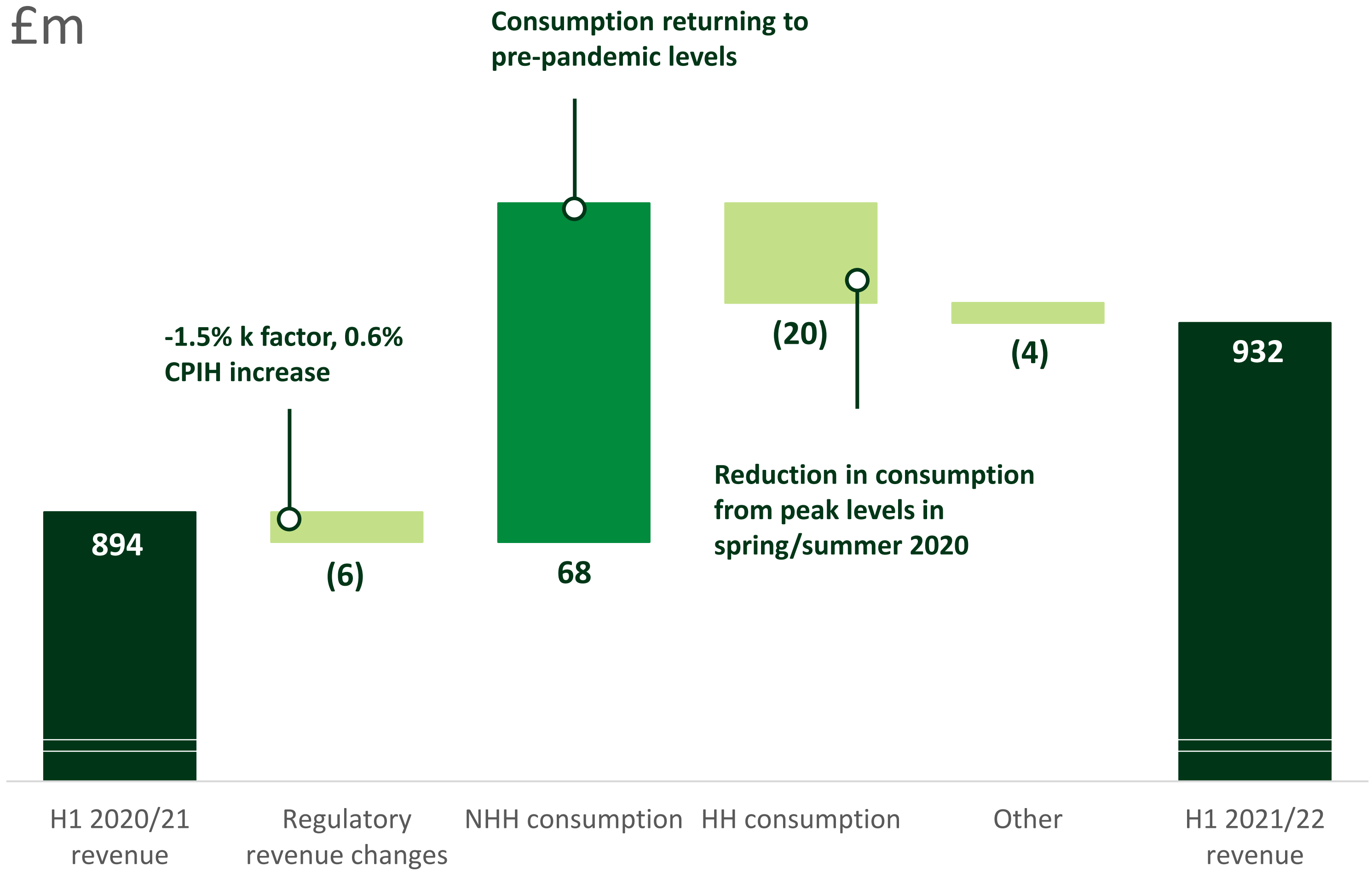
Effective hedging
Mitigating risk and driving shareholder value

Strong balance sheet
62% RCV gearing and fully funded pension

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

[2] Underlying EPS reflects change in approach to APMs implemented during the financial year ended March-21 with prior period numbers re-presented for comparative purposes

