



United Utilities Group PLC

Half year results
Six months ended 30 September 2017



Chief Executive

Steve Mogford

Good morning ladies and gentlemen and welcome to our half year results presentation.

We're now half way through this regulatory period and attention is turning to the next price review, PR19 and the business plans to be submitted to Ofwat next September. Our strategy has been one of active engagement with Ofwat in the formulation of its methodology for PR19, taking the learning from the current regulatory period in which many new aspects of water regulation were applied for the first time, such as outcome delivery incentives or ODIs. This morning I'll take you through a number of features of the developing methodology for PR19 and look at our positioning ahead of the review. This falls into four broad categories.

Good foundations for PR19

Customer focus

First customers.

On joining the company just under seven years ago, I recognised that our standards of customer service fell well short of what customers should expect. We set about changing the culture of the business to one that is customer led and I am proud of the enormous progress we have made with us now a leader among our peers.

Good foundations for PR19

Customer focus

Integrity

Second, integrity is a key value for us and behaving responsibly runs as a thread through everything we do. Our region, which suffers from the highest levels of socioeconomic deprivation in the country, demands high levels of innovation in customer engagement and support and we are again leaders in this field.

Good foundations for PR19

Customer focus

Integrity

Operational
performance

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Third operational performance.

We have shifted the company from being what was once described to me as a 'sleeping giant' to being one of the leading performers in the sector. Building on the progress made in AMP5, we set out at the beginning of this regulatory period to accelerate, or in other words front end load, investment to deliver improvement across our business. This strategy has paid off and we are delivering the operational efficiencies and system performance necessary to outperform our regulatory settlement for AMP6 and to position us well for AMP7. For customers, the system and performance improvements we have made are delivering greater value through higher levels of service performance and resilience.

Good foundations for PR19

Customer focus

Integrity

Operational
performance

Innovation

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And finally, innovation.

In a sector perceived to be introspective, we look forward and out. Our novel operating concept, Systems Thinking, leverages experience from many other sectors in taking a holistic approach to delivering digital and technology-enabled operational capability centred in our Integrated Control Centre in Warrington. We will deliver the savings baked into our AMP6 business plan from using Systems Thinking and we have plans to build on this for AMP7. We are active finders and exploiters of innovation, recently opening an innovation centre for rapid evaluation of ideas from companies around the world.

For us, tomorrow has to be better than today and so there is always more that we can, and will do. I'm delighted that our achievements over the last six months underpin our continuing status as a sector leader.

I will cover these points in more detail shortly but first I'll hand over to Russ to take you through our performance in the first half of the year.

Chief Financial Officer

Russ Houlden

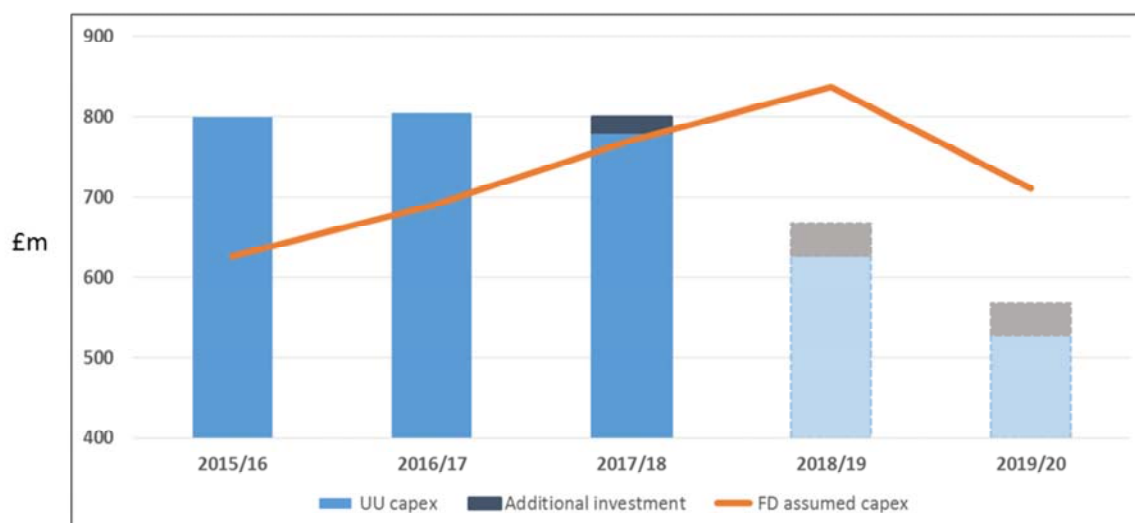


Thank you Steve.

I'll start with an update on our investment programme.

Net regulatory capital spend profile

Investing in resilience



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

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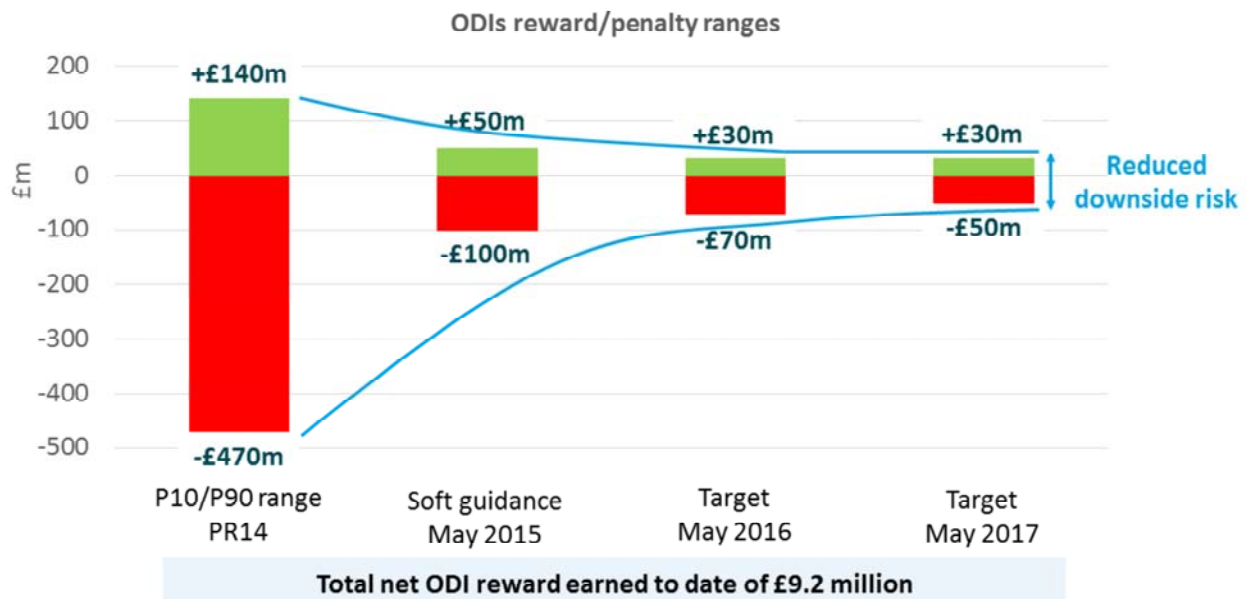
As we've said previously, we entered this five year regulatory period with a clear strategy of accelerating investment to deliver operational improvements. This chart shows how much we have accelerated our regulatory capex compared with the assumptions contained in our final determination.

We have invested £394 million in the first six months of the year and expect to invest around £800 million for the full year. This will include the first £20 million of the additional £100 million of investment that we announced in May, funded through our net outperformance against the regulatory contract. The additional investment is targeting projects not covered by the PR14 settlement with the objective of improving resilience for the benefit of customers, an area in which we are taking a leading position in the industry.

Our high level of investment has been achieved with continued highly effective and efficient capital delivery across our large and diverse capital programme, meeting our upper quartile efficiency targets for AMP6. This is reflected in our internal time, cost and quality index measure, or TCQi, which continues to track above 90 per cent so far this year.

ODIs – AMP6

On track to meet our targets



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One of the reasons we decided to accelerate our planned investment in this regulatory period was to mitigate the risks reflected in our ODIs that were heavily skewed towards the downside. As you can see from this chart, which you may recall from previous presentations, the acceleration has been a success in that we have de-risked a number of our ODIs earlier than would otherwise have been the case and also captured potential rewards.

Based on our current performance, we are confident of achieving an outcome within the range shown on the slide and, if there are no surprises during the winter, we hope to reduce the downside risk further when we provide an update at our full year results in May.

Now turning to our financial performance.

Reported income statement

Current year fair value gains and one-off tax credit in prior year

Six months ended 30 September	2017	2016
£m		
Revenue¹	876.0	853.0
Operating expenses	(348.9)	(371.4)
EBITDA	527.1	481.6
Depreciation and amortisation	(185.3)	(178.0)
Operating profit	341.8	303.6
Investment income and finance expense	(104.6)	(168.0)
Profit on disposal of non-household retail business	-	20.9
Share of profits of joint ventures	5.1	1.9
Profit before tax	242.3	158.4
Taxation	(44.9)	44.2
Profit after tax	197.4	202.6
Basic earnings per share (pence)	28.9	29.7
Interim dividend per ordinary share (pence)	13.24	12.95

¹ UU Water appointed: £856m, UU Water non-appointed: £4m, Non UU Water: £16m (H1 2017/18)
 UU Water appointed: £840m, UU Water non-appointed: £4m, Non UU Water: £9m (H1 2016/17)

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The group has delivered another good set of results for the six months to 30 September 2017.

In line with ESMA and FRC guidelines, I will begin by looking at our IFRS reported numbers.

