# United Utilities Group PLC

## Half year results

Six months ended 30 September 2015

helping life flow smoothly

United Utilities

helping life flow smoothly


Good morning ladies and gentlemen and welcome to our half year results presentation covering the first six months of the 2015 to 2020 period, AMP6.

We have made a good start to AMP6, building on the momentum established in AMP5 which saw us climb from a low base five years ago to becoming one of the two leading water and wastewater companies, as measured by Ofwat's key performance indicators.

We are capitalising on the transitional investment we made in AMP5 to give us a rapid start to our major investments for this five-year period.

Given our strong focus on customer satisfaction, we were disappointed that customers in parts of Lancashire were inconvenienced by the water quality incident in August. We were absolutely focussed on restoring water quality for customers as quickly as possible and this was achieved by the beginning of September. Disappointing as it was, the Lancashire incident is not reflective of our underlying performance as our results today demonstrate.

Our annual business planning round is currently underway and this process will deliver our refreshed plans for the period 2016 to 2020. We are still at a relatively early stage but we remain of the view that our AMP6 final determination remains tough but within reach. Our plans will build on our first year experience in setting our AMP6 outperformance targets, which we expect to share with you at our full year results next May.

## Agenda

- Operational performance
- Financial performance
- Summary and outlook
- Q&A

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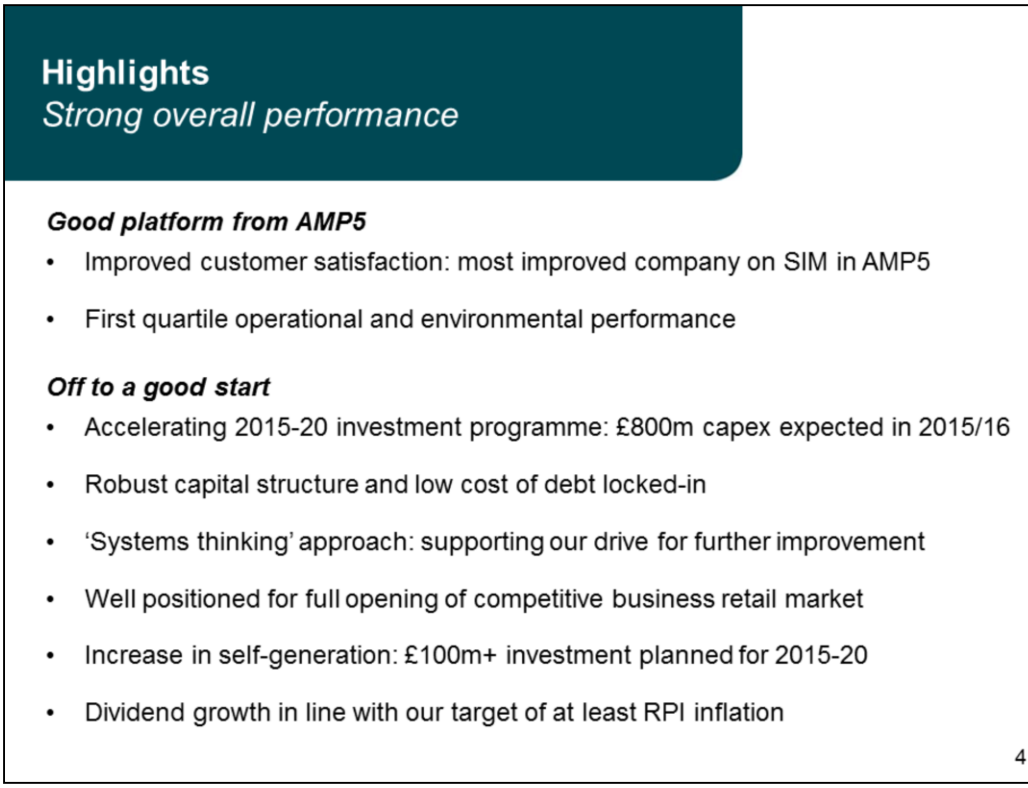
This is the agenda.

I will provide you with an overview of our operational performance in the first half of the year, and Russ will then update you on the financials.

I'll finish with a summary and outlook for the group.




Our achievements in AMP5 give us a good platform for the next five year period.

- We reduced customer complaints by around 75% over the AMP; and
- We achieved joint top place in Ofwat's assessment of water and wastewater company performance and we were delighted to again be assessed as a first quartile sector performer by the Environment Agency.

We're off to a good start to AMP6.

- The transitional investment we made at the end of AMP5 has given us a smooth transition into AMP6 and we expect to invest around £800 million this year.
- We have a strong balance sheet and good credit ratings, with gearing stable at around 59%.
- We have locked in a low cost of debt for 2015 to 2020.
- We are rolling out 'systems thinking' across our group, bringing together technology, asset information and processes to deliver further improvement across our wholesale business.
- We are well advanced in the competitive business retail market. We continue to win customers in the Scotland and now have annualised revenue of around £18 million. This learning is supporting preparation for full opening of the English business retail market in 2017.
- We plan to invest over £100 million across the next five years to mitigate energy pricing and availability risk.

All this supports our dividend policy of a growth target of at least RPI inflation for the period 2015 to 2020.

## Ofwat assessment of 2014/15 performance

*UU achieves joint 1st position*

| | Customer experience | | | Environmental Impact | | | | | Serviceability, reliability and availability | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SIM score | Internal sewer flooding incidents | Water supply interruptions (hours per total properties served) | Greenhouse gas (GHG) emissions | Pollution incidents sewerage | Serious pollution incidents sewerage | Discharge permit compliance | Satisfactory sludge disposal | Serviceability water non-infrastructure | Serviceability water infrastructure | Serviceability for sewerage non-infrastructure | Serviceability sewerage infrastructure | Leakage | Security of supply index (SoSI) |
| Water and sewerage companies | | | | | | | | | | | | | | |
| ANG | G | G | G | G | A | A | A | G | G | G | G | G | G | G |
| WW | G | G | G | R | A | A | G | G | G | G | G | G | G | G |
| NWG | G | G | G | G | A | A | G | G | G | G | G | G | G | G |
| SVT | G | G | G | G | A | A | G | G | R | G | G | A | G | G |
| SWW | G | G | G | G | R | A | A | G | G | G | G | G | G | G |
| STN | G | G | G | G | R | R | G | G | G | G | G | G | G | G |
| TMS | G | A | G | R | A | A | G | G | G | G | G | R | G | G |
| **UU** | G | G | G | G | G | G | A | G | G | G | G | G | G | G |
| WSX | G | G | G | G | G | A | G | G | G | G | G | G | G | G |
| YKS | G | A | G | G | A | G | G | G | G | G | G | G | G | G |

Source: Ofwat's "Companies' performance 2014-15"

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So, this chart shows our joint top ranking on Ofwat's key customer, operational and environmental performance indicators.

We are ranked alongside Wessex, in which we both scored only one amber with all other scores green.

This is a very satisfying conclusion to AMP5 and a great place to start AMP6.

## Water quality incident
*Customer-focussed response*

- 10% of our customer base affected
- Issued a precautionary ‘boil water’ notice
- Deployed extensive additional resources, including enhanced UV treatment
- Full service restored in early September
- Associated costs c£25m; customer compensation main element
- Working with DWI[1] and awaiting publication of its report

[1] Drinking Water Inspectorate

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I’d just like to take a few moments to touch upon the incident we experienced last August.

Our regular sampling programme discovered that our water network supplying parts of Lancashire had been contaminated by low levels of the parasite cryptosporidium. As a consequence we issued a precautionary boil water notice to over 300,000 properties, representing approximately 10 per cent of our customer base, whilst we set about restoring supply of wholesome water to customers.

We took an innovative approach of installing ultra violet treatment at service reservoirs serving the affected area. This was a complex engineering programme which our teams completed with unprecedented speed. This, along with re-zoning from other supply networks, facilitated a progressive lift by postcode of the boil water notice. Full service was restored in early September.

The test of any team is how it responds to challenge and I am very proud of the way in which the UU team handled the situation, along with our many sub-contract partners. We are also very appreciative of the advice, support and assistance we received from our regulators and local and central government, as well as the patience and understanding of our customers.

We paid compensation progressively to customers as we lifted their boil water notice. Associated costs amounted to £25 million, of which compensation was the main element.

There has also been some impact on SIM and I will touch on this shortly, although we do not expect the incident to have a material impact on our ODIs.

We have undertaken a lot of work to understand the root cause of the incident and continue to work closely with the Drinking Water Inspectorate – the water quality regulator – who will issue their report on the incident in due course.  As you’d expect, we cannot comment any further until that report is published.

## Customer satisfaction

*Strong focus on further improvement*

- Significantly improved the customer experience over 2010-15 period
  - substantial SIM improvements, with c75% reduction in customer complaints
  - strong focus on further improvement with early investment in new systems
- SIM methodology changed for 2015-20 period
  - greater focus on qualitative score
  - customers both pre and post enquiry resolution now contacted
  - more volatility of scores expected
- 2015/16 first half year SIM performance
  - Q1 qualitative SIM score improved and complaints reduced further
  - Q2 impacted by water quality incident
  - overall first half SIM score only slightly lower than 2014/15 average
- Positive North West perception
- Most improved utility in Institute of Customer Service survey

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So, moving onto customer satisfaction.