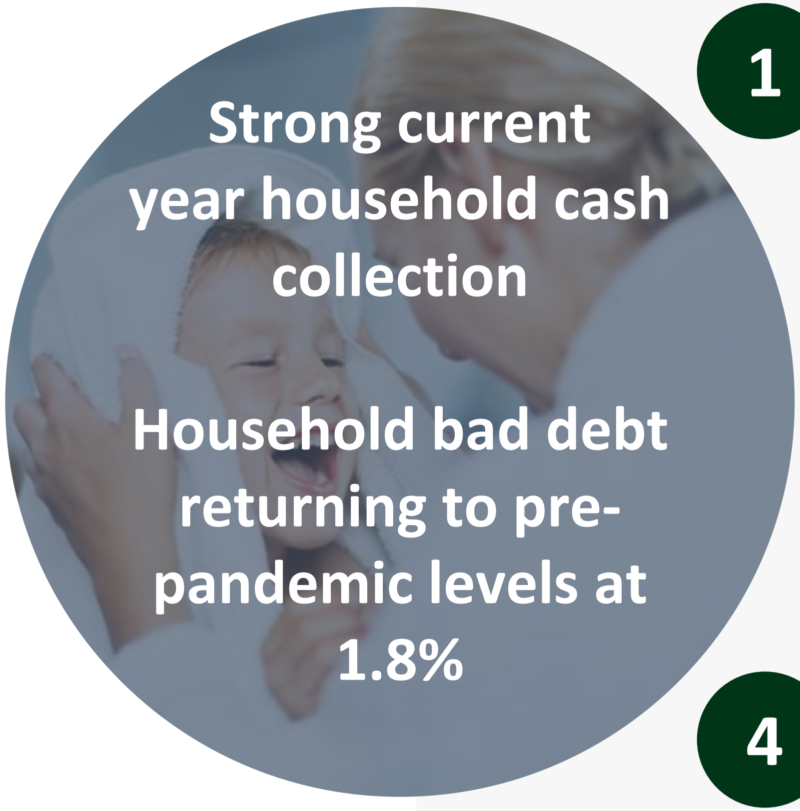
Revenue



Overall consumption higher as business activity returns to pre-Covid levels

Full year 2021/22 revenue expected to be c2% higher year-on-year

Strong collections performance

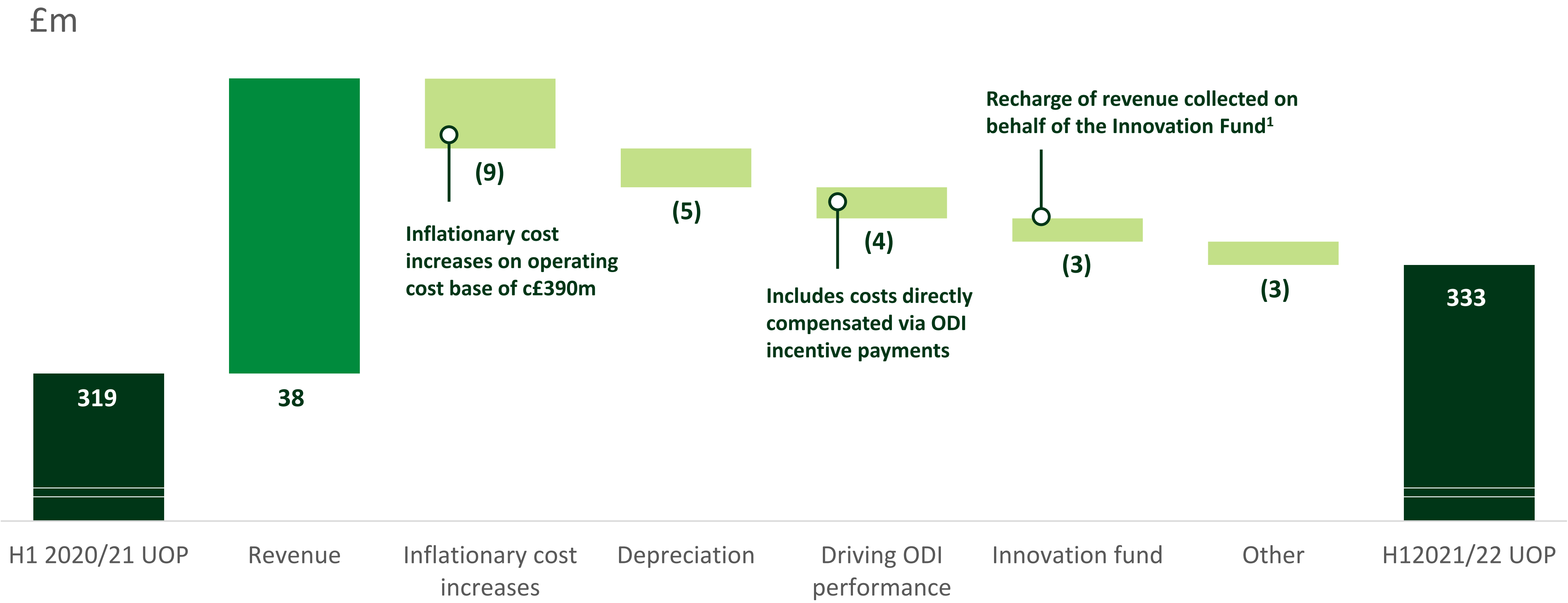


Strong current year household cash collection

Household bad debt returning to pre-pandemic levels at 1.8%

1. Low balance sheet risk; only £12m of household debtors aged >1year at Mar-21
2. Wide range of affordability schemes
3. Over 80% on direct debit or other payment plan
4. First and only water company to be using Open Banking for real-time income verification

Underlying operating profit



Underlying measures reflect the adoption of new definitions for alternative performance measures (APMs) implemented during the financial year ended March-21 with prior period numbers re-presented for comparative purposes. A reconciliation is provided in the appendix.

[1] The £3 million of costs associated with the Innovation Fund reflects our reallocation of revenue for the first half of the year and is an increase on the prior half year as in the first year of the AMP we did not accrue costs until the full year.

Interest, joint ventures, tax and earnings

Underlying net finance expense[1]
£134.2m

£51m higher than H1 2020/21

Higher inflation on index-linked debt

Joint Ventures
£1.8m

Share of **underlying losses**

£5.9m share of losses in relation to Water Plus for H1 2020/21

Underlying tax charge[1]
1.5%

At **£3m**

Maximising super deductibility of capital allowances

One-off deferred tax charge of £382m

Underlying profit after tax[1]
£193.9m

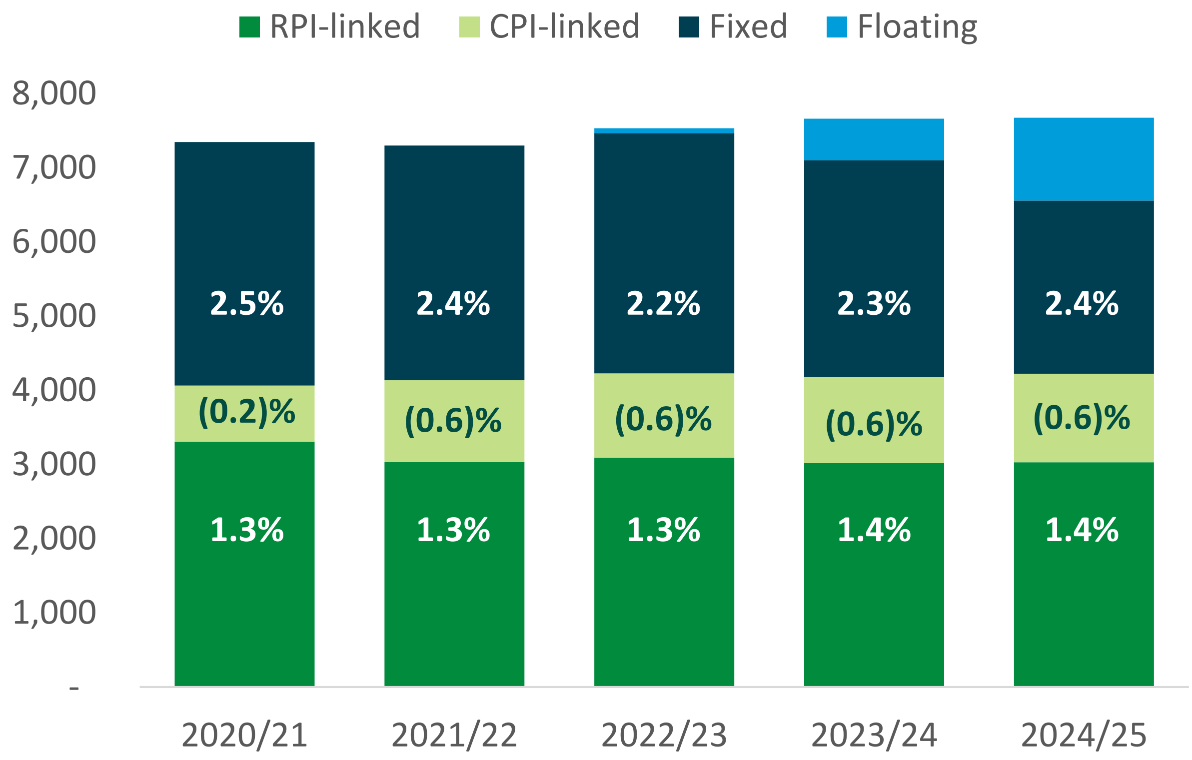
H1 2020/21: **£199.1m**

Underlying EPS of 28.4p

[1] Underlying measures reflect the adoption of new definitions for alternative performance measures (APMs) implemented during the financial year ended March-21 with prior period numbers re-presented for comparative purposes. A reconciliation is provided in the appendix.

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.

1 **£2.4bn** financing to raise in AMP7

2 **c£1.1bn** raised so far in AMP7 at attractive rates

3 Liquidity extended out to **February 2025**

4 **4.4%** effective interest rate for H1 2021/22

Inflation hedging for long-term sustainable performance

Consistent approach to hedging debt and pensions delivering sustainable value

Hedging policies minimise volatility to deliver long-term sustainable performance

---

Delivering shareholder value through financing outperformance

Inflation hedging targets to maintain c50% net debt in index-linked form

---

Balanced assessment including hedge of RCV and minimising income statement volatility