Reported operating profit of £342 million was up £38 million, mainly due to our allowed regulatory revenue increases, income from property sales and lower operating costs.

Reported profit before tax of £242 million was up £84 million, reflecting the increase in operating profit and fair value gains in the current year versus fair value losses in the first half of 2016/17. Last year also included a one-off £21 million profit on disposal relating to the Water Plus JV.

Reported profit after tax of £197 million was down £5 million and reported EPS was down 3 per cent as the prior year included a deferred tax credit relating to changes in the Government's future planned tax rate.

Underlying income statement

Good financial performance

Six months ended 30 September	2017	2016
£m		
Revenue¹	876.0	853.0
Operating expenses	(276.9)	(290.3)
Infrastructure renewals expenditure	(69.8)	(72.2)
EBITDA	529.3	490.5
Depreciation and amortisation	(185.3)	(178.0)
Operating profit	344.0	312.5
Net finance expense	(154.8)	(125.4)
Share of profits of joint ventures	5.1	1.9
Profit before tax	194.3	189.0
Taxation	(34.2)	(37.5)
Profit after tax	160.1	151.5
Earnings per share (pence)	23.5	22.2
Interim dividend per ordinary share (pence)	13.24	12.95

¹ UU Water appointed: £856m, UU Water non-appointed: £4m, Non UU Water: £16m (H1 2017/18)
 UU Water appointed: £840m, UU Water non-appointed: £4m, Non UU Water: £9m (H1 2016/17)

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Now let's turn to the underlying income statement, which we believe is more representative of underlying business performance. The detailed adjusted items are shown in the profit after tax reconciliation in the appendix to this presentation.

Revenue of £876 million was up £23 million, largely reflecting our allowed regulatory revenue increases and income from property sales, partly offset by the accounting impact in last year's results of our Water Plus JV which completed on 1 June 2016.

Underlying operating profit of £344 million was up £32 million. This reflects the increase in revenue coupled with lower operating costs, which I will discuss on the next slide.

Underlying profit before tax of £194 million was £5 million higher, as the increase in underlying operating profit, alongside a £3 million increase in our share of joint venture profits, was largely offset by a £29 million increase in the underlying net finance expense due to higher RPI inflation on our index-linked debt.

Underlying profit after tax of £160 million was up £9 million and underlying EPS increased by 6 per cent, reflecting the increase in underlying profit before tax plus slightly lower underlying tax due to the reduction in the headline rate of corporation tax.

Underlying operating costs

Sustainable cost reductions

Six months ended 30 September £m	2017	2016	Movement
Revenue	876.0	853.0	
Employee costs	(72.6)	(72.7)	0.1
Hired and contracted services	(46.1)	(45.5)	(0.6)
Property rates	(42.6)	(47.2)	4.6
Materials	(32.6)	(34.2)	1.6
Power	(31.9)	(33.2)	1.3
Bad debts	(14.8)	(17.7)	2.9
Regulatory fees	(14.9)	(16.4)	1.5
Third party wholesale charges	-	(3.0)	3.0
Cost of properties disposed	(7.7)	(4.5)	(3.2)
Other expenses	(13.7)	(15.9)	2.2
	(276.9)	(290.3)	13.4
Infrastructure renewals expenditure (IRE)	(69.8)	(72.2)	2.4
Depreciation and amortisation	(185.3)	(178.0)	(7.3)
Total underlying operating expenses	(532.0)	(540.5)	8.5
Underlying operating profit	344.0	312.5	
<u>Adjustments:</u>			
Flooding incidents (net of insurance proceeds)	0.1	(0.9)	
Non-household retail market reform ¹	(1.0)	(3.4)	
Restructuring costs	(1.3)	(4.6)	
Reported operating profit	341.8	303.6	

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

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Our final determination represented a challenge to achieve upper quartile efficiency which we are meeting partly through sustainable cost reduction and cost avoidance measures across the business. Notwithstanding the growth in our asset base, allowing for inflation, our controllable costs are around 10 per cent below the position in 2010, and in the first half of the year, we have again controlled our cost base against a backdrop of rising inflation with a £9 million reduction in underlying operating costs compared with last year.

This reduction is the result of an expected £7 million increase in depreciation being more than offset by a £16 million decrease in the remaining cost base. Of this, £5 million was property rates because of a one-off refund following our 2005 rates appeal, £3 million was a reduction in our bad debt charge and £3 million was a reduction in third party wholesale costs.

Bad debt and cash collection

Sustainable improvement

- Household bad debt as a percentage of regulated revenue reduced to 2.5% for H1 2017/18 from 2.8% for H1 2016/17
- Cleaner debt book
- Successful billing and collections initiatives
 - Award winning Town Action Planning
 - Focussed payment reminder letters based on payment history
 - Direct debit penetration of c70%
- 'Water Team of the Year' at the Utilities & Telecoms Awards



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The excellent work undertaken by our customer facing team continues with our household bad debt tracking at its lowest ever level of 2.5 per cent of regulated revenue, an improvement from 2.8 per cent in the first half of last year and 3.0 per cent in the first half of the year before that.

Our bad debt performance has benefitted from the sustained improvement in our cash collection performance which led to a cleaner debt book being brought forward into 2017/18. We are also seeing the positive impact of billing and collections initiatives such as our Town Action Plan which engages with customers face-to-face in our most deprived areas and this initiative alone has contributed to 6,000 customers signing up to agreed payment plans. We have introduced four new payment reminders based on previous payment history that allows us to better differentiate between customers with different payment histories. Additionally, almost 70 per cent of our customers now opt to pay their bills by direct debit plans, up from around 60 per cent three years ago. This allows us to align cash collection with households' income cycles, increasing the certainty of future payments.

We are delighted with this continued improvement and are pleased that our debt management practices were recently recognised with the 'Water Team of the Year' award at the Utilities & Telecoms Awards. We were particularly pleased with this cross sector award as it recognises great performance not just as a company in the water sector, but across service providers from all sectors.

Our sustained improvement has been encouraging but bad debt will remain a challenge in our region of high deprivation and so will be an area of continued focus as we drive for further improvement.

Financial position

Robust capital structure

At £m	30 Sep 2017	31 Mar 2017
Property, plant and equipment	10,589.0	10,405.5
Retirement benefit surplus	219.8	247.5
Other non-current assets	410.0	384.2
Cash	87.6	247.8
Other current assets	311.8	333.4
Total derivative assets	749.7	807.7
Total assets	12,367.9	12,426.1
Gross borrowings	(7,427.8)	(7,384.5)
Other non-current liabilities	(1,658.8)	(1,620.8)
Other current liabilities	(364.8)	(349.5)
Total derivative liabilities	(118.1)	(249.7)
Total liabilities	(9,569.5)	(9,604.5)
TOTAL NET ASSETS	2,798.4	2,821.6
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,967.3	1,991.2
Other reserves	328.4	327.7
SHAREHOLDERS' EQUITY	2,798.4	2,821.6
NET DEBT¹	(6,708.6)	(6,578.7)

¹ Net debt includes cash, borrowings and derivatives (slide 43)

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Turning to the statement of financial position.

Property, plant and equipment was up £184 million and net debt was up £130 million, reflecting expenditure on our large capital programme.

We continue to have an IAS 19 retirement benefit surplus, which I will talk about on the next slide.

Cash and short term deposits were down £160 million compared with March, reducing the cost of carry.

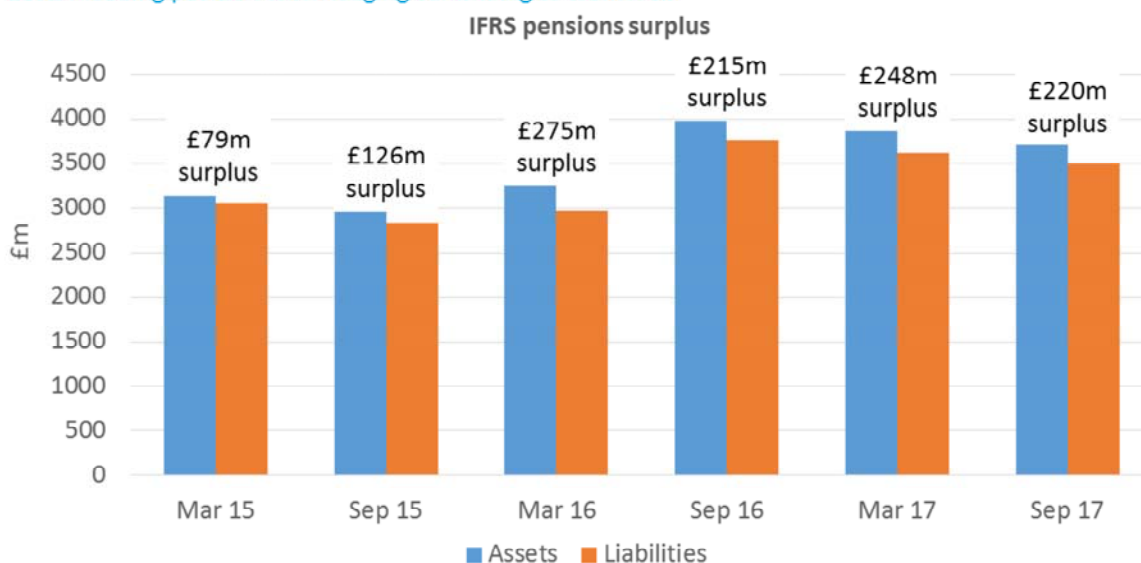
Derivative assets of £750 million were down £58 million, reflecting a strengthening of the pound in the period, particularly against the US dollar. Derivative liabilities of £118 million were down £132 million, reflecting a close out and a re-coupling of a proportion of our regulatory swap portfolio to better align the existing hedging profile with the group's target hedge ratios and to manage swap counterparty positions to facilitate future treasury activity.