We were the most improved company on SIM during AMP5, with customer complaints down by approximately 75 per cent across the five years. And we are making early investment in new systems to improve customer satisfaction further.

You will recall that SIM combines quantitative and qualitative measures.

As I mentioned previously Ofwat has changed the SIM methodology for AMP6. As expected, SIM survey results are more volatile than for AMP5 and it is therefore more difficult to see trends in the data collected to date.

Our underlying performance has seen us averaging at mid-pack over the trial period last year and we started the 2015/16 year well, achieving an improved qualitative SIM score for quarter one and also achieving a further reduction in complaints.

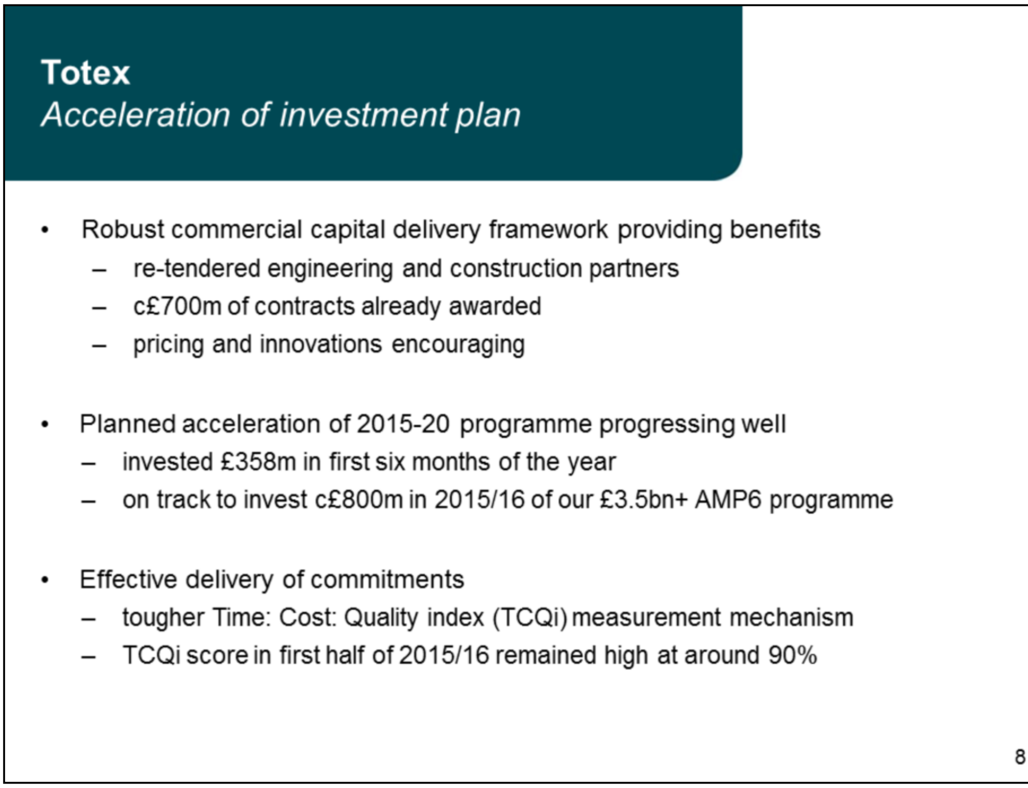
Ofwat survey qualitative data four times per annum and the second wave for this year was conducted during our water quality incident. Unsurprisingly our water scores deteriorated significantly for quarter two, although our scores on the wastewater component were good.

Despite the incident, our first half qualitative SIM score only fell slightly compared with last year's average. However, we will only understand the extent of post incident SIM recovery once the quarter three scores are available.

Customer complaints in the first half of this year remain at a similar level to the corresponding period last year, and we remain on track to hit our own internal quantitative target for the year. However, it is difficult to assess our ranking from a sector perspective as not all companies have agreed to data share.

Looking more broadly, our North West customer survey has consistently placed us third behind John Lewis and Marks and Spencer on a range of perception measures. We've recently received our results from the October survey, the first since the water quality incident, and although, as you'd expect, our scores dipped among those surveyed in the affected area, our rating overall remained stable and we are still in third position. And those of you who attended Ofwat's recent Water 2020 event will also have seen that UU was rated as the most improved water and wastewater utility, as measured by the Institute of Customer Service.

So, the range of measures we use to monitor customer satisfaction continue to indicate improvement – building on our year on year improvement during AMP5.




As I've mentioned, we intend to set outperformance targets next May, but good early progress is reinforcing our confidence that the totex targets we have accepted are tough but within reach.

I will cover the capex component of totex and Russ will later discuss opex.

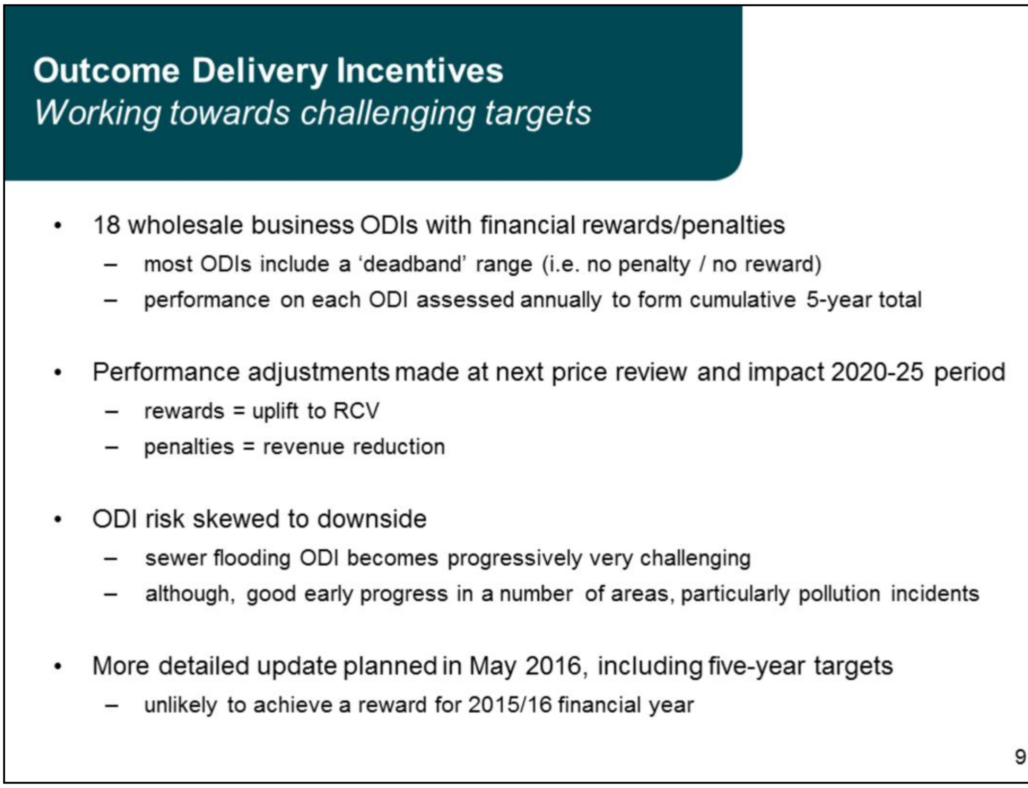
We spent £39 million of transition investment in the last 18 months of AMP5 to give us a good head start to AMP6. Our new engineering and capital delivery partners are working constructively to help us plan and organise our investment programme and contracts worth approximately £700 million have already been awarded. We are also seeing the benefit of our new arrangements in the innovation being brought to the table by our new partners.

As planned, we are accelerating our investment programme to secure early delivery of customer and environmental benefit. We are clearly focussed on work which underpins performance against AMP6 Outcome Delivery Incentives.

Regulatory capital investment in the first half of 2015/16, including £76 million of infrastructure renewals expenditure, was £358 million, giving us the platform to increase this to around £800 million for the full the year. This is ahead of our business plan and represents a much better start than the first year of AMP5, when we invested just £608 million.

For AMP5 we created our internal measure of effective capital delivery with our Time Cost and Quality index, TCQi. Over the period, we drove improvement from around 50 per cent to consistently over 90 per cent against this measure – a significant achievement given the scale and complexity of our investment programme.

Our £3.5 billion regulatory capital investment programme for AMP6 is similarly complex and we have toughened the TCQi measurement mechanism to drive further improvements in our performance. Reflecting the efficiency challenges accepted through our final determination, our TCQi mechanism now gives a greater weighting in the cost element to our biggest capital projects and measures cost in terms of totex. It also extends coverage to relevant non-regulatory commitments. Despite this tougher approach, our projected TCQi score for this year remains high at around 90 per cent, which represents a very good performance and is towards the upper end of our target range of 73 to 98 per cent.




Moving onto outcome delivery incentives, or ODIs, which are a new feature of the 2015-20 regulatory period.