---

Inflation volatility intensified since Covid

Inflation exposure impacted by pension position

£3.3bn pension liabilities – similar size to index-linked debt

---

Pension schemes fully hedged for inflation

Inflation position delivering shareholder value

Debut sustainable bond case study

£300m sustainable bond issued Jan-21

Long 8+ year term, maturing Oct-29

0.875% coupon

Swapped to CPI **minus** 1.778%

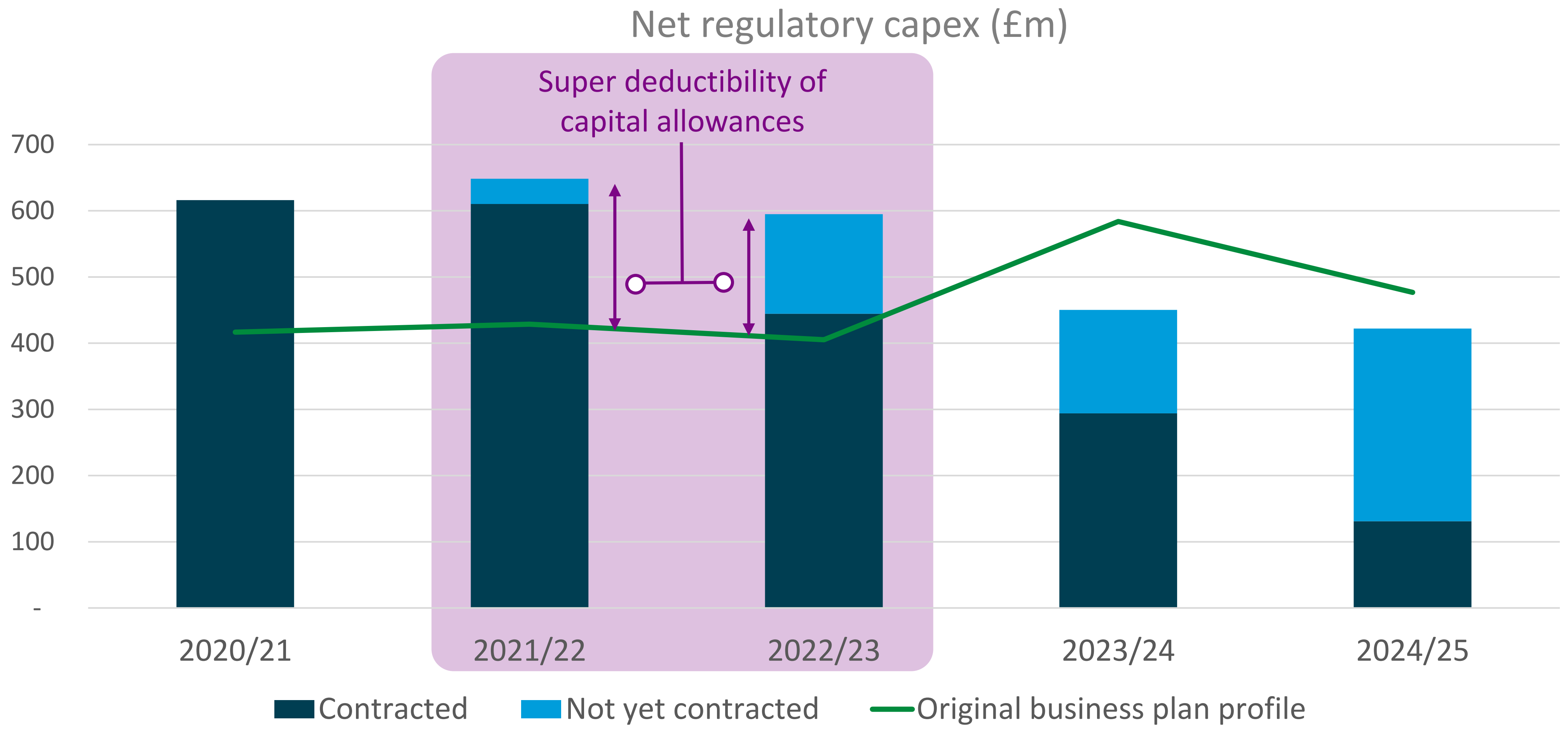
Bond: **pay 0.875%**

Swap: **receive 0.875%**
receive 1.778%
pay CPI accretion on the £300m

1. Locked-in c£40m of total shareholder value through financing outperformance regardless of inflation outturn

2. Inflation swap delivers better value than fixed alternative if CPI <3% over 9 year life of swap

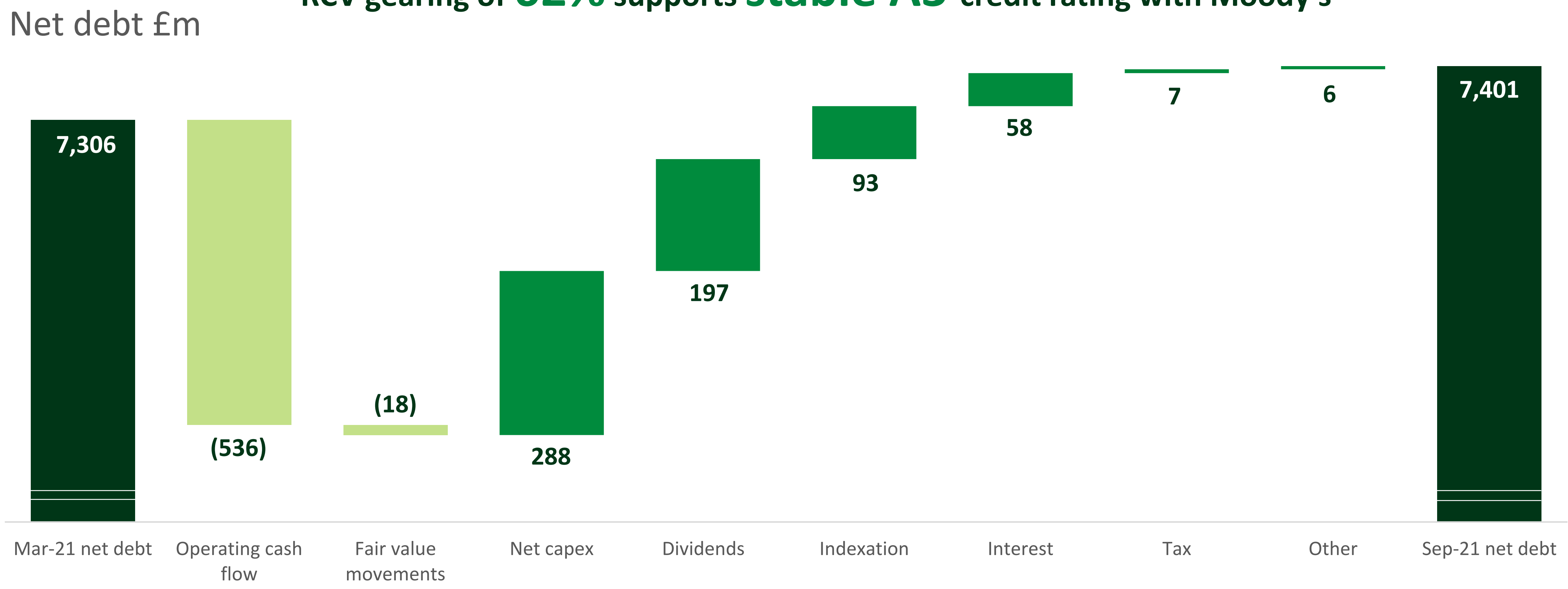
Accelerating capex with 80% already contracted



1. AMP7 net regulatory capex excludes IRE
2. The AMP7 net regulatory capex profile shown on the chart does not constitute a forecast and is subject to change
3. The chart includes the capex relating to the £365m additional totex as detailed on slide 22

Strong balance sheet – net debt to RCV gearing

RCV gearing of 62% supports stable A3 credit rating with Moody's



RCV gearing calculated as group net debt / UUW's shadow RCV (outturn) of £11,871m

2021/22 full year outlook

Revenue guidance has been revised from that given in May-21 with all other guidance unchanged

Revenue	↑ c2% y-o-y	• Consumption remains high • 0.6% CPIH offset by –1.5% k factor
Underlying operating costs	↑	• Higher IRE reflecting additional investment in DNM • Inflationary increases net of efficiencies to core costs
Underlying finance expense	↑	• Higher inflation impacting index-linked debt
Capex	£625-675m	• Acceleration of AMP7 capex profile • Includes c£50m of incremental capex
ODIs	c£20m reward	• Consistent with targeting net AMP7 reward of c£150m