Gross borrowings of £7.4 billion were up £43 million, mainly due to debt raised exceeding maturities.

Retained earnings of around £2 billion were down £24 million, largely reflecting retained profits of £197 million offset by dividends of £177 million and post-tax remeasurement losses on our defined benefit pension schemes of £43 million.

Pensions

Sector leading position with hedging continuing to work well



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Now let's take another look at our sector leading pensions position.

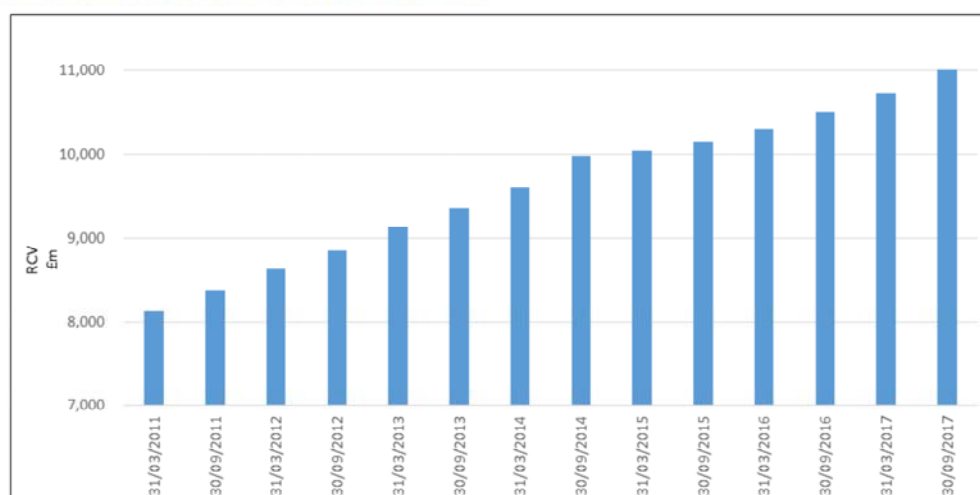
In Ofwat's recent financial resilience report, it was clear that companies are to consider pension liabilities in their assessment of resilience and conclusions on longer term viability. We have a clear hedging policy in respect of our pensions schemes, adopting an asset / liability matching approach to avoid unnecessary risk. This policy continues to work well as you can see from the relative stability of the accounting surpluses we have reported in the last few years of results.

Our pensions position remains strong with an IFRS surplus of £220 million as at 30 September 2017 putting us in a much better position relative to many other FTSE companies. This surplus is £28 million lower than at 31 March 2017 mainly reflecting a decrease in credit spreads over the period.

The best available method for cross-company comparisons of value is normalised IFRS, and this should be used for 'sum of the parts' valuations. The majority of sell-side analysts are now factoring IFRS pensions surpluses and deficits into their valuations and some are now using, and others are considering the use of, normalised IFRS, adjusting for the differences in published assumptions.

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 30/09/2017 = £11,002m.

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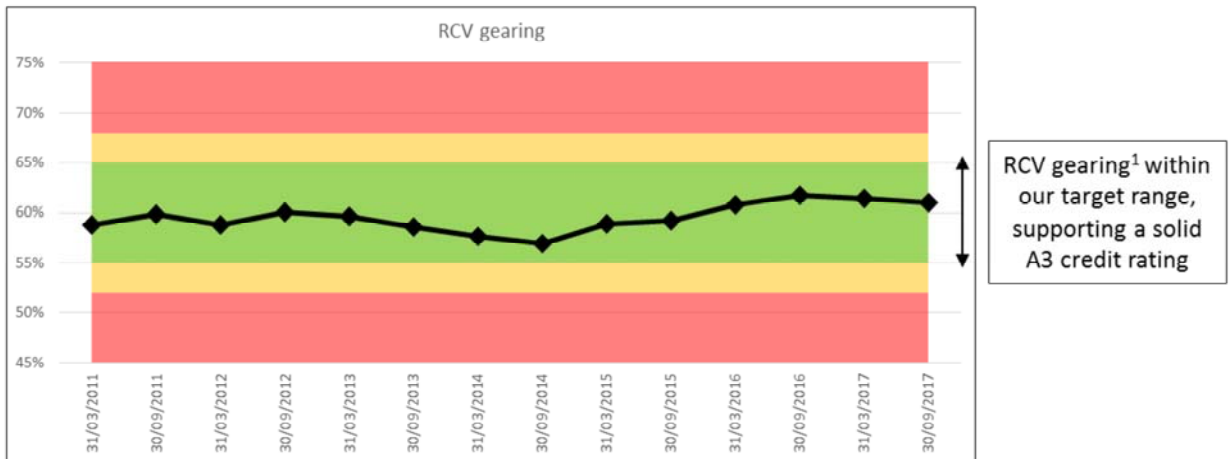
Moving now to our RCV and gearing.

This chart shows the growth in our RCV due to inflation and net additions resulting from our investment. For this regulatory period, the RCV has been adjusted to reflect the acceleration of our investment programme.

Inflation is a key component of our RCV growth and periods of rising inflation have a beneficial impact on such growth. Rising inflation also impacts our income statement most significantly through the inflation uplift on revenues and the finance costs on our index-linked debt. The index-linked debt is used to hedge an element of our RCV, but the RPI effect on this debt goes through the income statement, whereas the RPI effect on the RCV does not. Because our stock of index-linked debt is approximately twice the size of the group's annual revenue, in times of rising inflation, the increase in finance costs is more immediately felt relative to the inflation uplift on revenues. However, in later years, the cumulative effect of the inflation uplift on revenues starts to outweigh the impact of the finance expense on index-linked debt.

RCV gearing

RCV gearing supports robust capital structure



¹ RCV gearing calculated as group net debt / 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 30/09/2017 = £11,002m

This chart shows the movement in RCV gearing over the last few years.

Throughout the period we have remained well within our target range of 55 - 65 per cent, supporting a solid A3 credit rating. We believe this to be a responsible position, targeting consistent credit metrics and helping secure the sustainable, financial resilience of the business for the long-term.

Cash flow statement

Cash from operations covers investing activities

Six months ended 30 September	2017	2016
£m		
Net cash generated from operating activities	411.6	419.7
Net cash used in investing activities	(330.6)	(375.8)
Net cash used in financing activities	(228.4)	(13.7)
Net movement in cash	(147.4)	30.2

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Turning now to cash flow.

Net cash generated from operating activities of £412 million was down £8 million compared with the first half of 2016/17.

Net cash used in investing activities of £331 million was down £45 million, largely reflecting the new loans to our Water Plus joint venture that were included in last year's figures.

Cash used in financing activities of £228 million was £215 million higher, reflecting higher net repayment of borrowings compared with the same period last year.

Financing

Leading the way on CPI debt

- >£1.8bn of c£2.5bn 2015-20 financing requirements already raised

Index-linked

- Total of £100m CPI-linked debt raised previously – first CPI issuance from UK utility sector
- Total of £711m RPI-linked debt raised previously
- Innovative switch replacing long-dated RPI debt with £32m CPI-linked note¹ with 31-year maturity and £33m CPI-linked note¹ with 40-year maturity bringing total CPI-linked issuance to £165m

Nominal

- Total of £911m raised previously
- £104m of private placements raised in October 2017
 - HKD830m private placement note¹ with 10-year maturity
 - EUR28m private placement note¹ with 15-year maturity
- £50m committed bank facilities renewed out to 2022 and £100m extended for a further year out to 2022 since March 2017
- Financing headroom into 2019

¹ Issued off our EMTN programme

Over the 2015-20 regulatory period, we have financing requirements totalling around £2.5 billion, of which we have now raised over £1.8 billion.

We are the sector leader in CPI based financing. Having issued the first ever CPI-linked notes by a UK utility last year, we have increased the CPI-linkage in our debt portfolio further with an innovative switch replacing some long-dated RPI-linked notes with two long-dated CPI-linked notes. This brings our total CPI-linked debt to £165 million, firmly positioning us as a leader in the sector in response to Ofwat's decision to transition away from RPI. We have achieved this through tapping in to some small, attractively-priced pockets of demand.

We have issued two new private placement notes in nominal form under our EMTN programme, raising a total of around £104 million, and we have drawn the remaining £175 million on an existing £250 million loan from the European Investment Bank that we had signed in April 2016.

The RPI / CPI switch, private placement issues, and £75m of the EIB drawdown took place shortly after 30 September and are not therefore included in the statement of financial position as at 30 September.

Since March 2017, we have also renewed or extended £150 million of committed bank facilities, out of a total of £750 million under our rolling bilateral revolving credit facilities programme.

We have financing headroom to cover our projected financing needs into 2019.

Cost of debt and hedging

- Index-linked debt portfolio now c£3.7bn with an average cost of 1.3% real
- Nominal debt portfolio now c£2.9bn fixed for 2015-20 at an average rate of c3.3%¹
- Current policy is to give equity holders roughly 1:1 link to RPI inflation using index-linked debt and IFM
- Future policy reflecting Ofwat's transition to CPIH currently under consideration and assessing a range of factors

¹ Interest rate is inclusive of credit spreads

And finally, an update to our cost of debt and approach to hedging.

The average cost of our £3.7 billion long-term index-linked debt portfolio is 1.3 per cent real, with the most recent issuances at lower rates, reflecting the current interest rate environment.

In respect of our nominal debt, this is virtually all fixed for the 2015-20 period at an average interest rate of around 3.3 per cent.