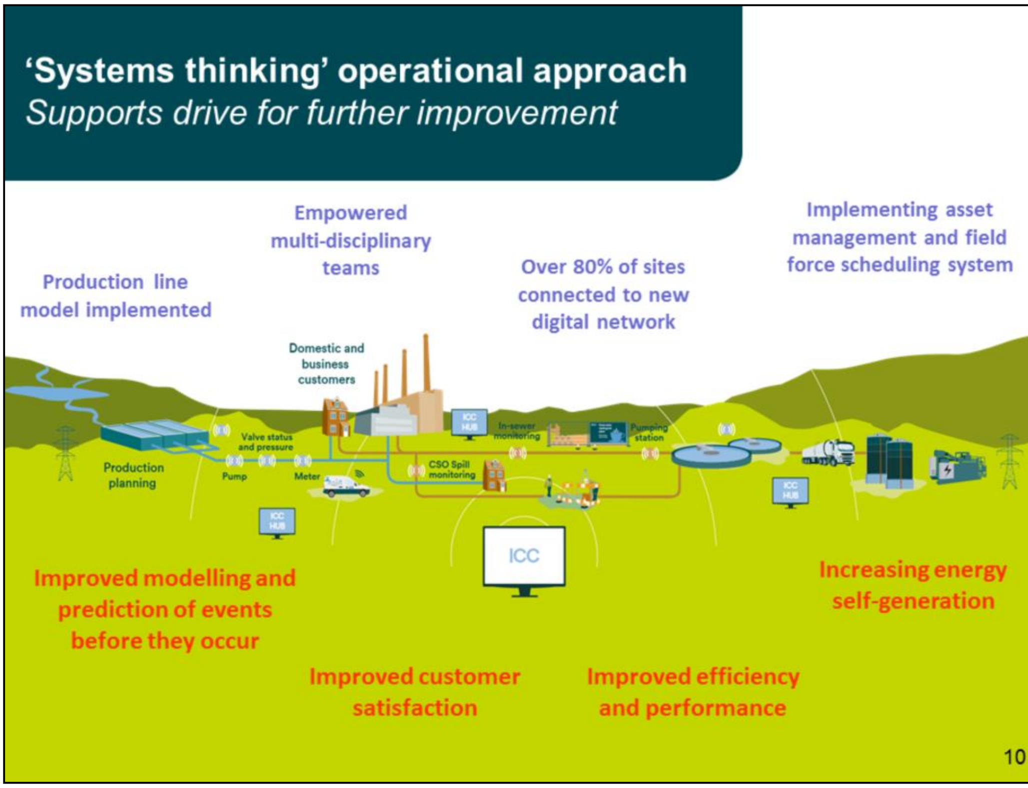
As outlined at our results last May, we have 18 wholesale ODIs with financial rewards or penalties. Most of the ODIs include a 'deadband' associated with target performance, for which there will be no reward or penalty if actual performance sits within the deadband. Performance on each ODI will be assessed annually, with individual ODI rewards or penalties determined each year. The annual performance on each ODI then accumulates to form a five-year total.

For UU, performance adjustments will be made at the next price review and impact the 2020-25 period, rather than the next five years. Rewards will result in a uplift to regulatory capital value, or RCV. Penalties will feed into a revenue reduction.

As previously advised, risk is skewed to the downside, with nine ODIs potentially attracting a penalty only. Our sewer flooding ODI, for example, becomes progressively very challenging and is sensitive to weather conditions. However, we have made good early progress in a number of areas and, in particular, pollution performance has been good to date.

Half way through the year we believe it is unlikely that we can achieve a reward for 2015/16, but we need to get through the winter before we are able to refine our view of the overall result for the year.

We intend to provide a more detailed update at our full year results in May 2016, including five-year targets.




I talked to you in detail last May about how our ‘systems thinking’ approach to running the business will help drive customer service and operational efficiency improvements.

Today, I will just provide a brief overview of the good progress we are continuing to make.

The chart outlines some of the things we are doing, shown in blue at the top of the slide, and some of the key benefits, shown in red, towards the bottom of the slide.

We have now fully implemented our innovative production line model across the wholesale business. Our production leadership is supported by embedded multi-disciplinary teams which include project management and engineering resource. These teams are focussed on optimising the performance of our assets including enhancements to meet new water quality or environmental requirements.

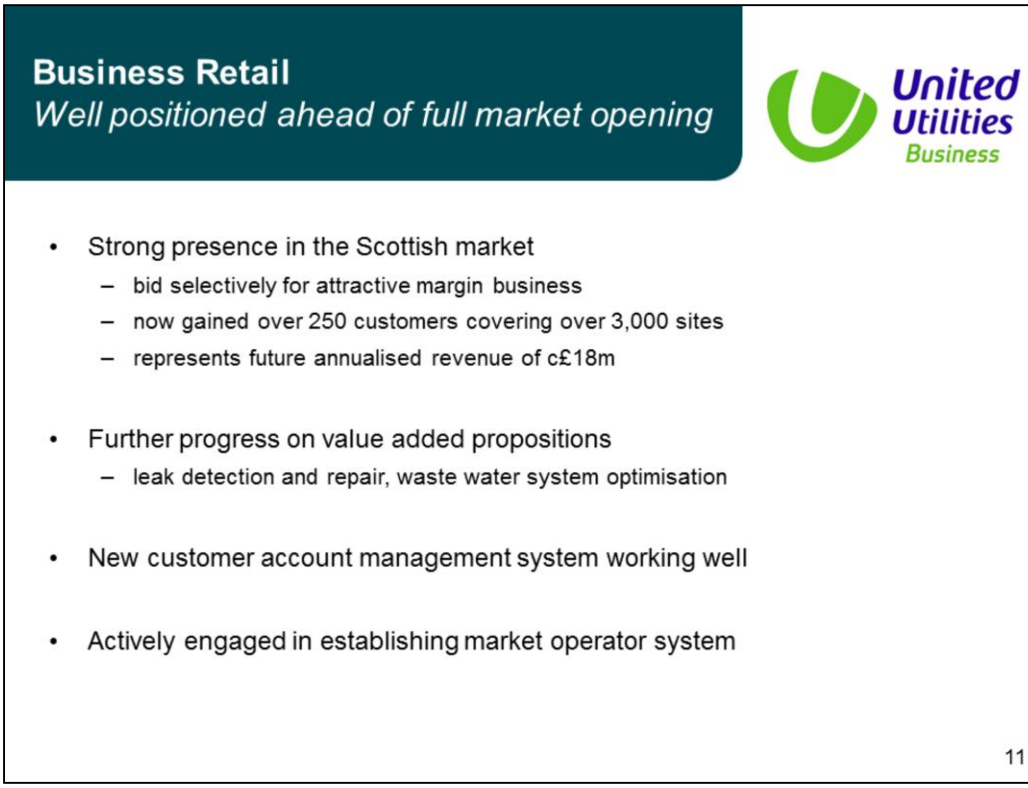
We are investing in a new digital network to provide a communications backbone for the increasing volumes of data we now use to monitor and control our assets and we have extended the use of sensors in our networks. Over 80 per cent of our assets are already connected to the new network.

We are in the final stages of implementation of our new asset management system which, in conjunction with our new field force scheduling capability, will improve efficiency of our planned and reactive maintenance work.

Our new Integrated Control Centre, or ICC, is up and running providing continuous monitoring of our assets. Our ‘systems thinking’ is being implemented through waves of new capability rolled out across the business with the ICC acting as the main control hub in which performance is planned and monitored. This will enable us to model and better predict events before they occur and impact the customer. The ICC is a critical enabler to our continued improvement in efficiency, performance and customer satisfaction.

We are also increasing our energy self-generation capability, something I will discuss later.

I intend to provide you with updates on ‘systems thinking’ progress at future presentations.




Now, business retail.

Our early preparation and progress means we are well positioned for full market opening.

We have established a strong presence in the Scottish market for business customers, having secured over 250 customers covering over 3,000 sites and representing annualised revenue of around £18 million.

The Scottish market has become highly competitive as more companies use it to gain experience ahead of the English market opening in April 2017. We therefore continue to bid selectively, pursuing business at attractive margins, rather than solely growing market share. And value added propositions continue to be a competitive differentiator.

Cost to serve will be critical to success in a competitive market and we were an early mover in implementing a new customer account management system at the end of AMP5. We are now engaged in tweaks to our systems to provide compatibility with the recently issued Market Architecture Plan for the English business retail market.

Preparation is also well advanced in our wholesale business in preparing for market opening.

We played a leading role in the establishment of the English Market Operator, MOSL, and this is now up and running as a separate legal entity overseen by an independent board and with its systems provider selected and on contract.

## Energy self-generation
*Leveraging our sites to increase capacity*

***Regulated business***

- Continuing to increase energy production from sludge
- Development of more combined heat and power assets

***Non-regulated business***

- Approvals for wind generation facilities
- Increasing solar installations on our sites, including floating solar systems
- Plan to invest £100m+ across 2015-20 period, mainly in solar facilities

***Artist impression of floating solar panels at Godley reservoir***

*Solar panel installations on our sites provide a cost effective means of improving our energy self-sufficiency*

Targeting c35% energy self-generation by 2020

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Moving onto energy self-generation.