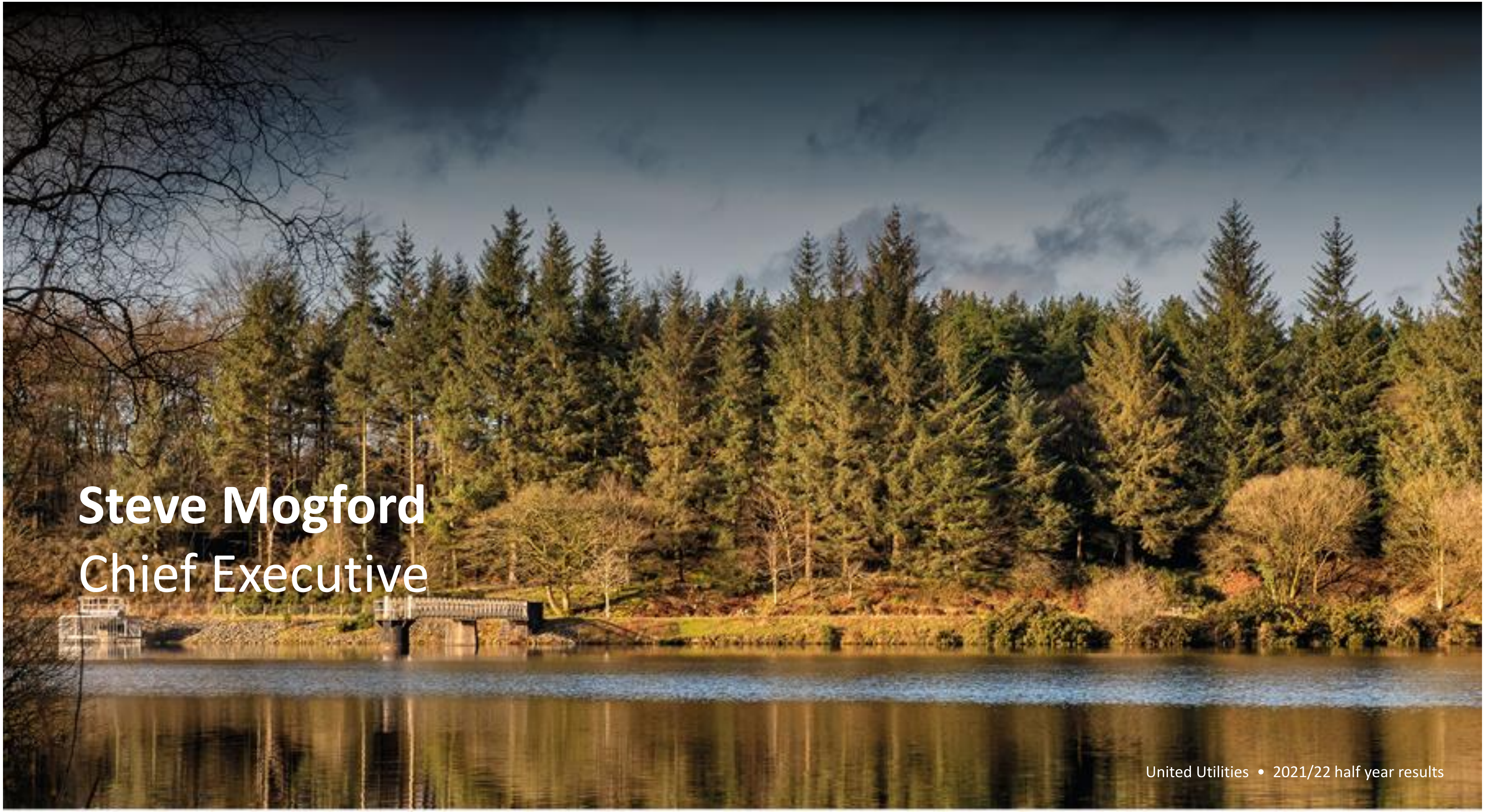
Financial summary

Strong financial performance

Raising new debt **efficiently** and have **locked-in** debt at **low rates** compared with price review assumptions

Hedging policies **mitigate risk** and deliver **shareholder value**

Strong balance sheet with **appropriate gearing** and **low household debtor risk**



Steve Mogford

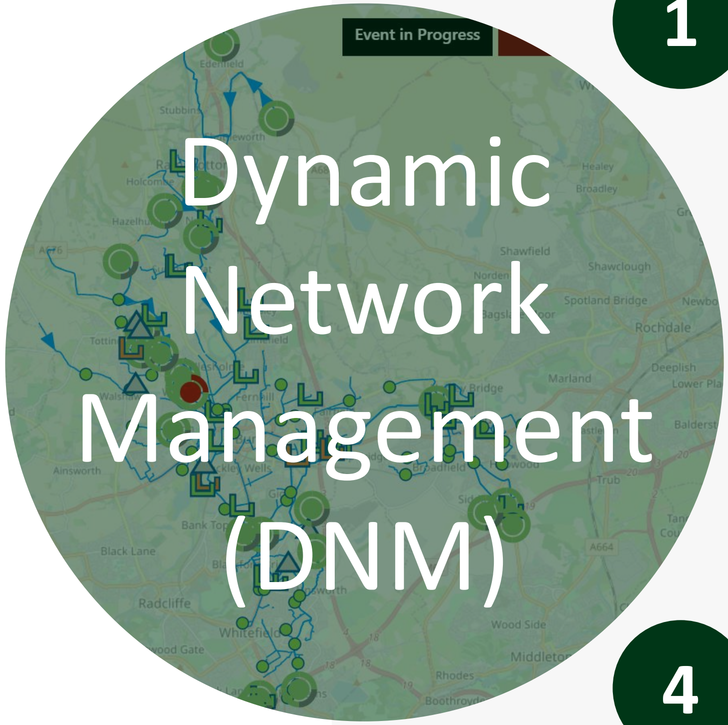
Chief Executive

Investing additional £365m for long-term sustainable improvement

Expected AMP7 regulatory performance remains unchanged from guidance provided in May 2021

1. Confident in meeting the FD scope within the allowance
2. £150m additional approved totex – WINEP scheme at Bolton and re-lining of Vyrnwy Aqueduct
3. £65m Green Recovery award
4. £100m investment in Dynamic Network Management and £50m on other projects driving ODI performance
5. Financial strength and balance sheet headroom to fund

Systems Thinking application – a world first



Dynamic Network Management (DNM)

1. 4,500 state of the art sensors installed across the region
2. Artificial intelligence learning system pattern
3. Automated dashboards informing response
4. Alerts into integrated control centre

- Improved flooding performance across all live areas
- 20,000 sensors in total to be installed by summer 2022
- First to implement at scale with AI across whole system

Summary

Built on great start to AMP7 benefitting from our accelerated investment

Systems Thinking delivering operational excellence – benefitting customers and the environment

Regulatory outperformance delivering shareholder value

Leading the way on climate change and biodiversity

Any questions?

Cautionary statement

This presentation contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. 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. Underlying income statement
2. Underlying operating costs
3. Profit before tax reconciliation
4. Profit after tax reconciliation
5. Finance expense
6. Finance expense: index-linked debt
7. Derivative analysis
8. Statement of financial position
9. Reconciliation of net debt
10. 2021 household debtors reconciliation
11. Strong balance sheet – pensions
12. Financing and liquidity
13. Debt structure
14. Term debt maturity profile
15. AMP7 maturity profile
16. EIB funding maturity profile
17. Inflation volatility
18. Mitigating the impact of climate change

Underlying income statement

Six months ended 30 September £m	2021	2020	Change (%)
Revenue	**932.3**	**894.4**	**+4%**
Operating expenses	(309.3)	(289.8)	
Infrastructure renewals expenditure	(82.6)	(83.3)	
EBITDA	**540.4**	**521.3**	**+4%**
Depreciation and amortisation	(207.6)	(202.8)	
Operating profit	**332.8**	**318.5**	**+4%**
Net finance expense	(134.2)	(82.8)	
Share of (losses) / profits of joint ventures	(1.8)	2.5	
Profit before tax	**196.8**	**238.2**	**-17%**
Tax	(2.9)	(39.1)	
Profit after tax[1]	**193.9**	**199.1**	**-3%**
Earnings per share[1] (pence)	**28.4**	**29.2**	**-3%**
Interim dividend per ordinary share (pence)	**14.50**	**14.41**	**+0.6%**

[1] Underlying profit measures reflect the adoption of new definition for alternative performance measures (APMs) that came into effect for the full year to March-21, with prior period numbers restated for comparative purposes

Underlying operating costs

Six months ended 30 September £m	2021	2020	Change (%)
Revenue	**932.3**	**894.4**	**+4%**
Employee costs	(82.4)	(78.6)	+5%
Hired and contracted services	(50.1)	(45.9)	+9%
Property rates	(46.5)	(45.2)	+3%
Materials	(40.7)	(39.5)	+3%
Power	(38.2)	(38.5)	-1%
Regulatory fees	(14.5)	(14.5)	+0%
Bad debts	(12.1)	(11.7)	+3%
Accrued innovation costs	(3.1)	-	N/A
Other expenses	(21.7)	(15.9)	+36%
	(309.3)	**(289.8)**	**+7%**
Infrastructure renewals expenditure (IRE)	(82.6)	(83.3)	-1%
Depreciation and amortisation	(207.6)	(202.8)	+2%
Total underlying operating expenses	**(599.5)**	**(575.9)**	**+4%**
Underlying operating profit[1]	**332.8**	**318.5**	**+4%**
Reported operating profit	**332.8**	**318.5**	**-**

[1] Underlying profit measures reflect the adoption of new definition for alternative performance measures (APMs) that came into effect for the full year to March-21, with prior period numbers restated for comparative purposes

Profit before tax reconciliation

£m	30 Sep 2021	30 Sep 2020	31 Mar 2021
Operating profit	332.8	318.5	602.1
Investment income and finance expense	(118.3)	(119.9)	(78.5)
Share of (losses)/profits of joint ventures	(1.8)	2.5	(9.3)
Profit on disposal of joint ventures	-	-	36.7
Reported profit before tax	**212.7**	**201.1**	**551.0**
Adjustments:			
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(15.9)	37.1	(54.3)
Profit on disposal of Tallinn joint venture	-	-	(36.7)
Underlying profit before tax	**196.8**	**238.2**	**460.0**

Profit after tax reconciliation

£m	30 Sep 2021	30 Sep 2020	31 Mar 2021
Reported (loss)/profit after tax	**(216.2)**	**162.0**	**453.4**
Adjustments:			
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(15.9)	37.1	(54.3)
Profit on disposal of Tallinn joint venture	-	-	(36.7)
Deferred tax adjustment	423.9	5.1	18.4
Tax in respect of adjustments to underlying profit before tax	2.1	(5.1)	2.2
Underlying profit after tax[1]	**193.9**	**199.1**	**383.0**
Basic earnings per share (pence)	**(31.7)p**	**23.8**	**66.5**
Underlying earnings per share[1] (pence)	**28.4**	**29.2**	**56.2**

[1] Underlying measures reflect the adoption of new definitions for alternative performance measures (APMs) implemented during the financial year ended March-21 with prior period numbers re-presented for comparative purposes. A reconciliation is provided in the appendix.