The low cost of debt that we have locked-in places us in a strong position to deliver financing outperformance up to 2020.

Our current inflation hedging policy is to leave the equity portion of the RCV exposed to RPI inflation by largely hedging the debt portion of the RCV for inflation through index-linked debt and via our pensions inflation funding mechanism, whereby contributions on the unhedged portion of the group's pension scheme liabilities are flexed reflecting movements in RPI.

As we've said previously, we are considering the best overall hedging response to Ofwat's proposed transition from RPI to CPIH. In doing so, we will be making a balanced assessment across a range of factors including maintaining an appropriate economic hedge of the RCV and associated cash flows, the availability and costs of hedging instruments, the impact of different hedging strategies on key financial indicators including income statement metrics, along with a consideration of broader sector positioning. This review will also take account of our progressive pensions de-risking strategy that has worked so well. We aim to conclude on this in 2018 once we have the final methodology for PR19.

Financial summary

Key takeaways

- Good set of results maintaining tight cost control and on track to meet targets
- Higher RPI delivers further growth in RCV and beneficial impact on earnings in later years
- Sector leading pensions position with hedging continuing to work effectively
- Robust capital structure providing financial resilience
- Over two thirds of 2015-20 funding requirements already raised
- Leading the development of a CPI-linked debt market, with £165m issued to date
- Debt and swap portfolio locks in outperformance
- Hedging policy means we are well placed to manage future financing costs

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So, in summary:

- This is another good set of results in which we have continued to maintain tight cost control and we remain on track to meet our totex and ODI targets for the full AMP.
- The increase in RPI inflation has delivered further growth in our RCV and the cumulative impact of inflationary increases in revenue will outweigh the immediate impact of the higher financing charge on our index-linked debt
- We are taking a sector leading position on pensions and on the transition from RPI to CPIH
- Our robust capital structure and hedging policies provide financial resilience and lock in outperformance

Now I'll hand you back to Steve.

Successful implementation of AMP6 strategy

Delivering totex efficiencies and operational improvements

Value for customers

- Better service
- Improved resilience

Value for shareholders

- Upper quartile totex efficiency
- Mitigation of ODI risk and earned rewards
- Financing outperformance

Sharing of outperformance

- £100m additional investment to date

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Thank you Russ.

You may recall me advising you when we accepted our AMP6 final determination that we did so considering the package in the round. Totex was around £600 million lower than our original plan submission, representing a challenge to achieve upper quartile efficiency. ODIs were skewed to the negative, reflecting customer preference and the imposition of upper quartile targets on a number of common ODIs late in the review cycle. This was offset by the potential to outperform on financing.

Management's objective was therefore to find totex efficiencies so that we end AMP6 at least at upper quartile efficiency. We decided to accelerate our investment programme to capture earlier than planned operational improvements thereby delivering upper quartile performance as early as possible in the period, mitigating ODI risk, and earning rewards where possible.

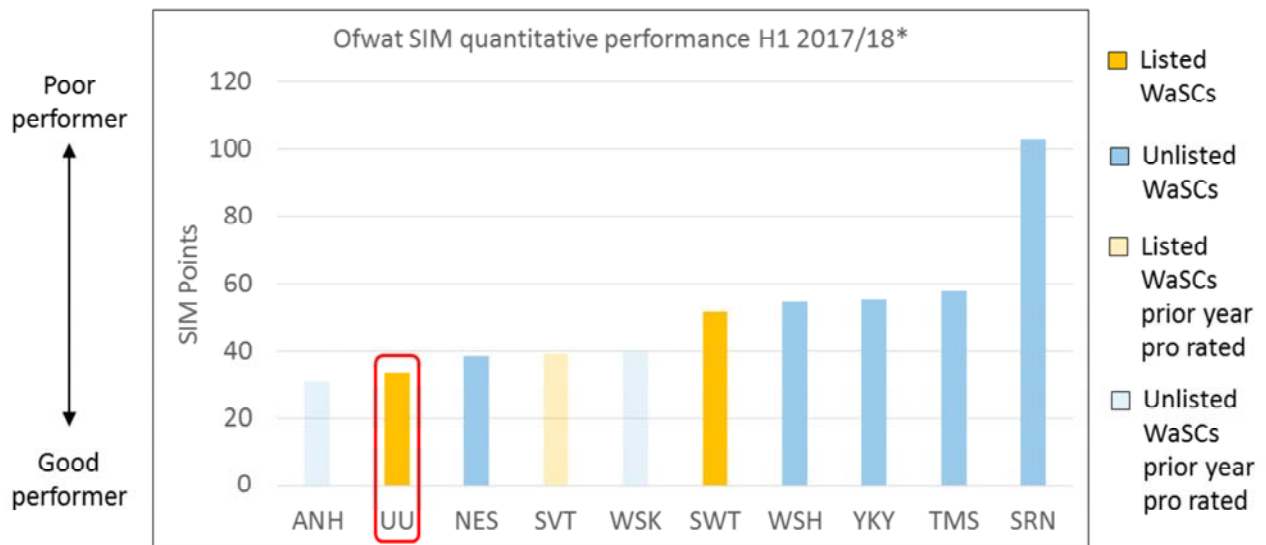
As you will see, this strategy is paying off in delivering:

- value for customers through better service at higher levels of resilience,
- value for shareholders through achieving upper quartile totex efficiency, mitigation of ODI risk and financing outperformance, and
- creating the opportunity for sharing of outperformance between customers and shareholders with £100 million of additional investment announced to date in enhanced resilience measures.

I will start with customers.

Customer satisfaction – SIM quantitative

Marked improvement in quantitative SIM scores



* Quantitative SIM for waves one and two of 2017/18 is based on a datashare of 7/10 water and wastewater companies

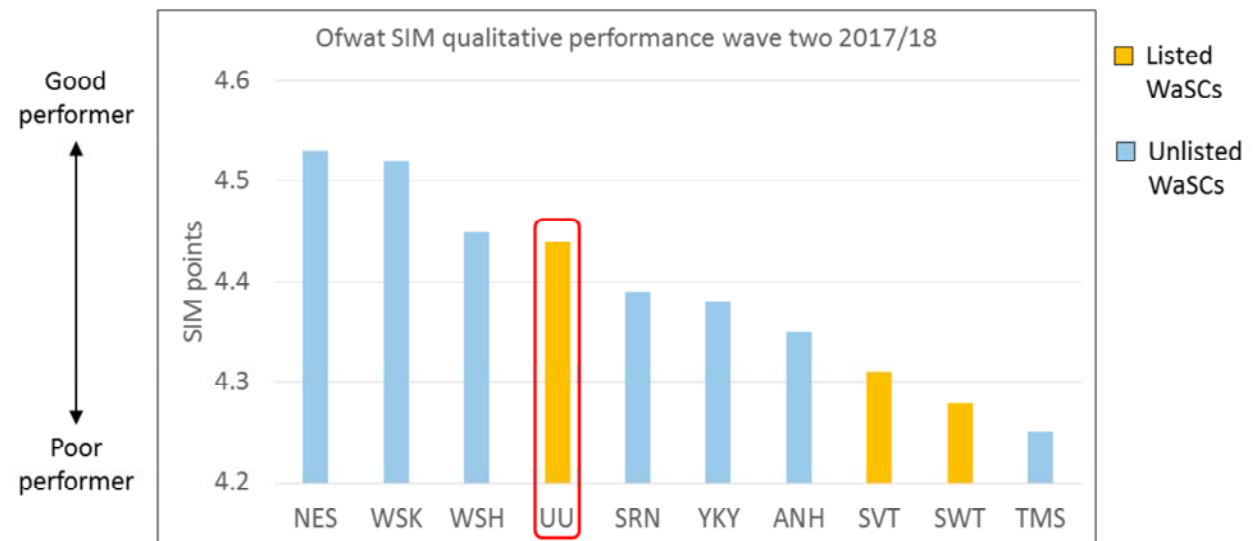
Since commencing our drive to put customers first, we have moved from being the worst performer in the sector to one of the best. Ofwat’s metric for customer satisfaction is the Service Incentive Mechanism, SIM, and this slide shows the quantitative SIM performance for the water and wastewater companies over the first half of this year. All but three companies data share so we have simply used last year’s score pro rata for the half year for those that don’t share.

Over the first half, complaints have reduced by 22 per cent year on year with almost 50 per cent fewer customers needing to contact us a second time – a remarkable achievement given the challenge in dealing with the deprived community we serve.

We will receive the full data share at the end of the year but we are delighted with what we have achieved so far.

Customer satisfaction – SIM qualitative

Improving customer service offering



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This slide shows the latest qualitative SIM score for the water and wastewater companies, measuring how satisfied customers are with the way their contact was handled. This score is more volatile but we are pleased to see a significant improvement over our average for the last regulatory period and considerably ahead of our listed peers.

There is no single action delivering these improvements. They are derived from a determination to understand causes of customer dissatisfaction and fix them. Since the start of this regulatory period:

- we've expanded the contact channels for customers. We have a sector leading 750,000 customers registered for online account management, with 43 per cent of inbound contacts using digital and self-service channels;
- we've reduced the average response time from 10 to 2 days; and
- as Russ mentioned earlier, we now have almost 70 per cent of customers paying on a direct debit plan.

And we don't just use SIM to measure satisfaction. We encourage customers to provide us with direct feedback on every call and our quarterly customer survey continues to show us up there with John Lewis and Marks and Spencer in terms of positive disposition toward us.