Power is a significant cost for us, at around £60 million per annum, and so it makes sense to look at economically viable options to use our sites to increase our self-generation capability, reducing our exposure to future energy prices.

We already generate a significant amount of electricity from sludge and this is currently the main source of our renewable energy, which was equivalent to around 18 per cent of our total electricity consumption last year. At our largest site, Davyhulme in Manchester, we are exploiting the increased gas generation from our new advanced digestion facility, SBAP, that I have mentioned in previous presentations, by building a plant to clean up and inject that gas into the national grid network.

We are continuing to develop more combined heat and power assets and to optimise the performance of those we already have, but to supplement this we are also growing our non-regulated energy business taking advantage of the company's significant land and asset base.

We have looked closely at wind generation opportunities and have planning approval for a small number of sites but our principal focus is on solar power, which currently has the more attractive returns.

We have a programme for rolling out solar installations across our sites using our extensive roof areas and redundant land for solar farms. We recently announced the go ahead for installation of what will be Europe's largest floating solar array system on Godley reservoir, just outside Manchester. While floating solar has been deployed elsewhere around the world, most notably in Japan, it is a relatively new technology in the UK. The installation at Godley is expected to consist of around 12,000 panels, covering around 45,000 square metres equivalent to the size of over six football pitches. This should contribute to keeping our energy costs down and benefit water bills – so good for both shareholders and customers.

Overall, we plan to invest over £100 million across the next five years in our non-regulated energy business, mainly in solar facilities.

Subject to good projected returns, we are aiming to double our energy self-generation to around 35 per cent by 2020.

## Responsible business
### *External recognition*

- Growing evidence of link between ESG[1] performance and shareholder returns
- Reinvested c£280m of outperformance: customer and environmental benefits
- Investing in apprentice and graduate programmes
- External recognition for strong ESG[1] performance
  - 'World Class' in Dow Jones Sustainability Index for 8th consecutive year
    - with sector leading performance for second consecutive year
  - Joint winner in PwC 'Excellence in Reporting in the FTSE 100' awards

[1] Environmental, social and governance

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Operating in a responsible manner is fundamental to the way in which we run our business and there is growing evidence of a link between ESG and shareholder value.

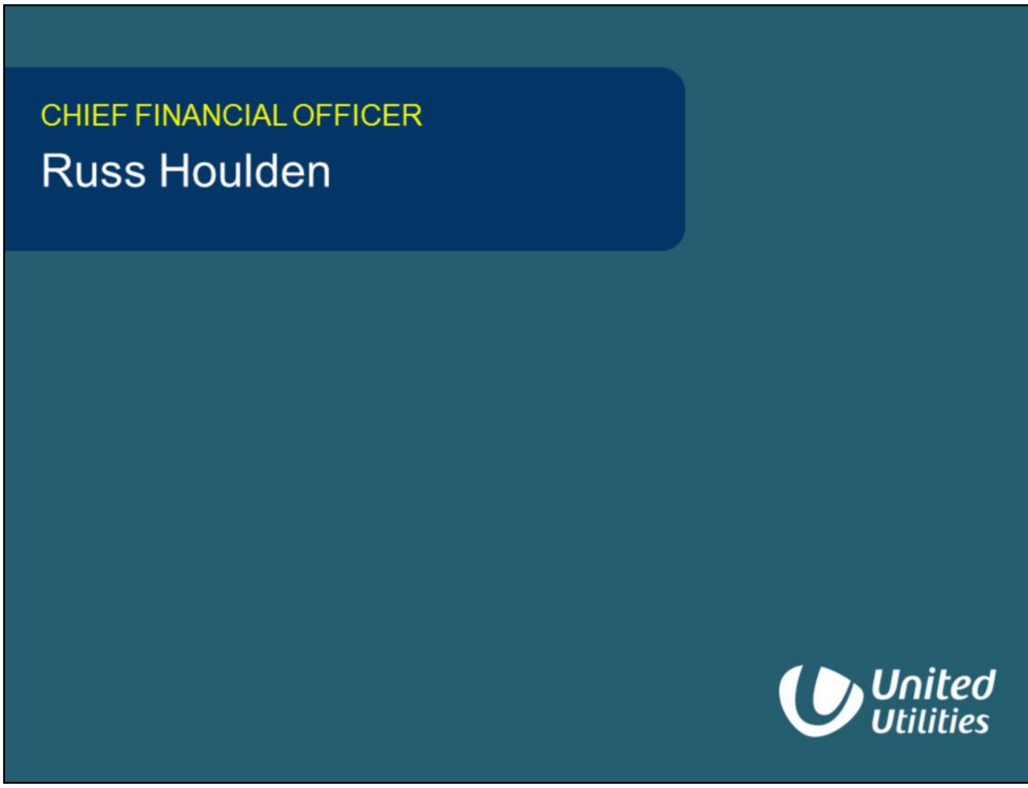
I believe that we struck the right balance between customers and shareholders in sharing AMP5 outperformance through £280 million of reinvestment.

And we are investing in our apprentice and graduate programmes to attract and develop high calibre people. As our jobs become ever more demanding, we recognise the fundamental role that training plays in equipping our people for their roles and we recently invested in our new technical training centre just outside Bolton. This leading edge facility uses sector leading tools and technology to educate our people from entry at apprentice level and beyond. In addition, I place particular emphasis on recruiting high calibre individuals from outside the water sector to bring their learning to bear on our business.

We have always placed significant emphasis on governance and we are pleased to see that our strong ESG performance continues to receive external recognition, as outlined on the slide. And we were particularly pleased to retain our 'World Class' rating in the Dow Jones Sustainability Index for the eighth consecutive year, a significant achievement given the index's increasingly challenging standards.

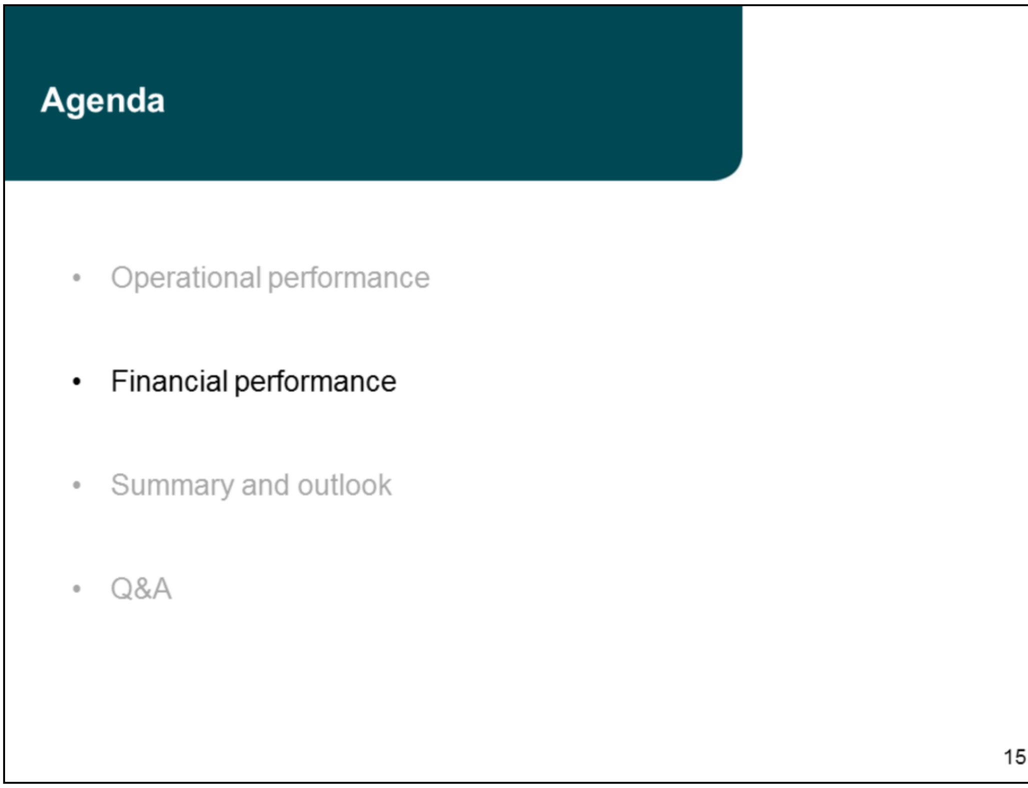
We believe that our responsible approach to business is delivering for all our stakeholders.

Now over to Russ.




Thank you, Steve.

Good morning.




So, moving onto financial performance for the first half, which is the first period under the new regulatory price controls.

## Financial performance
*Good set of results in light of new price controls*

- Underlying operating profit of £309m, impacted by new regulated price controls
- Underlying profit before taxation of £205m, benefiting from lower finance costs
- Underlying EPS of 23.9 pence, down 1.9p or 7%
- Interim dividend of 12.81 pence per ordinary share, up 2.0%
- Robust capital structure, with RCV gearing at 59%

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This is a good set of results, in light of the new tough regulated price controls.

Underlying operating profit at £309 million was £35 million lower than the first half of last year impacted by these new controls, along with an increase in operating expenses that I will discuss shortly.