Finance expense

Six months ended 30 September £m	2021	2020
Investment income	9.2	12.1
Finance expense	(127.5)	(132.0)
	(118.3)	**(119.9)**
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(15.9)	37.1
Underlying net finance expense	**(134.2)**	**(82.8)**
Adjustment for net pension interest income	(7.3)	(8.7)
Adjustment for capitalised borrowing costs	(21.4)	(17.0)
Effective net finance expense	**(162.9)**	**(108.5)**
Average notional net debt	**7,372**	**7,257**
Average effective interest rate	**4.4%**	**3.0%**
Effective interest rate on index-linked debt	5.9%	3.2%
Effective interest rate on other debt	2.7%	2.7%

Finance expense: index-linked debt

Six months ended 30 September £m	2021	2020
Interest on index-linked debt	(17.1)	(25.0)
RPI adjustment to index-linked debt principal – 3 month lag[1]	(79..5)	(32.8)
CPI adjustment to index-linked debt principal – 3 month lag[2]	(22.8)	(5.5)
RPI adjustment to index-linked debt principal – 8 month lag[3]	(1.1)	(3.0)
Finance expense on index-linked debt[4]	**(120.4)**	**(66.3)**
Interest on other debt (including fair value option debt and derivatives)	(42.5)	(42.2)
Effective net finance expense	**(162.9)**	**(108.5)**

[1] Affected by movement in RPI between January 2021 and July 2021
[2] Affected by movement in CPI between January 2021 and July 2021
[3] Affected by movement in RPI between July 2020 and January 2021
[4] Adjusted to overlay the impact of inflation swaps

Derivative analysis

At 30 September £m	2021	2020
Derivatives hedging debt	417.3	652.4
Derivatives hedging interest rates	(93.6)	(180.8)
Derivatives hedging commodity prices	48.1	2.2
Total derivative assets and liabilities	**371.8**	**473.8**

- Derivatives hedging debt; hedge our non index-linked debt into sterling, floating interest rate debt. Typically these are designated in fair value hedge accounting relationships.
- Derivatives hedging interest rates; the majority fix our sterling interest rate exposure on a 10 year rolling average basis. 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. 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.
- 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 2021	31 Mar 2021	Change (%)
Property, plant and equipment	11,956.3	11,799.0	+1%
Retirement benefit surplus	821.1	689.0	+19%
Other non-current assets	255.7	267.9	-5%
Cash	655.9	744.1	-12%
Other current assets	271.8	254.4	+7%
Total derivative assets	481.3	424.7	+13%
Total assets	**14,442.1**	**14,179.1**	**+2%**
Gross borrowings	(8,462.8)	(8,451.8)	+0%
Other non-current liabilities	(2,754.4)	(2,247.8)	+22%
Other current liabilities	(393.7)	(333.8)	+18%
Total derivative liabilities	(109.5)	(114.7)	-4%
Total liabilities	**(11,720.4)**	**(11,148.1)**	**+5%**
TOTAL NET ASSETS	**2,721.7**	**3,031.0**	**-10%**
Share capital	499.8	499.8	-
Share premium	2.9	2.9	-
Retained earnings	1,849.2	2,192.0	-16%
Other reserves	369.8	336.3	+10%
SHAREHOLDERS' EQUITY	**2,721.7**	**3,031.0**	**-10%**
NET DEBT[1]	**(7,400.8)**	**(7,305.8)**	**+1%**

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

Reconciliation of net debt

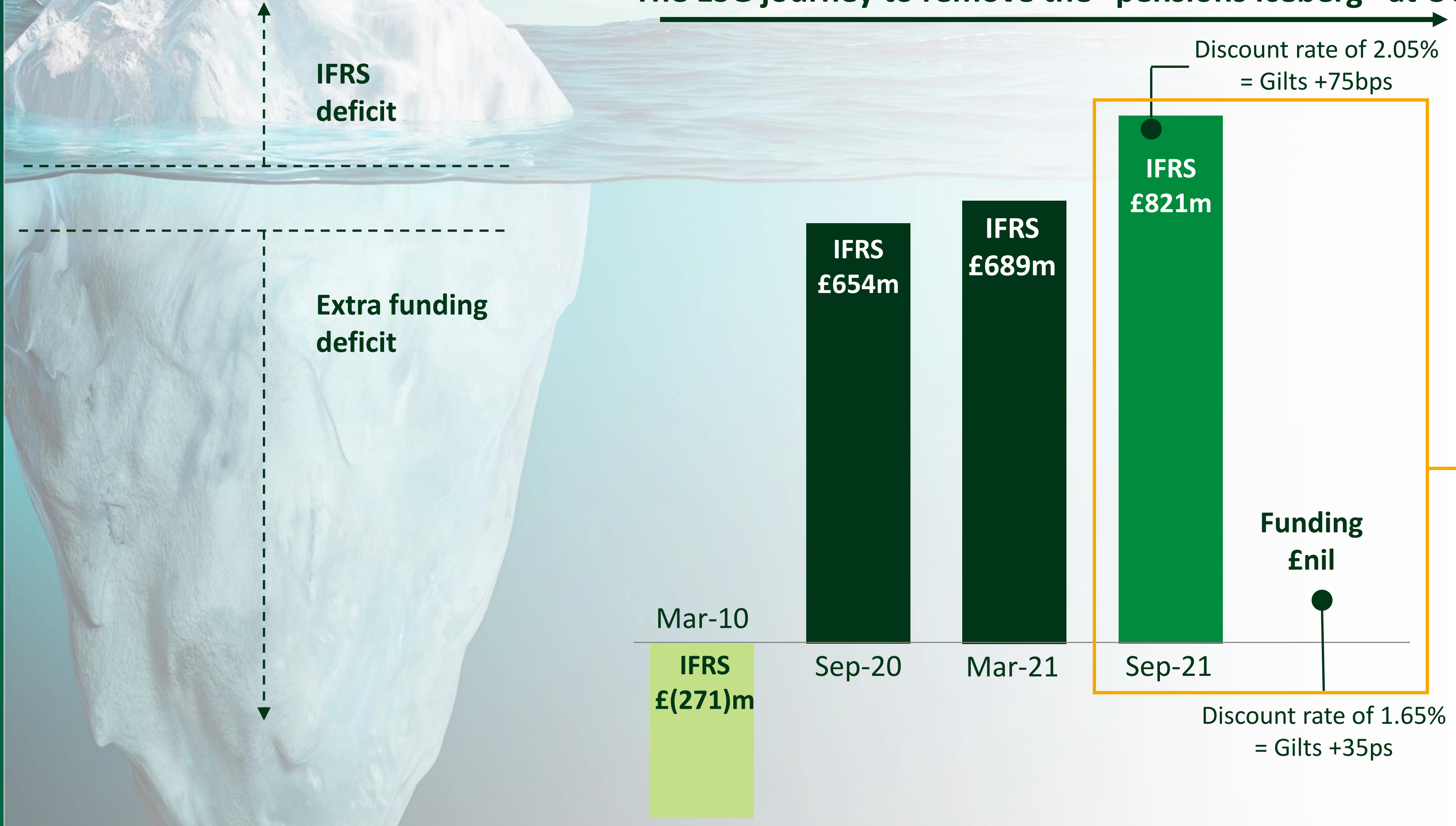
At £m	30 Sep 2021	31 Mar 2021
Cash	655.9	744.1
Total derivative assets	481.3	424.7
Gross borrowings	(8,462.8)	(8,451.8)
Total derivative liabilities	(109.5)	(114.7)
Balance sheet position	**(7,435.1)**	**(7,397.7)**
Exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	49.9	84.6
Inflation derivatives fixing future real interest rates	32.5	13.8
Electricity derivatives fixing future electricity costs	(48.1)	(6.5)
Net debt	**(7,400.8)**	**(7,305.8)**