Looking forward to PR19, SIM's use as an incentive will end in year 4 of AMP6 and for AMP7, Ofwat is consulting on a new domestic customer satisfaction metric, C-MeX which will depend much more on general customer sentiment rather than complaint handling only. The incentive scheme associated with C-MeX may also be greater than applied to SIM and so building strong and positive customer sentiment becomes increasingly important.

Ofwat also proposes to introduce D-MeX which is intended to apply to our service to developers only and industry may be piloting both new measures before the end of this regulatory period.

When SIM was first introduced, it was unclear how it would evolve but we have shown our strength in becoming one of the best in the sector. The positive customer sentiment we have built should position us well under the new customer measures.

Responsible business

Behaving responsibly for all stakeholders

Customers

- Doubling the number of customers helped with affordability challenges
- Leading on multi utility approach to Priority Services
- £100m additional investment in AMP6 sharing outperformance

Regional economy

- Continuous engagement with customers
- High degree of investment in the region

Governance

- Award winning transparent reporting
- Retained Dow Jones Sustainability Index World Class status for 10th consecutive year
- Responsible approach to gearing, pensions and financial risk management

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As I mentioned earlier, acting responsibly runs as a thread through everything we do.

We serve the largest, most deprived community in the country and we have a wide range of schemes to help those customers who are struggling to pay. Through our efforts to reach out to this community, we now expect to double the number of customers receiving support from the 50,000 anticipated at the start of AMP6.

Our Priority Services scheme offers tailored support for customers suffering health, mental or affordability difficulty. This innovative scheme is frontier in our sector and we have 45,000 customers registered for the service. The success of this scheme has led to us being asked to lead for our sector in developing a multi utility approach to Priority Services. We were delighted to be recognised for our work with the 'Excellence in Treating Customer Vulnerability' accolade from the prestigious Credit Awards earlier this year.

In terms of our region, we are continuously engaging with our customers to understand their needs and we are investing around £3.6 billion pounds in this regulatory period alone. We are deeply embedded in the communities we serve and have thriving apprentice and graduate schemes.

On governance, our strong credentials for our transparent reporting have received recognition and we were again awarded World Class status in the Dow Jones Sustainability Index this year - our tenth consecutive year. We take a responsible approach to gearing, pensions and financial risk management.

We approach PR19 as a responsible business, very conscious of the many challenges our customers face, and playing our part in helping them through difficult times.

Continuous development of regulation at PR19

PR14 marked a change in approach to regulation that will continue to evolve

- Sustainable cost reductions and improved contractor pricing delivering c£600m savings against our original business plan
- Drive for wholesale econometric models to better reflect genuine cost drivers at PR19
- Proposal for household retail price control at PR19 to be based on econometric models, moving away from average cost to serve

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Moving to operational performance.

As we've already mentioned, our final determination represented a challenge to achieve upper quartile efficiency through the delivery of around £600 million of savings against our plan. We have found these savings through sustainable cost reduction measures across the business and improved contractor pricing particularly on our capital projects, and this level of efficiency forms the baseline for our PR19 plan.

You will recall there was some criticism of Ofwat's wholesale econometric models for PR14. We have taken a constructive approach and have provided analysis from third parties to help demonstrate how totex models can be designed to better represent genuine cost drivers and have presented this to the industry and Ofwat through working groups and the available consultation channels. We are hopeful that this work will be helpful in reducing discussion about model inadequacies in the forthcoming price review.

A similar dialogue has taken place for household retail where the price control at PR19 may be based upon econometric modelling of the cost drivers of providing the service, moving away from average cost to serve. Once again, we believe that the use of such models would better reflect cost drivers and lead to a higher quality dialogue in arriving at the household retail price control.

ODI reset

Lessons learned from AMP6

- ODIs have incentivised company behaviour
- Cross sector comparisons require harmonised performance measurement methodologies
- Incentives to be reset with greater consistency required
- ODIs are not a proxy for operational efficiency

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You will know that outcome delivery incentives were a new feature for PR14 and that Ofwat intends to use them again in PR19. For PR14, each company was invited to create their own ODIs and to propose targets and incentive levels that reward or punish companies based upon their performance against those targets. In the latter part of the PR14 process, Ofwat intervened on a small number of similar ODIs to impose targets that reflected upper quartile sector performance, overriding the companies' proposals.

So what have we learned for PR19?

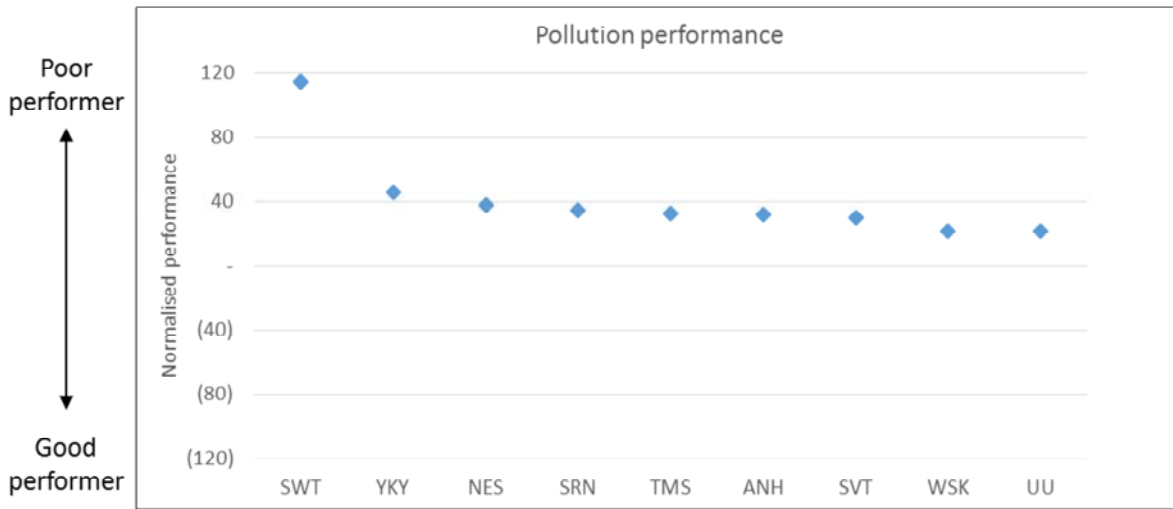
- First, it is clear that ODIs have changed company behaviours. Set appropriately, the incentives have caused companies to focus on performance improvement with a vigour that they might not otherwise have done.
- Second, comparable cross sector performance requires companies to measure performance consistently. This is not currently the case and work is ongoing to harmonise the methodologies to be used by companies for the purpose of performance reporting and ODIs in the next regulatory period.
- Third, rather than rewarding incremental performance by companies, ODI incentives will be re-set in the context of a company's gap to upper quartile performance and more consistent with incentives awarded to others in the sector.
- Fourth, for the reasons stated above, as currently constructed ODIs are not a proxy for operational efficiency. It does not follow that ODI rewards in AMP6 reflect upper quartile performance.

I'll illustrate this with an example.

ODI reset

◆ Normalised pollution performance

Illustrated example – pollution performance



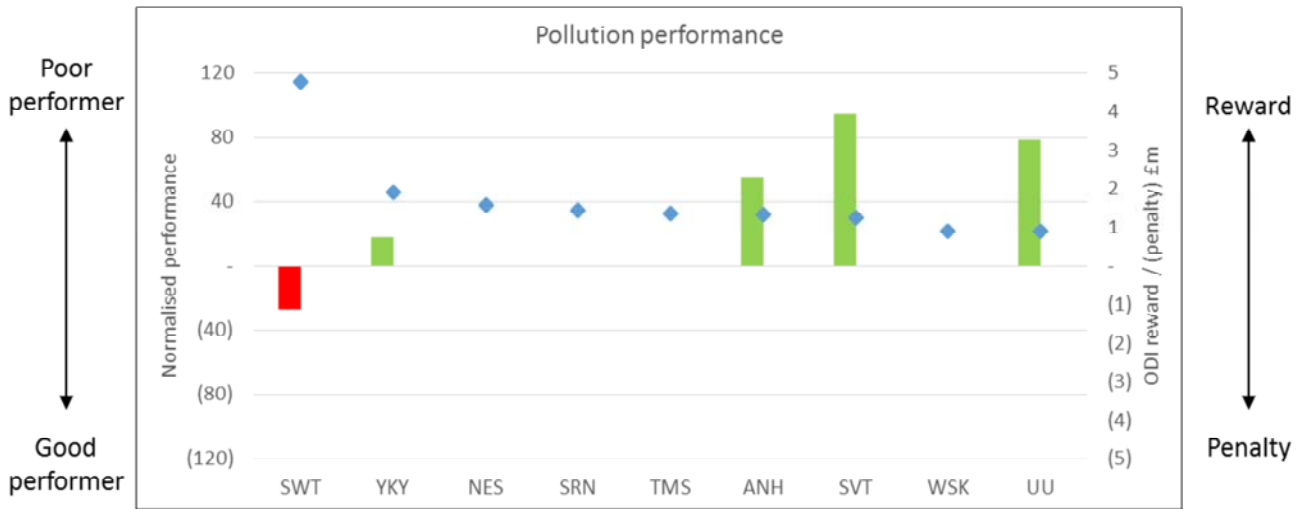
Normalised performance based on the Environment Agency's Environmental Performance Assessment 2016 category 1-3 pollution incidents per 10,000km of sewer (excludes Welsh Water). ODI position taken from company specific Annual Performance Reports 2016/17.

We have considered an ODI used by all but one of the water and wastewater companies; pollution performance. The blue diamonds on this slide show the normalised pollution performance for each company last year.