Underlying profit before tax was £205 million, £17 million lower, benefiting from a decrease in underlying net finance expense. Underlying EPS was down by 1.9p, or 7 per cent.

We have declared an interim dividend of 12.81p per share, up 2.0 per cent, reflecting the increase in RPI for the year to November 2014, which is the rate included within our price controls for 2015/16.

We have maintained our responsible financing policies, with RCV gearing at 59 per cent which is in the middle of our target range of 55 per cent to 65 per cent. This supports our robust capital structure and we have solid credit ratings of A3 with Moody's and BBB+ with Standard and Poor's. And it is worth noting that Standard and Poor's recently uplifted its view of UU to a positive outlook.

And our dividend policy for AMP6, targeting growth of at least RPI each year, will keep dividends growing at a sustainable rate.

# Profit after tax reconciliation
*Benefit of fair value gains*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| **Reported profit after tax** | **171.9** | **162.8** |
| Adjustments: | | |
| Water quality incident | 24.8 | - |
| Business retail market reform[1] | 5.4 | - |
| Restructuring costs | 0.1 | 2.6 |
| Net fair value (gains)/losses on debt and derivative instruments | (36.9) | 19.9 |
| Interest on swaps and debt under fair value option | 7.9 | 1.5 |
| Net pension interest (income)/expense | (1.4) | 3.6 |
| Capitalised borrowing costs | (10.8) | (11.1) |
| Taxation in respect of adjustments to underlying profit before tax | 2.2 | (3.5) |
| **Underlying profit after tax** | **163.2** | **175.8** |
| | | |
| **Basic earnings per share (pence)** | **25.2** | **23.9** |
| **Underlying earnings per share (pence)** | **23.9** | **25.8** |

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the business retail market

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As usual, we have made some adjustments to reported profit to get to underlying profit, which we believe gives a more representative view of underlying performance.

We had a £37 million fair value gain in the first half of this year, largely due to gains on the regulatory swap portfolio, mainly resulting from the unwinding of our opening liability position in respect of derivatives hedging interest rates. This compares with a fair value loss in the first half of last year of £20 million, meaning that there was a £57 million net movement across the two periods.

Underlying operating profit also strips out £25 million of costs associated with the water quality incident and £5 million in relation to preparations for business retail market reform.

So, whilst the reported profit for the half year was £9 million higher, the more meaningful underlying measure was down £13 million, at £163 million.

## Income statement – underlying
*Impacted by new regulated price controls*

| £m<br>Six months ended 30 September | 2015 | 2014 | Movement |
|---|---|---|---|
| **Revenue** | 857.0 | 859.4 | *(0.3)%* |
| Operating expenses | (287.7) | (269.1) | *+6.9%* |
| Infrastructure renewals expenditure | (75.6) | (74.5) | *+1.5%* |
| **EBITDA** | **493.7** | **515.8** | ***(4.3)%*** |
| Depreciation and amortisation | (185.1) | (172.7) | *+7.2%* |
| **Operating profit** | **308.6** | **343.1** | ***(10.1)%*** |
| Net finance expense | (106.1) | (124.4) | *(14.7)%* |
| Share of profits of joint ventures | 2.2 | 2.5 | *(12.0)%* |
| **Profit before tax** | **204.7** | **221.2** | ***(7.5)%*** |
| Tax | (41.5) | (45.4) | *(8.6)%* |
| **Profit after tax** | **163.2** | **175.8** | ***(7.2)%*** |
| | | | |
| **Earnings per share (pence)** | **23.9** | **25.8** | ***(7.4)%*** |
| **Interim dividend per ordinary share (pence)** | **12.81** | **12.56** | ***+2.0%*** |

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This is a summary of the underlying income statement after making the adjustments shown on the previous slide.

Revenue was down by just £2 million at £857 million, despite the new regulated price controls, mainly because the first half of last year was impacted by the special discount we applied to customer bills. We also benefitted from slightly higher non-regulated sales in the first half of this year.

Underlying operating profit at £309 million was £35 million lower than the first half of last year. This reflects the new regulated price controls, an expected increase in depreciation and other costs, partly offset by a reduction in regulatory fees and bad debts, which I'll discuss in more detail on the next two slides.

Underlying profit before tax was £205 million, down £17 million, due to the £35 million decrease in underlying operating profit, partly offset by the £18 million decrease in underlying net finance expense. This decrease in underlying finance expense was mainly due to the impact of lower RPI inflation on the portion of the group's index-linked debt with an eight month lag and a lower cost of debt locked-in on the group's nominal debt.

The underlying tax charge of £42 million was £4 million lower, due to the tax impact of lower underlying profit.

It is worth noting that, on 26 October 2015, the UK Government substantively enacted its intended future changes to the mainstream rate of corporation tax. As a result of this, we would expect a deferred tax credit of around £120 million to be recognised in the full year accounts. However, we will exclude this credit from the underlying profit measures.

Overall, nothing in the first half changes our expectations for the full year.

## Underlying operating costs
*Movements*

| £m<br>Six months ended 30 September | 2015 | 2014 | Movement |
|---|---|---|---|
| **Revenue** | **857.0** | **859.4** | |
| Employee costs | (71.3) | (67.0) | (4.3) |
| Hired and contracted services | (47.0) | (43.6) | (3.4) |
| Property rates | (46.4) | (41.3) | (5.1) |
| Materials | (32.1) | (31.5) | (0.6) |
| Power | (30.4) | (32.5) | 2.1 |
| Bad debts | (19.7) | (23.1) | 3.4 |
| Regulatory fees | (8.6) | (19.6) | 11.0 |
| Third party wholesale charges | (6.5) | (4.9) | (1.6) |
| Other expenses | (25.7) | (5.6) | (20.1) |
| | **(287.7)** | **(269.1)** | **(18.6)** |
| Infrastructure renewals expenditure (IRE) | (75.6) | (74.5) | (1.1) |
| Depreciation and amortisation | (185.1) | (172.7) | (12.4) |
| **Total underlying operating expenses** | **(548.4)** | **(516.3)** | **(32.1)** |
| **Underlying operating profit** | **308.6** | **343.1** | |
| Adjustments: | | | |
| Water quality incident | (24.8) | | |
| Business retail market reform[1] | (5.4) | | |
| Restructuring costs | (0.1) | (2.6) | |
| **Reported operating profit** | **278.3** | **340.5** | |

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the business retail market

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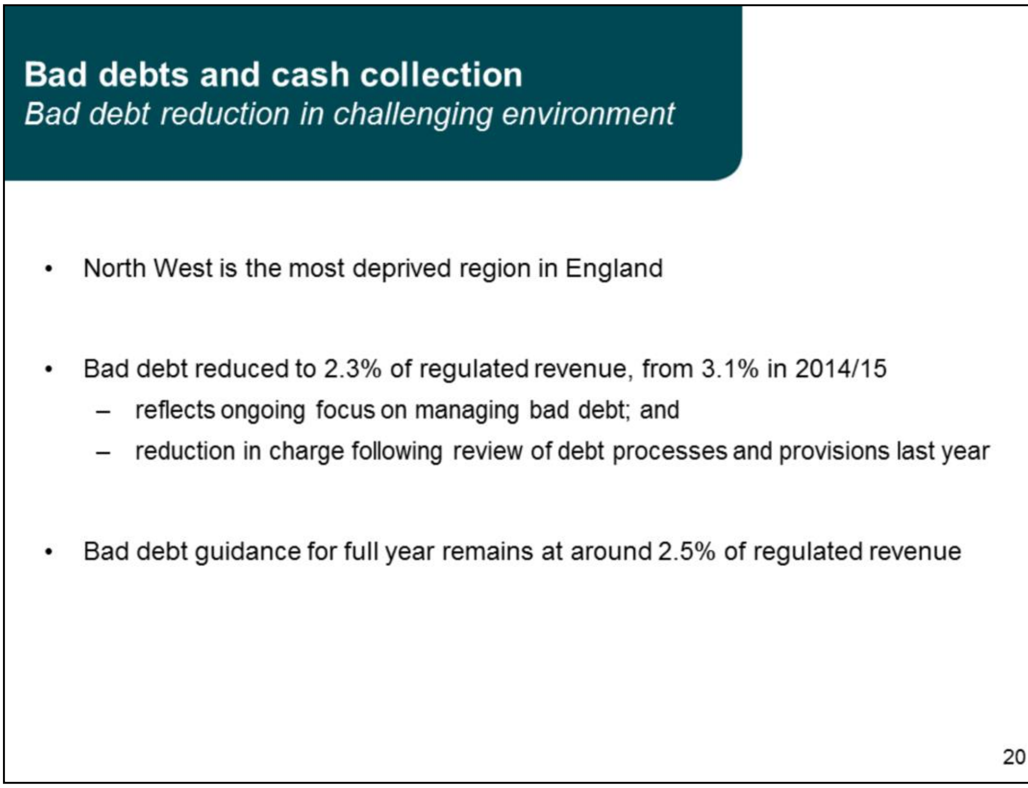
We have continued to maintain tight cost control, although, as is often the case, there were some special factors affecting the comparison of underlying operating expenses between the two periods.

Overall, our underlying operating expenses were up £32 million.