2021 household debtors reconciliation

As at £m	31 March 2021	31 March 2020
Household net debtors	77.6	77.5
Household accrued income	69.4	54.6
Non household net debtors	28.6	37.9
Other sundry net debtors	48.1	31.3
Total net debtors (including related parties)	**223.7**	**201.3**
Less related party debtors	(40.4)	(52.7)
Less total accrued income	(87.9)	(72.1)
Net debtors per UUW statutory accounts	**95.4**	**76.5**

Pensions

The ESG journey to remove the "pensions iceberg" at UU

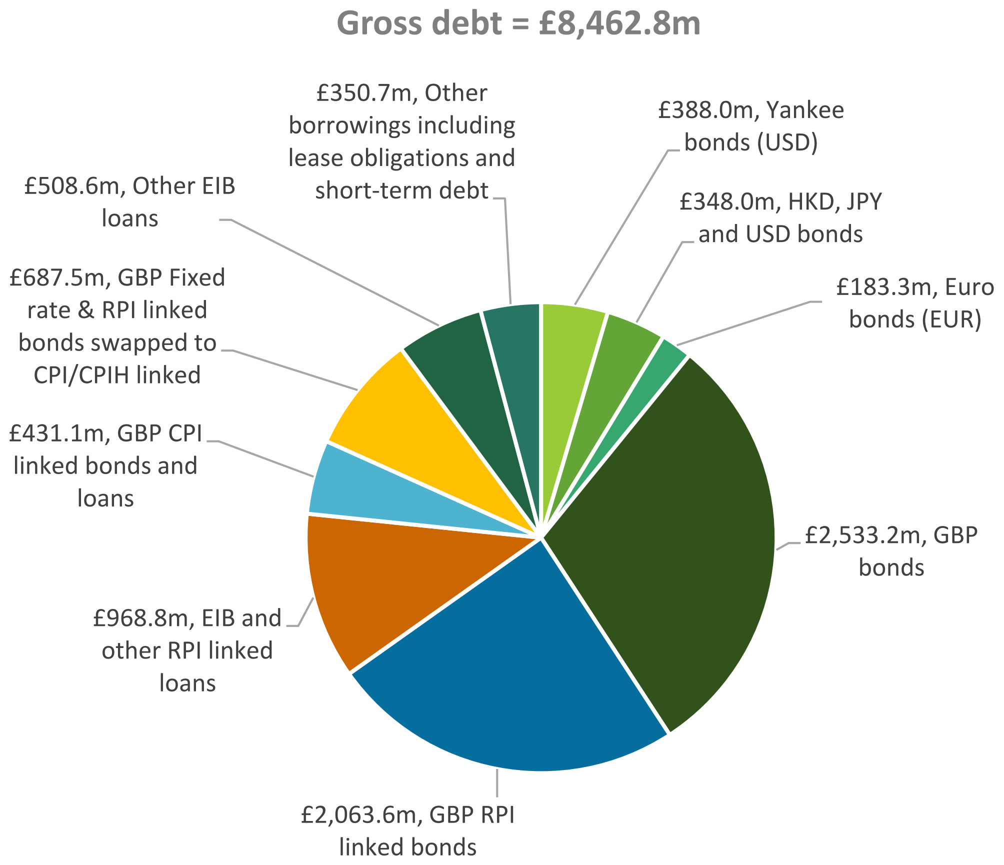


Position today

Pension scheme **fully funded** on a **low dependency** basis with no further pension deficit contributions due

Strong position consistent with the Pensions Regulator's **fast track** classification

Financing and liquidity at 30 September 2021



Headroom / prefunding = £655.3m

	£m
Cash and short-term deposits	655.9
Medium-term committed bank facilities[1]	650.0
Short-term debt	(71.7)
Term debt maturing within one year	(578.9)
Total headroom / prefunding	**655.3**

[1] Excludes £150m of facilities maturing within one year.

Debt structure at 30 September 2021

United Utilities Group PLC

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

Yankees:
- $400m in 28s

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

Euro MTNs:
- £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 £493m[1]
- Other RPI-linked loans £300m[1]
- CPI-linked loans £100m[2]
- Other EIB loans £509m
- Short-term loans £51m
- ¥10bn dual currency loan
- Other sterling loans £126m

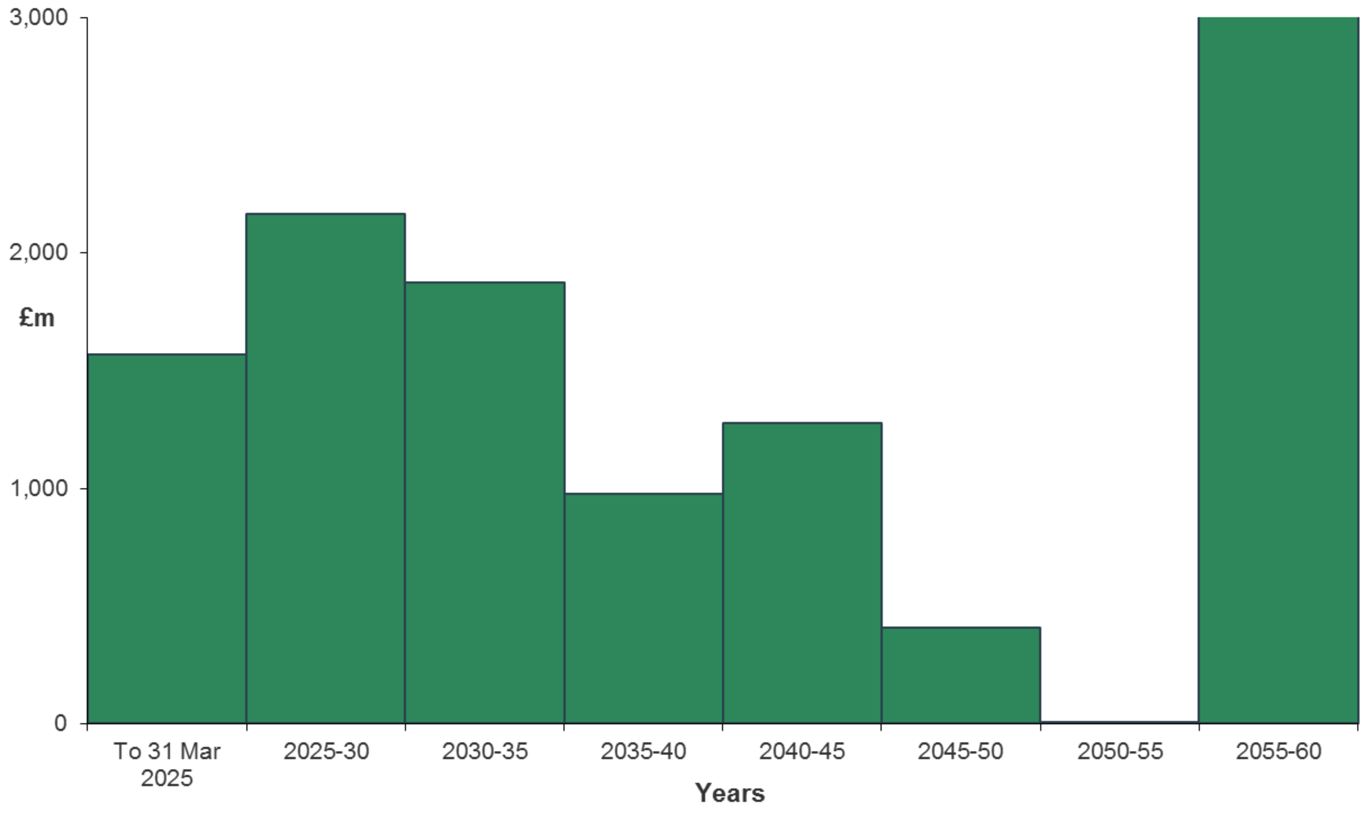
United Utilities Water Finance PLC[6]
Guaranteed by United Utilities Water Ltd

Euro MTNs:
- £450m in 25s
- £25m in 25s[1]
- HK$320m in 26s
- HK$739m in 26s
- €52m in 27s
- HK$830m in 27s
- £20m in 28s[1]
- £300m in 29s[2]
- £35m in 30s[1]
- ¥11bn in 30s
- €30m in 30s
- £425m in 31s[4]
- €30m in 31s
- HK$600m in 31s
- US$35m in 31s
- £38m in 31s[3]
- £20m in 31s[2]
- €28m in 32s
- €26m in 32s
- €30m in 33s
- £350m in 33s[5]
- £27m in 36s[3]
- £29m in 36s[3]
- £20m in 36s[2]
- £60m in 37s[2]
- £250m in 38s
- £125m in 40s[2]
- £300m in 42s
- £32m in 48s[2]
- £33m in 57s[2]