ODI reset

Illustrated example – pollution performance

- ◆ Normalised pollution performance
- ODI reward
- ODI penalty

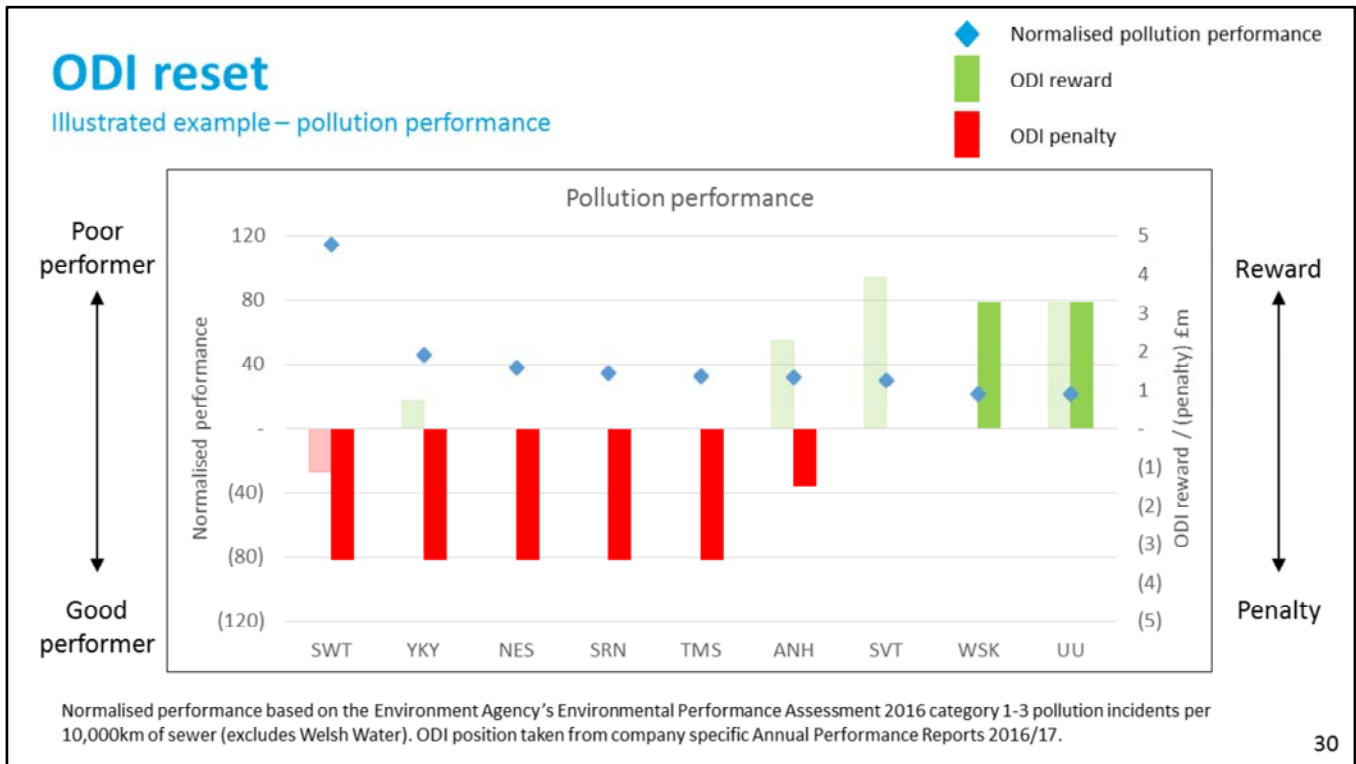


Normalised performance based on the Environment Agency's Environmental Performance Assessment 2016 category 1-3 pollution incidents per 10,000km of sewer (excludes Welsh Water). ODI position taken from company specific Annual Performance Reports 2016/17.

The green or red bars show the associated reward or penalty for their performance.

You can see that we earned a reward of circa £3 million for frontier performance with others earning more or less due to the way their incentive works.

Now let's look at the same relative performance through another lens.



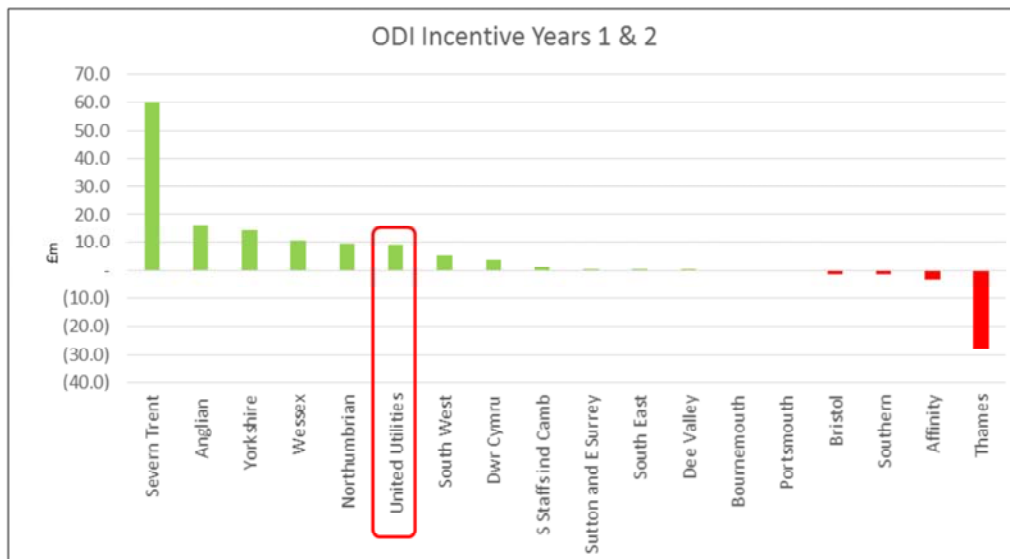
The chart now shows the reward or penalty that each company would have earned if we had all been measured against UU's ODI target and using our incentive structure. As you can see, the result would be very different, with only one other company due a reward and the majority in penalty.

I make no apology for using a key measure for which we represent frontier performance, albeit this is one area in which Ofwat is proposing to implement common measures with upper quartile targets in AMP7. Of course, there are hundreds of ODIs in use for AMP6 and we have not attempted a cross sector comparison for them all. For those we have checked, a similar picture emerges. This is complicated by the fact that each company measures things differently and there was previously less need for absolute consistency cross sector. In the past, performance improvement was judged more on a single company basis only.

The next slide shows the total rewards / penalties for each company by the end of year two of AMP6.

ODIs – company comparison

Strong performance to date



Whilst we are living with these anomalies in AMP6, the inconsistency in targets and incentives is not material in this regulatory period as, recognising the challenge of coherency, Ofwat capped ODIs at plus or minus 2 per cent of RORE.

As you can see, with two exceptions, the rewards / penalties to date for companies are quite modest, sitting within a range of circa £5 million negative to £15 million positive and our strong performance to date places us at the upper end of this range.

There is still a considerable amount of work to re-set ODIs for AMP7 but this is in hand. This is critical because Ofwat intends to lift the cap on ODI incentives for AMP7.

Proposed common performance commitments

Drive for greater commonality in AMP7



Areas of Focus

Customer experience Day to day performance Future performance/resilience Performance commitment to be set at least at UQ

This slide shows the fourteen areas in which Ofwat is proposing to implement common measures in AMP7. Industry is working with Ofwat and other regulators to establish the basis for these measures.

Operational performance - environmental

UU retained Industry Leading Company status

	Pollution incidents	Serious pollution incidents	Discharge permit compliance	Satisfactory sludge disposal	Self reporting of pollution incidents	AMP National Environment Programme Delivery	Security of Supply Index	Overall performance rating
Water and sewerage companies								
Anglian Water	Amber	Amber	Green	Green	Amber	Green	Green	Good company
Northumbrian Water	Amber	Red	Amber	Green	Amber	Green	Green	Company requires improvement
Severn Trent Water	Amber	Amber	Green	Green	Green	Green	Green	Good company
Southern Water	Amber	Amber	Amber	Green	Amber	Green	Green	Good company
South West Water	Red	Red	Amber	Amber	Amber	Green	Green	Company requires improvement
Thames Water	Amber	Amber	Amber	Green	Amber	Green	Red	Company requires improvement
United Utilities	Green	Green	Amber	Green	Green	Green	Green	Industry leading company
Wessex Water	Green	Amber	Green	Green	Green	Green	Green	Industry leading company
Yorkshire Water	Amber	Amber	Amber	Green	Green	Green	Green	Good company

Source: Environment Agency's "Environmental Performance Assessment 2016" published in July 2017 (excludes Welsh Water)

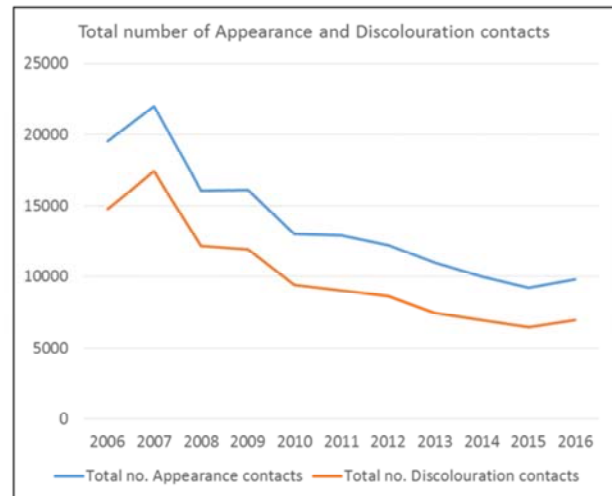
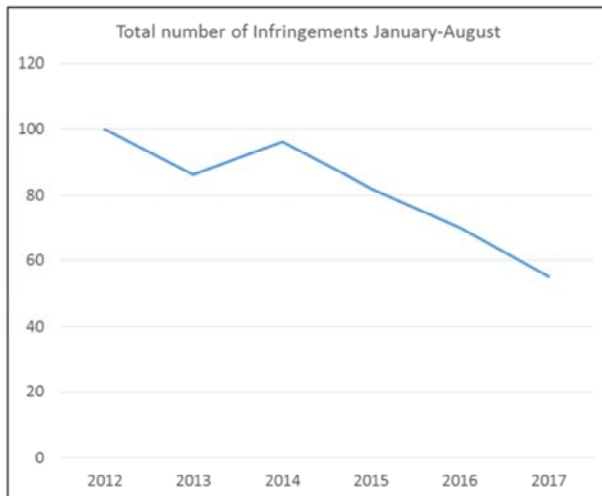
Moving on now to our own positioning for AMP7.