The main increases were in employment costs (£4 million, largely because of current pension service costs), hired and contractor services (£3 million, mainly due to higher network maintenance costs), property rates (£5 million, mainly because of a credit last year), other expenses (£20 million, partly because of a large legal credit last year and partly because of legal and other provisions this year) and depreciation (£12 million, partly because of the larger asset base and partly because of accelerated depreciation on assets which have been replaced slightly earlier than anticipated).

These cost increases were partly offset by cost reductions in the area of power (£2 million), bad debt (£3 million) and regulatory fees (£11 million).

Looking forward, if we were to continue to accrue future service benefits for existing contributing members in our defined benefit pension scheme current service costs would escalate further.  We have therefore, after careful consideration, started a period of consultation with our employees and trade unions with regard to transferring the 40 per cent of our employees affected onto our defined contribution scheme.




So, looking at bad debt in a bit more detail.

Deprivation remains the principal driver of our higher than average bad debt.

You may recall that bad debt costs increased last year to just over 3 per cent of regulated revenue. This was partly due to a review of bad debt provisions for business customers in preparation for systems upgrades, ahead of full market opening, and a review of operational debt processes and bad debt provisions in domestic retail in preparation for the 2015-20 period.

Our bad debt performance in the first half, at 2.3 per cent, is slightly better than the 2.5 per cent guidance I gave you in May. So, we’ve had a good first half, but we are not changing our full year guidance of around 2.5 per cent at this stage.

## Financial position
*Robust capital structure*

| £m At | 30 Sept 15 | 31 Mar 15 |
|---|---|---|
| Property, plant and equipment | 9,845.7 | 9,716.3 |
| Retirement benefit surplus | 126.2 | 79.2 |
| Other non-current assets | 198.3 | 187.7 |
| Cash | 356.4 | 244.0 |
| Other current assets | 418.3 | 393.8 |
| Total derivative assets | 663.3 | 682.6 |
| **Total assets** | **11,608.2** | **11,303.6** |
| Gross borrowings | (6,843.0) | (6,645.4) |
| Other non-current liabilities | (1,654.7) | (1,603.8) |
| Other current liabilities | (463.4) | (414.8) |
| Total derivative liabilities | (189.6) | (205.2) |
| **Total liabilities** | **(9,150.7)** | **(8,869.2)** |
| **TOTAL NET ASSETS** | **2,457.5** | **2,434.4** |
| Share capital | 499.8 | 499.8 |
| Share premium | 2.9 | 2.9 |
| Retained earnings | 1,633.9 | 1,610.7 |
| Other reserves | 320.9 | 321.0 |
| **SHAREHOLDERS' EQUITY** | **2,457.5** | **2,434.4** |
| **NET DEBT[1]** | **(6,012.9)** | **(5,924.0)** |

[1] Net debt includes cash, borrowings and derivatives (slide 37)

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Turning now to the statement of financial position.

Property, plant and equipment was up £129 million in the year to £9.8 billion, reflecting expenditure on our large capital programme.

As at March 2015, the group had an IAS 19 retirement benefit surplus of £79 million and this surplus has increased to £126 million at September 2015. This £47 million favourable movement mainly reflects the accounting remeasurement effect under IFRS of a small increase in corporate credit spreads.

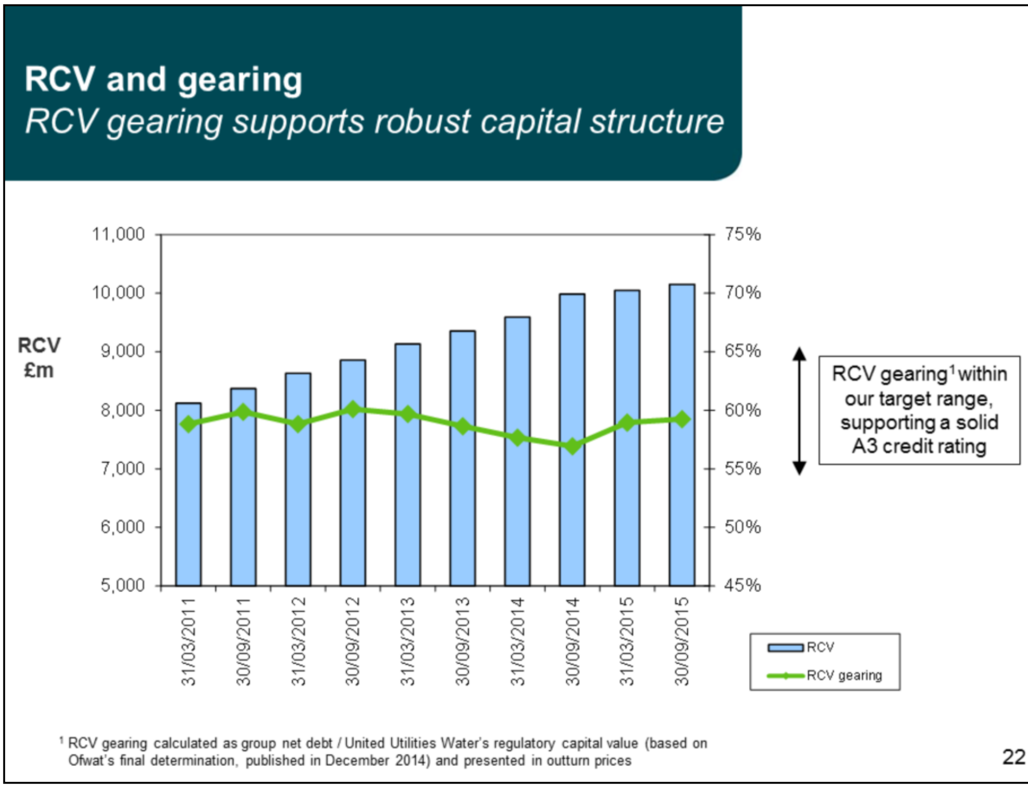
Cash and short term deposits were intentionally increased to £356 million in preparation for a £425 million bond maturity next month. We minimised the cost of carry by drawing down in June the final £150 million from our £500 million EIB loan, which we signed in December 2013, and by issuing over £100 million of notes via private placement.

Derivative assets and liabilities have remained relatively stable.

Gross borrowings increased by £198 million, to £6.8 billion, mainly resulting from the debt drawdown and new issuances.

Retained earnings have increased by £23 million, impacted by post-tax remeasurement gains on our defined benefit pension schemes of £27 million.

Net debt was £89 million higher than the position at March, mainly reflecting expenditure on our substantial capital investment programme.




This chart shows our RCV and gearing level.

The blue bars show the growth in our RCV, which has slowed over the last year mainly due to lower RPI inflation.

The green line shows the movement in RCV gearing over the last few years. Our gearing has remained stable at around 59 per cent, with the growth in net debt largely offset by the growth in the RCV.

Our responsible approach to financing means that gearing, at 59 per cent, is in the middle of our target gearing range of 55 to 65 per cent, supporting a solid A3 credit rating.

## Cash flow statement

*Cash from operations covers investing activities*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| Net cash generated from operating activities | 370.0 | 368.7 |
| Net cash used in investing activities | (313.0) | (333.5) |
| Net cash generated from/(used in) financing activities | 50.2 | (13.3) |
| **Net movement in cash** | **107.2** | **21.9** |

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Moving on to cash flow.

Net cash generated from operating activities at £370 million was similar to the first half of last year. The impact of lower profit was offset by an improvement in working capital cashflows and a slight reduction in corporation tax paid.

Cash used in investing activities was down slightly, mainly reflecting slightly lower capital investment compared with the first half of last year, as expected, as we start the new five-year regulatory period. We have achieved a smooth transition into AMP6 and our full year investment expectation of around £800 million is much higher than the £608 million we invested in the first year of AMP5, as Steve mentioned earlier.

Net cash generated from financing activities was £50 million, compared with £13 million used last year, reflecting an increase in proceeds from borrowings.

Now, onto financing.