[1] RPI linked finance
[2] CPI linked finance / fixed rate finance subsequently swapped to CPI linked
[3] RPI linked finance subsequently swapped to CPI linked
[4] £100m and £75m fixed rate tranches of this bond have been swapped to CPI linked
[5] Two £50m fixed rate tranches of this bond have been swapped to CPI/CPIH linked
[6] United Utilities Water Finance PLC (UUWF) is a financing subsidiary of United Utilities Water Limited (UUW) established to issue new listed debt on behalf of UUW. Notes issued by UUWF are unconditionally and irrevocably guaranteed by UUW and are rated in line with UUW's credit ratings
[7] Senior unsecured debt ratings published by Moody's; Standard & Poor's; Fitch respectively

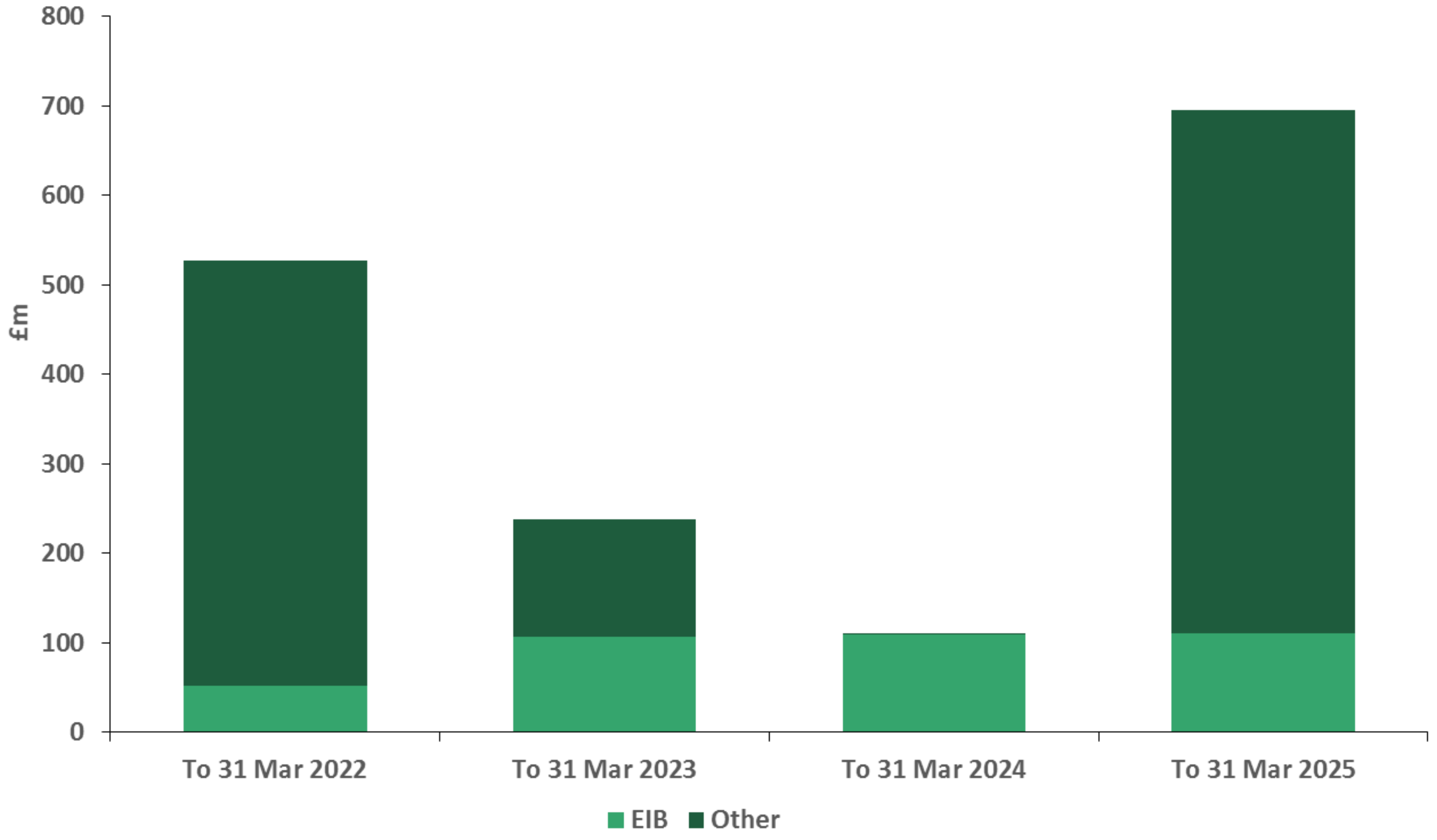
Term debt maturity profile as at 30 September 2021[1]

Average term to maturity of approximately 18 years



[1] Future repayments of index-linked debt include RPI/CPI/CPIH market derived forecasts out to 2025, subsequently transitioning to an average annual RPI rate of 3% and an average annual CPI/CPIH rate of 2%

AMP7 maturity profile

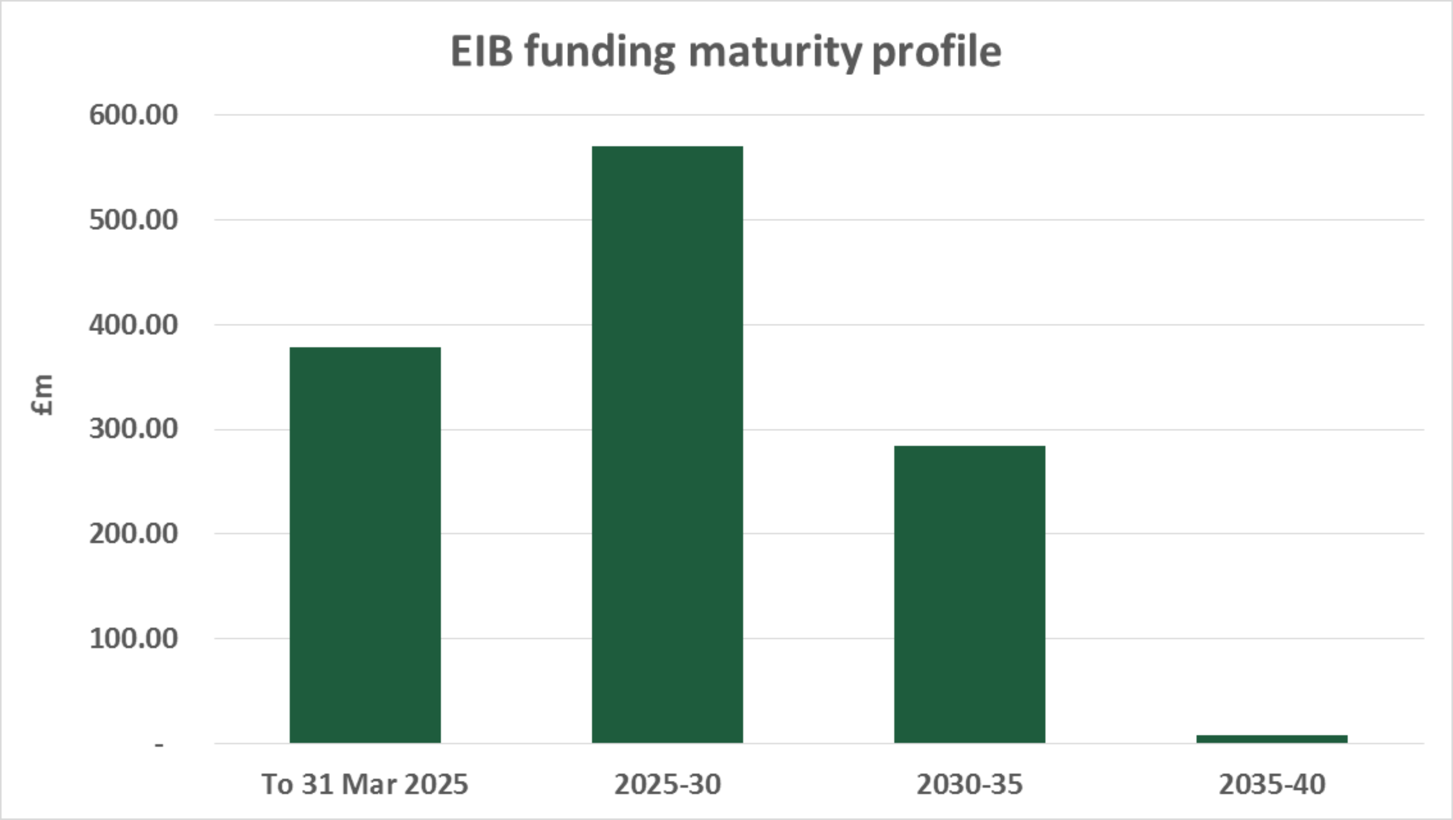


<u>Notes</u>

Future repayments of RPI linked debt include market derived forecasts out to 2025

Light green areas represent EIB debt maturing whereas dark green areas represent other debt maturing.