This the latest comparison of water company performance published by the Environment Agency, the EA, in July this year. Last year we were one of three companies awarded leading company status. The EA changed its methodology this year, making attaining this status much tougher and we're delighted to be one of only two companies awarded leading company status this year and in being the best performing listed company.

A combination of Systems Thinking and our accelerated investment plan has made a significant contribution to this achievement. The number of failing wastewater treatment works is down by 30 per cent year on year to the lowest ever level and the number of pollution incidents is industry leading, down 45 per cent year on year.

Operational performance - Water

Best ever water quality



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We have undertaken a root and branch review of our water business, with the clear focus of fundamentally reducing its inherent, operational risk and improving the resilience of our service. This has led to investment in a transformation programme, partly through our AMP6 activity and with the balance coming from reinvestment of our outperformance.

We are seeing the benefits of this investment in our water quality performance, which is the best it has ever been and still improving. For example, we are experiencing the lowest number of infringements ever seen by the company and this is continuing to improve. Also, the downward trend in the number of contacts we get from customers about discolouration and appearance in general of their water is a contributor to the improving SIM picture I mentioned earlier.

I'll now take you through some examples of our Systems Thinking approach and how innovation is embedded in the way we operate, contributing to the delivery of such strong performance across our whole business.

Systems Thinking and innovation

Optimising performance of the whole system

Early detection analysis and machine learning

- Network of sensors to understand 'normal' system signature
- Early warning for system deviations allows intervention before incidents happen
- 70% reduction in customer contacts

Innovation

- Building on an already thriving culture of innovation
 - Director of Curiosity
 - Nereda
 - Innovation Centre
 - Innovation Lab



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Our Systems Thinking operating concept is delivering £100 million of savings underpinning our AMP6 business plan and also laying the foundations for the innovations we will apply in the next regulatory period.

A latest example is the installation of sensors at key points across our water distribution system where a robot uses this information to establish the day to day pattern of activity across our network and identify any variations from the norm that might point to an impending or existing failure. Whilst the use of sensing in networks is not new, the use of robotics and machine learning in this area is. This capability informs our Integrated Control Centre in Warrington where we can perform complex diagnostics remotely and mobilise a solution to minimise the impact on customers. Early results are impressive. We have seen a 70 per cent reduction in customer contacts in areas where this capability has been deployed as we have been able to predict and fix a problem ahead of a customer noticing it.

Underpinning Systems Thinking and in fact, everything that we do, is innovation.

Five years ago, we appointed a 'Director of Curiosity' to search for innovative practices being utilised across different sectors around the world and investigate how they can be applied in our own business. One example of this is Nereda, a process technology that reduces through life cost at our wastewater treatment works by 20 per cent. We now have two plants in build and others in planning and this will create the largest Nereda portfolio in the UK.

More recently, we created our Innovation Centre - a physical space where innovative ideas can be developed in a safe environment. It is a place where our employees can work on solving problems using the best, innovative techniques, blending technology, data and digital solutions.

It is also the place where suppliers can work with us to try out their ideas. We launched an Innovation Lab, where suppliers co-locate with us and are given access to our data and assets to facilitate two-way interactions. This enables the rapid prototyping of breakthrough technologies before implementation on a larger scale.

This approach is the first of its kind in the water industry and we have already had applications from 80 suppliers from around the world, over two thirds of which are from innovators who have never worked with us before.

Summary and outlook

Good foundations for PR19

Customers

- Delivering value through enhanced service at higher resilience

Operational performance

- Achieving upper quartile efficiency targets
- Mitigating ODI risk and earning rewards
- Delivering financing outperformance

Integrity

- Sharing £100m of outperformance in enhanced resilience

Innovation

- Systems Thinking delivering leading performance with more to come

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Finally, in summary, we are delighted with our first half performance, remaining on track to deliver our plans and targets for AMP6.

- We're delivering value for customers through enhanced service at higher levels of resilience. We are a leader in the sector for customer satisfaction and in addressing affordability and vulnerability;
- We're delivering value for shareholders through achieving upper quartile efficiency targets, mitigation of ODI risk and financing outperformance, and
- We're creating the opportunity for sharing of outperformance between customers and shareholders with £100 million of additional investment announced to date in enhanced resilience measures.

Looking ahead, we are advanced in our plans for PR19, informed by extensive engagement with customers regarding their needs and priorities. Systems Thinking, the business performance it has already delivered plus the further potential it offers, gives us a great launch platform to exploit the opportunities that AMP7 will represent.

Q&A

That concludes our presentation.

Thank you for listening and we'd now like to take questions.

Supporting information

- Profit before tax reconciliation
- Profit after tax reconciliation
- Finance expense
- Finance expense: index-linked debt
- Derivative analysis
- Movement in net debt
- Financing and liquidity
- Term debt maturity profile
- Debt structure
- EIB funding maturity profile
- PR19 key dates
- Cautionary statement



Profit before tax reconciliation

Six months ended 30 September	2017	2016
£m		
Operating profit	341.8	303.6
Investment income and finance expense	(104.6)	(168.0)
Profit on disposal of non-household retail business	-	20.9
Share of profits of joint ventures	5.1	1.9
Reported profit before tax	242.3	158.4
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	(0.1)	0.9
Non-household retail market reform ¹	1.0	3.4
Restructuring costs	1.3	4.6
Profit on disposal of non-household retail business	-	(20.9)
Net fair value (gains)/losses on debt and derivative instruments	(34.5)	54.8
Interest on swaps and debt under fair value option	8.8	8.5
Net pension interest income	(3.3)	(4.8)
Capitalised borrowing costs	(21.2)	(15.9)
Underlying profit before tax	194.3	189.0

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	2017	2016
£m		
Reported profit after tax	197.4	202.6
<u>Adjustments:</u>		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	(0.1)	0.9
Non-household retail market reform ¹	1.0	3.4
Restructuring costs	1.3	4.6
Profit on disposal of non-household retail business	-	(20.9)
Net fair value (gains)/losses on debt and derivative instruments	(34.5)	54.8
Interest on swaps and debt under fair value option	8.8	8.5
Net pension interest income	(3.3)	(4.8)
Capitalised borrowing costs	(21.2)	(15.9)
Deferred tax credit – change in tax rate	-	(57.1)
Agreement of prior years' tax matters	1.6	(14.3)
Tax in respect of adjustments to underlying profit before tax	9.1	(10.3)
Underlying profit after tax	160.1	151.5
Basic earnings per share (pence)	28.9	29.7
Underlying earnings per share (pence)	23.5	22.2

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

Finance expense

Underlying interest charge impacted by higher RPI inflation

Six months ended 30 September	2017	2016
£m		
Investment income	5.2	6.6
Finance expense	(109.8)	(174.6)
	(104.6)	(168.0)
Less net fair value (gains)/losses on debt and derivative instruments	(34.5)	54.8
Adjustments for interest on swaps and debt under fair value option	8.8	8.5
Adjustment for net pension interest income	(3.3)	(4.8)
Adjustment for capitalised borrowing costs	(21.2)	(15.9)
Underlying net finance expense	(154.8)	(125.4)
Average notional net debt	6,474	6,182
Average underlying interest rate	4.8%	4.1%
Effective interest rate on index-linked debt	5.9%	4.0%
Effective interest rate on other debt	3.4%	4.2%

Finance expense: index-linked debt

Cash benefit for the group

Six months ended 30 September	2017	2016
£m		
Cash interest on index-linked debt	(23.9)	(25.1)
RPI adjustment to index-linked debt principal – 3 month lag ¹	(75.3)	(43.6)
CPI adjustment to index-linked debt principal – 3 month lag ²	(1.8)	-
RPI adjustment to index-linked debt principal – 8 month lag ³	(5.9)	(1.8)
Finance expense on index-linked debt	(106.9)	(70.5)
Interest on other debt (including fair value option debt and swaps)	(47.9)	(54.9)
Underlying net finance expense	(154.8)	(125.4)

- Cash interest payment of £24m on c£3.7bn of index-linked debt
- Increase in indexation charge due to higher 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 2017 and July 2017