## Financing
*Over £1bn of funding already raised*

- Over £1bn of c£2.5bn 2015-20 financing requirements already raised

  *Index-linked*
  - £250m EIB[1] loan with 10-year average life, still to be drawn down
  - £100m index-linked loan with 10-year maturity
  - £25m private placement note[2] with 10-year maturity
  - £35m private placement note[2] with 15-year maturity

  *Nominal*
  - £500m EIB[1] loan with 10-year average life, now fully drawn
  - €52m private placement note[2] with a 12-year maturity
  - £100m, 7-year loan, raised in October 2015
  - €30m private placement note[2] with 15-year maturity raised in October 2015
- Additional £50m committed bank facilities agreed in October 2015
- Financing headroom well into 2017

[1] European Investment Bank [2] Issued off our EMTN Programme

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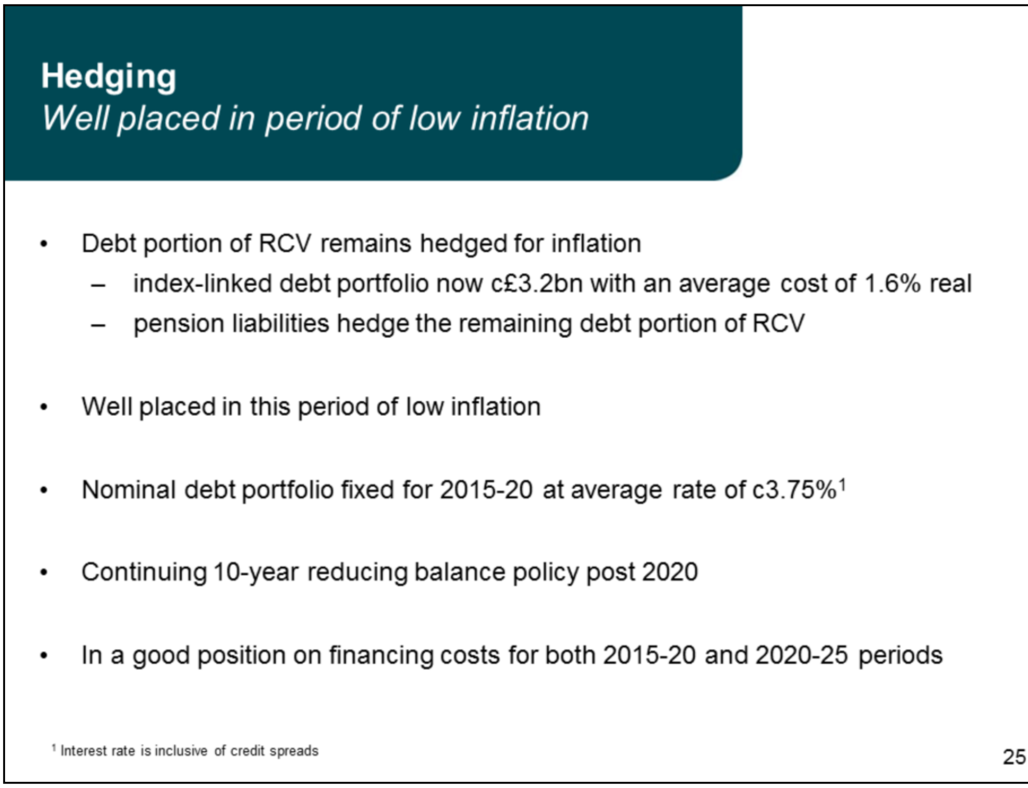
Over the next five-year regulatory period, we have financing requirements totalling around £2.5 billion. This is to meet a combination of refinancing and incremental debt, to help fund our investment programme.

We are in a strong position, having already raised over £1 billion of our requirements and this slide shows just how active we've been.

We have raised £750 million from the EIB, our largest lender, of which £350 million was drawn down late in AMP5, £150 million has been drawn down in the first half of this year and £250 million remains to be drawn over the next six months. In addition, we have raised over £300 million from existing relationship banks and via private placements, tapping specific pockets of demand, to achieve excellent value relative to the public debt capital market.

Some of this finance was index-linked and some was nominal, in line with our well understood hedging policy.

We now have financing headroom well into 2017.




And finally, a brief update on our hedging.

As a reminder, we leave the equity portion of the RCV exposed to RPI inflation by hedging the debt portion of the RCV for inflation through index-linked debt and the effect of our pension scheme liabilities.

We are currently hedged in line with our policy and, as I mentioned, we have been raising an appropriate mix of index-linked and nominal debt to maintain this position.

The average cost of our £3.2 billion, long-term, index-linked debt portfolio is 1.6 per cent real and the more recent index-linked debt we have raised is at more attractive rates.

We believe that our hedging strategy keeps us better hedged for inflation than our listed peers. Owing to the current low level of inflation, this gives us a financial benefit relative to them.

We are therefore well placed in this period of low inflation and this has been reflected in a reduction in underlying finance expense in the half year, along with a smaller increase in the principal of our index-linked debt, benefitting gearing.

In respect of our nominal debt, this is virtually all fixed for the 2015-20 period. This has been done at an average interest rate of around 3.75 per cent, although, as we mentioned in May, we expected this rate to be slightly higher this year, particularly in the first half, as we await the maturity of a £425 million, 6.125% bond next month.

To help manage our exposure to the various ways in which Ofwat may choose to set the cost of debt at the next price review, we are continuing with our 10-year reducing balance policy for the post 2020 period.

Overall, our hedging policy puts us in a good position for financing costs in both this five-year period and the next.

## Summary
*Key financial takeaways*

- Good set of results in light of new price controls
- Lower underlying finance expense
- Robust capital structure
- Over £1bn of 2015-20 funding requirements already raised
- Debt portfolio locked in at attractive interest rates
- Hedging policy – well placed to manage future financing costs

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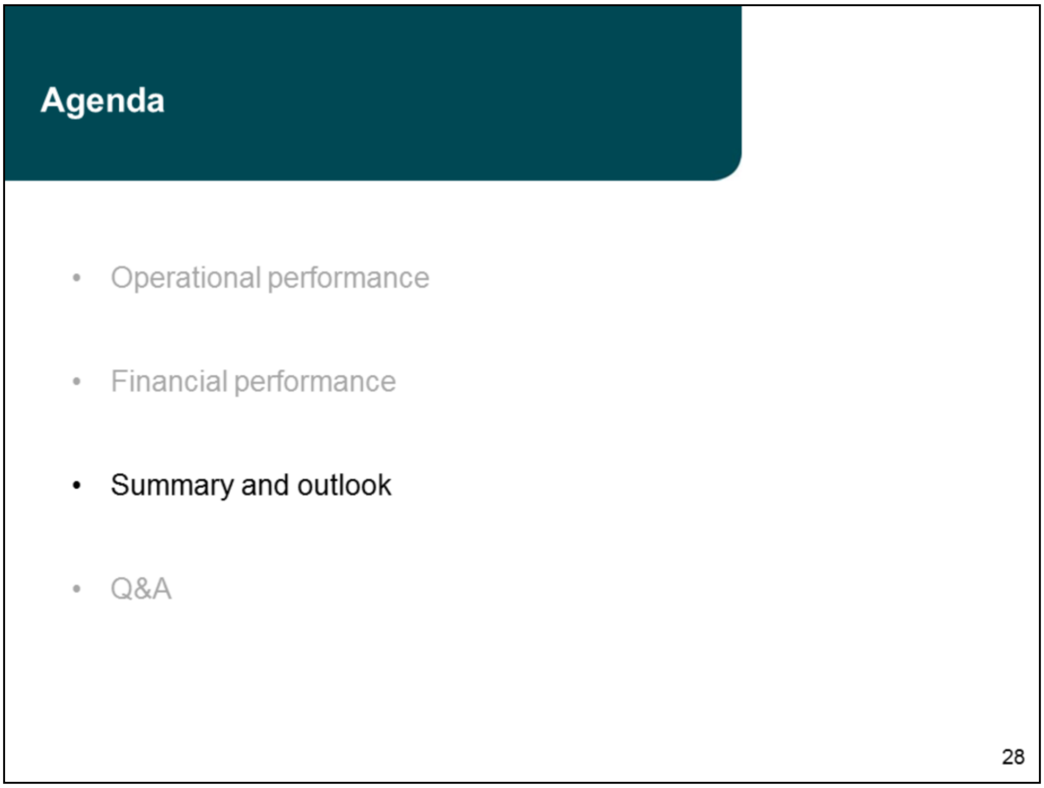
So, in summary:

- this is a good set of results in light of the tough new price controls;
- we have benefitted from a reduction in underlying finance expense;
- we continue to maintain a strong balance sheet and solid credit ratings, with S&P having recently uplifted us to a positive outlook;
- we have already raised over £1 billion of our £2.5 billion financing requirements for the forthcoming five-year period;
- we have locked in a low cost of debt for 2015-20, with an appropriate mix of index-linked and nominal debt; and
- our hedging policy means we are well placed to manage future financing costs.

Now, back to Steve.


Thanks, Russ.




I'll finish by providing a brief summary and outlook, before moving onto Q&A.

## Summary and outlook
*Solid foundation to deliver further value*

- Top quartile operational and environmental performance
- 'Systems thinking' approach – supporting drive for further improvement
- Accelerating 2015-20 investment programme
- Good financial performance
- Totex targets tough but within reach
- Robust capital structure, with debt costs locked in at attractive rates
- Well prepared for full market opening of business retail
- Dividend growth rate target of at least RPI inflation each year to 2020

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We have made a good start against a tough set of AMP6 targets.

Our AMP5 operational achievements and customer service improvements gave us good momentum for AMP6 and our 'systems thinking' approach is a key enabler to our further improvement.

Transitional investment ahead of AMP6 gave us a smooth transition into our 2015-20 investment programme, with our new partnering arrangements already delivering benefit.

We have delivered a good performance in the first six months of this year, reinforcing our confidence that the totex targets we accepted in our final determination remain tough but within reach.

We continue to maintain a strong balance sheet, good credit ratings and we have locked in low debt costs for the 2015-20 period.

We are advanced in our preparations for opening of the English business retail market to competition in 2017.

Overall, we believe we have established a solid foundation to deliver further benefits to customers, shareholders and the environment and we are targeting an annual dividend growth rate of at least RPI inflation through to 2020.