EIB funding maturity profile

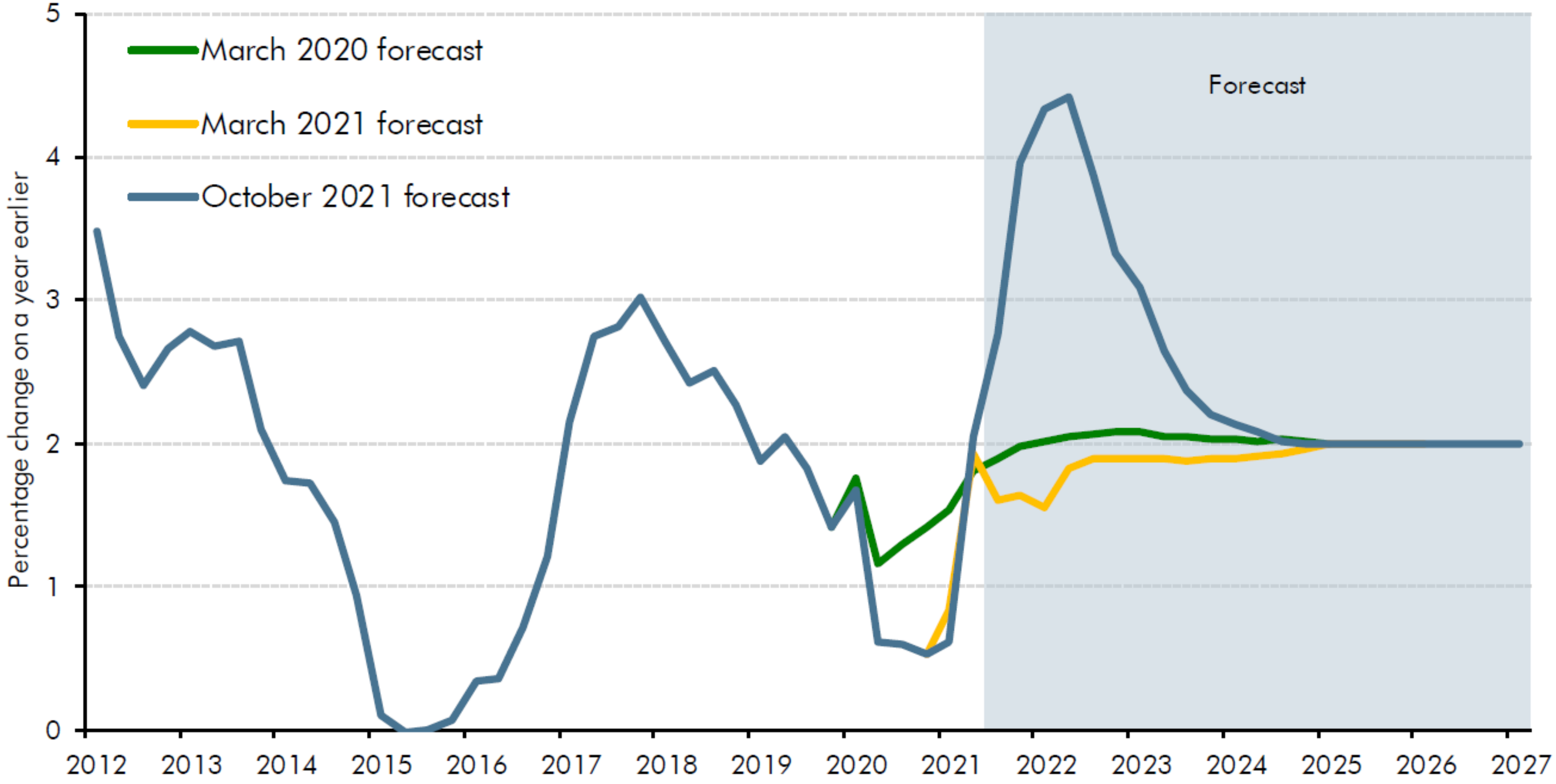


Notes

Future repayments of EIB RPI linked debt include market derived forecasts out to 2025, subsequently transitioning to an average annual RPI rate of 3%

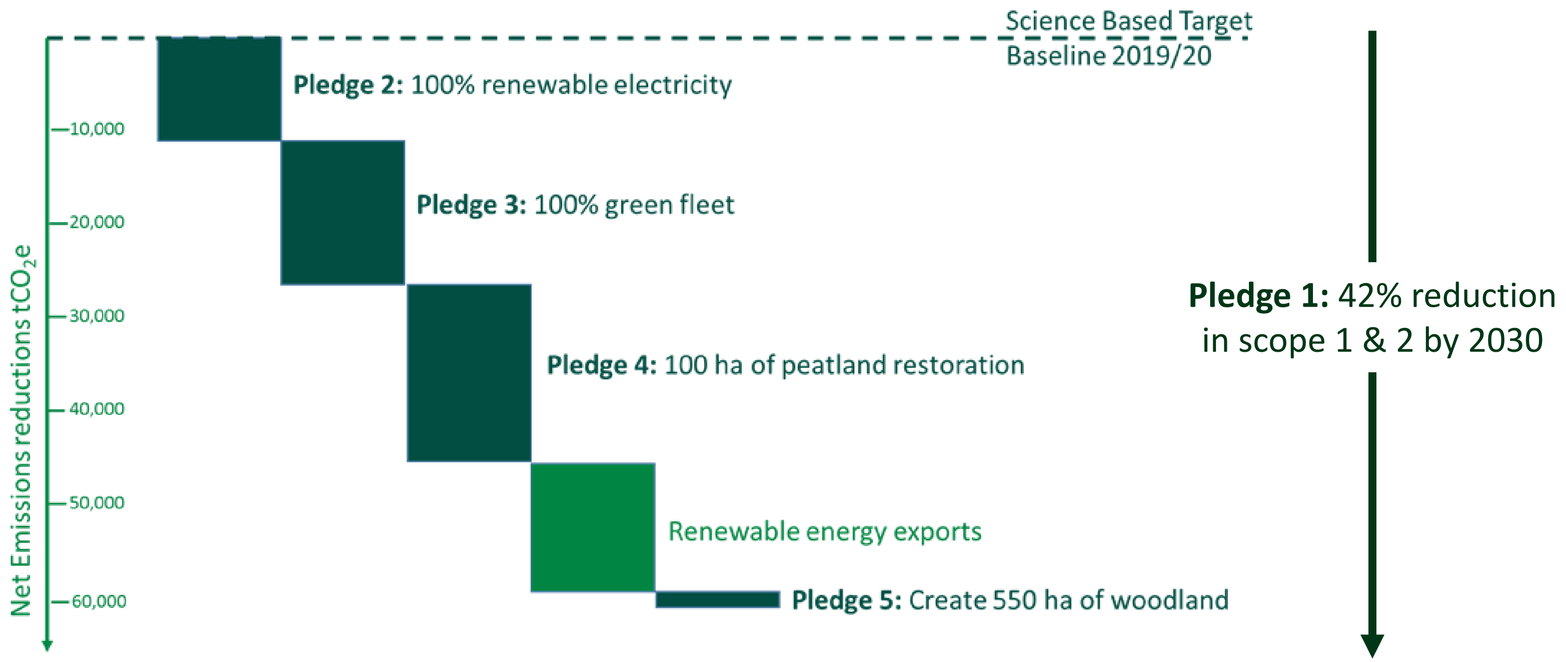
Inflation volatility

Chart 2.29: CPI inflation



Source: ONS, OBR

Mitigating the impact of climate change



On track for **Net Zero from 2030**

First in sector to secure SBTi approval for targets (pledge 6)

BUSINESS AMBITION FOR 1.5°C

RACE TO ZERO