² Affected by movement in CPI between January 2017 and July 2017

³ Affected by movement in RPI between July 2016 and January 2017

Derivative analysis

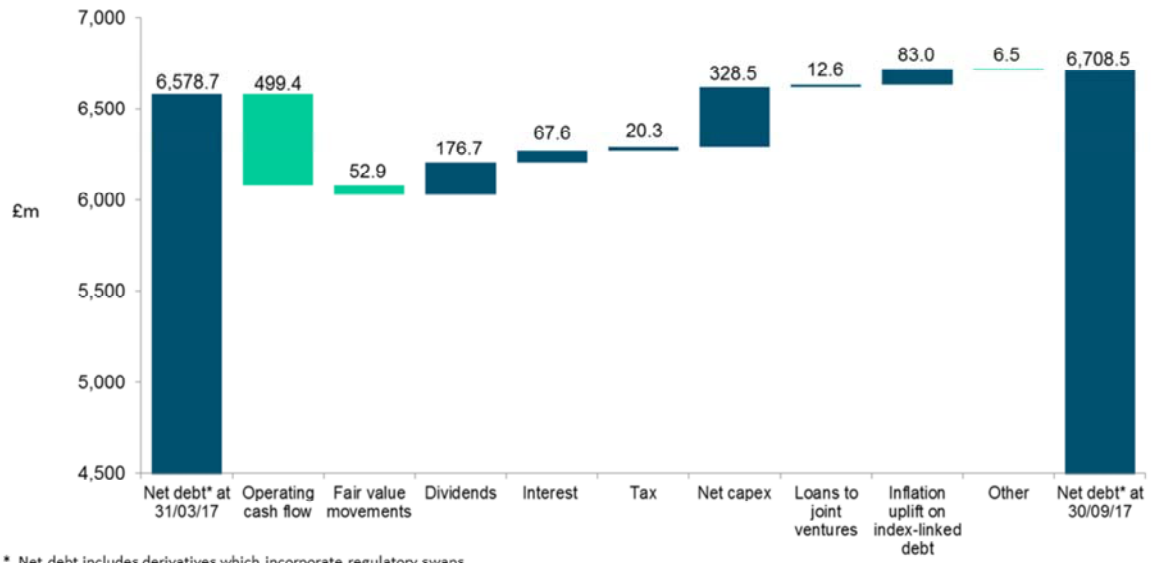
Derivatives intrinsically linked to debt

At 30 September	2017	2016
£m		
Derivatives hedging debt	723.6	939.4
Derivatives hedging interest rates	(85.9)	(326.1)
Derivatives hedging commodity prices	(6.1)	(10.4)
Total derivative assets and liabilities (slide 14)	631.6	602.9

- 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

Movement in net debt*

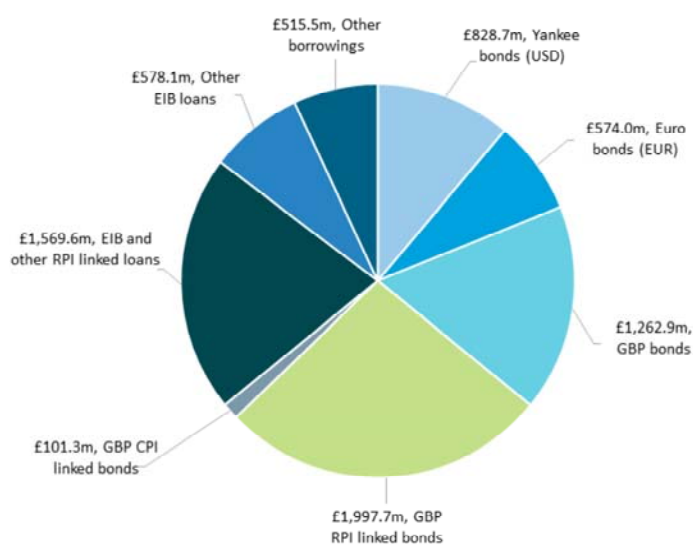
Moderate increase in line with expectations



* Net debt includes derivatives which incorporate regulatory swaps

Financing and liquidity at 30 September 2017

Gross debt = £7,427.8m



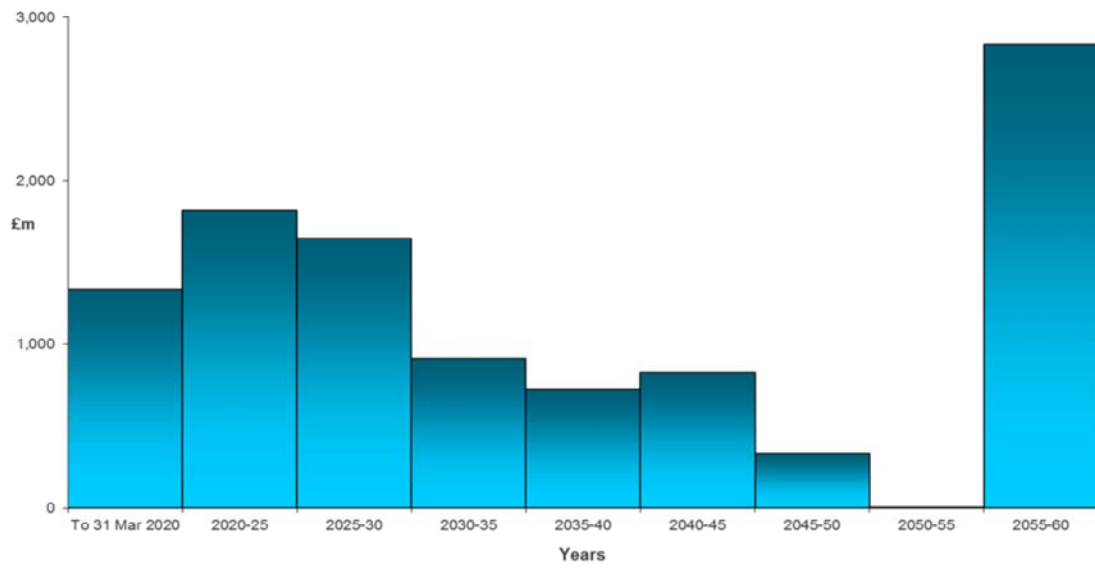
Headroom / prefunding = £330.5m

	£m
Cash and short-term deposits	87.6
Medium-term committed bank facilities ¹	650.0
Undrawn EIB term loan facilities	75.0
EMTN new issues settling post 30 Sep 2017	103.6
Short-term debt	(201.4)
Term debt maturing within one year	(384.3)
Total headroom / prefunding	330.5

¹ Includes £50m of facilities with a forward start in June 2018 and excludes £100m facilities maturing within one year

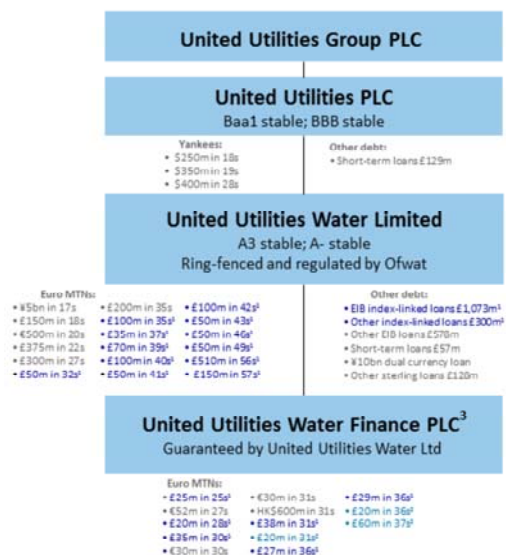
Term debt maturity profile as at 30 September 2017¹

Average term to maturity of around 20 years



¹ Future repayments of index-linked debt include inflation based on an average annual RPI rate of 3% and an average annual CPI rate of 2%

Debt structure at 30 September 2017



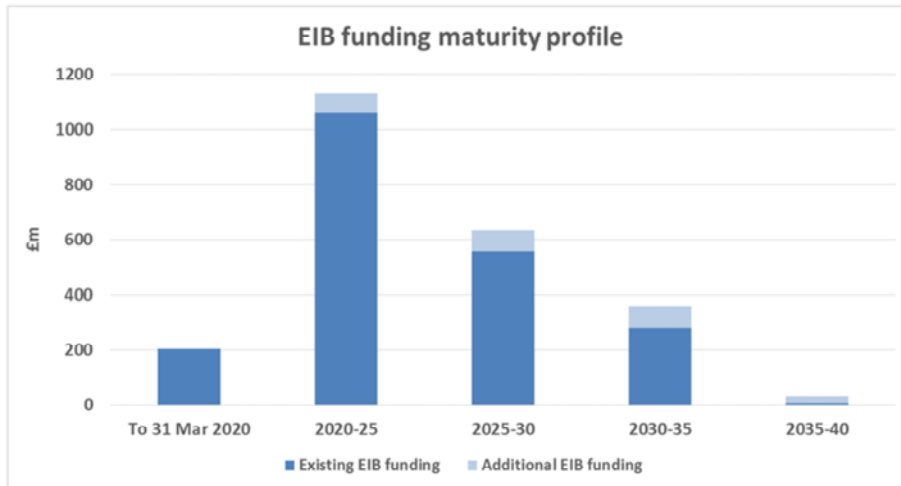
¹ RPI linked finance

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.

European Investment Bank funding maturity profile

Medium to long-term 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, including the final £75m tranche of the £250m AMP6 loan signed April 2016 drawn down on 2 October 2017 in floating rate form.

Light blue areas represent a further £250m AMP6 loan assuming this will be signed and drawn in 2018 (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 – key dates

Date	Event
December 2017	Ofwat publish final methodology and risk based review
January 2018	Companies submit Water Resources RCV allocation
March 2018	Companies submit special factor claims & performance commitment definitions
3 September 2018	Companies submit business plans to Ofwat
January 2019	Initial assessment of business plans published
March / April 2019	Draft determinations (exceptional and fast track plans)
April 2019	Companies submit revisions to business plans (significant scrutiny and slow track)
July 2019	Draft determinations (significant scrutiny and slow track plans)
December 2019	Final determinations published

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.