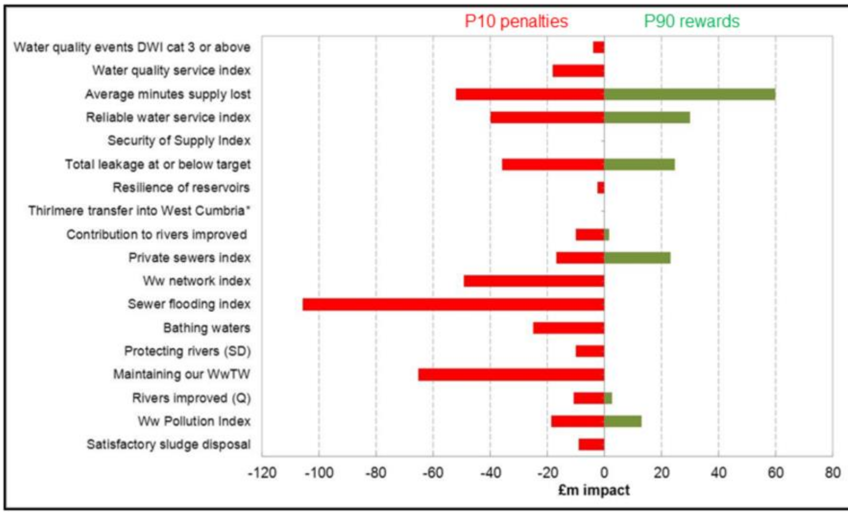

That concludes our results presentation.
Thank you for listening.
We'll now be pleased to take questions.

# Supporting information

Outcome delivery incentives
Reported income statement
Underlying profit before tax
Finance expense
Derivative analysis
Movement in net debt
Financing and liquidity
Term debt maturity profile
Debt structure

United Utilities

# Outcome delivery incentives (ODIs)
*Challenging operational targets*




Wholesale financial ODIs range covers 80% of probability range (P10/P90)
*Excludes Thirlmere transfer special cost factor claim – ODI effectively works as a "cost correction" mechanism reflecting timings in delivery

# Income statement – reported
*Fair value gains enhance earnings*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| **Revenue** | **857.0** | **859.4** |
| Operating expenses | (393.6) | (346.2) |
| **EBITDA** | **463.4** | **513.2** |
| Depreciation and amortisation | (185.1) | (172.7) |
| **Operating profit** | **278.3** | **340.5** |
| Investment income and finance expense | (64.9) | (138.3) |
| Share of profits of joint ventures | 2.2 | 2.5 |
| **Profit before tax** | **215.6** | **204.7** |
| Taxation | (43.7) | (41.9) |
| **Profit after tax** | **171.9** | **162.8** |
| | | |
| **Basic earnings per share (pence)** | **25.2** | **23.9** |
| **Interim dividend per ordinary share (pence)** | **12.81** | **12.56** |

# Underlying profit before tax

*Impacted by new regulated price controls*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| Operating profit | 278.3 | 340.5 |
| Investment income and finance expense | (64.9) | (138.3) |
| Share of profits of joint ventures | 2.2 | 2.5 |
| **Profit before tax** | **215.6** | **204.7** |
| Adjustments: | | |
| Water quality incident | 24.8 | - |
| Business retail market reform[1] | 5.4 | - |
| Restructuring costs | 0.1 | 2.6 |
| Net fair value (gains)/losses on debt and derivative instruments | (36.9) | 19.9 |
| Interest on swaps and debt under fair value option | 7.9 | 1.5 |
| Net pension interest (income)/expense | (1.4) | 3.6 |
| Capitalised borrowing costs | (10.8) | (11.1) |
| **Underlying profit before tax** | **204.7** | **221.2** |

[1] Relates to market reform restructuring costs incurred preparing the business for open competition in the business retail market

# Finance expense
*Underlying interest charge lower*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| Investment income | 2.5 | 0.6 |
| Finance expense | (67.4) | (138.9) |
| | **(64.9)** | **(138.3)** |
| Less net fair value (gains)/losses on debt and derivative instruments | (36.9) | 19.9 |
| Adjustment for interest on swaps and debt under fair value option | 7.9 | 1.5 |
| Adjustment for net pension interest (income)/expense | (1.4) | 3.6 |
| Adjustment for capitalised borrowing costs | (10.8) | (11.1) |
| **Underlying net finance expense** | **(106.1)** | **(124.4)** |
| **Average notional net debt** | **5,775** | **5,547** |
| **Average underlying interest rate** | **3.7%** | **4.5%** |
| Effective interest rate on index-linked debt | 3.1% | 4.2% |
| Effective interest rate on other debt | 4.3% | 4.8% |

## Finance expense: index-linked debt
*Cash benefit for the group*

| £m<br>Six months ended 30 September | 2015 | 2014 |
|---|---|---|
| Cash interest on index-linked debt | (25.5) | (25.0) |
| RPI adjustment to index-linked debt principal - 3 month lag[1] | (26.2) | (26.2) |
| RPI adjustment to index-linked debt principal - 8 month lag[2] | 2.4 | (11.4) |
| **Finance expense on index-linked debt** | **(49.3)** | **(62.6)** |
| Interest on other debt (including fair value option debt and swaps) | (56.8) | (61.8) |
| **Underlying net finance expense** | **(106.1)** | **(124.4)** |

- Cash interest payment of £26m on c£3.2bn of index-linked debt
- Decrease in indexation charge due to lower RPI on 8 month lagged debt
- RPI impact on RCV exceeds RPI impact on debt principal

[1] Affected by movement in RPI between January 2015 and July 2015
[2] Affected by movement in RPI between July 2014 and January 2015

# Derivative analysis
*Derivatives intrinsically linked to debt*

| £m<br>At | 30 Sep 15 | 31 Mar 15 |
|---|---|---|
| Derivatives hedging debt | 654.9 | 677.6 |
| Derivatives hedging interest rates to 2015 | 0.0 | (6.7) |
| Derivatives hedging interest rates beyond 2015 | (172.4) | (189.2) |
| Derivatives hedging commodity prices | (8.8) | (4.3) |
| **Total derivatives assets and liabilities (slide 21)** | **473.7** | **477.4** |

- **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 to 2015; fixed our sterling interest rate exposure out to 2015**
- **Derivatives hedging interest rates beyond 2015; fix our sterling interest rate exposure beyond 2015. This is in line with our strategy of fixing interest 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**

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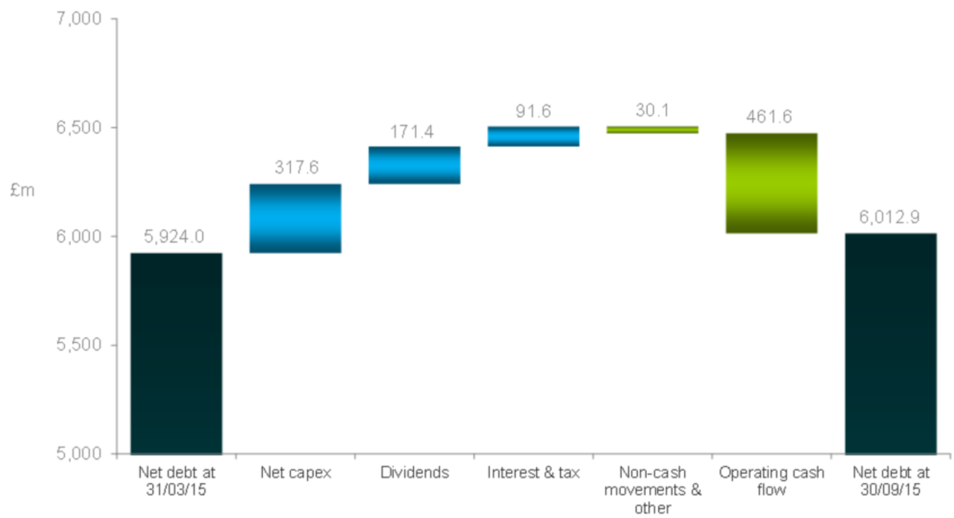
## Movement in net debt*

*Small increase in line with expectations*




* Net debt includes derivatives which incorporate regulatory swaps

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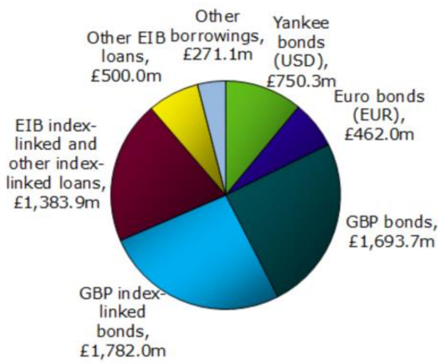
# Financing and liquidity at 30 September 2015

Gross debt = £6,843.0m




Headroom / prefunding = £311.1m

| | £m |
|---|---|
| Cash and short-term deposits | 356.4 |
| Medium-term committed bank facilities | 550.0 |
| Undrawn EIB term loan facilities | 250.0 |
| Short-term debt | (129.1) |
| Term debt maturing within one year | (716.2) |
| **Total headroom / prefunding** | **311.1** |

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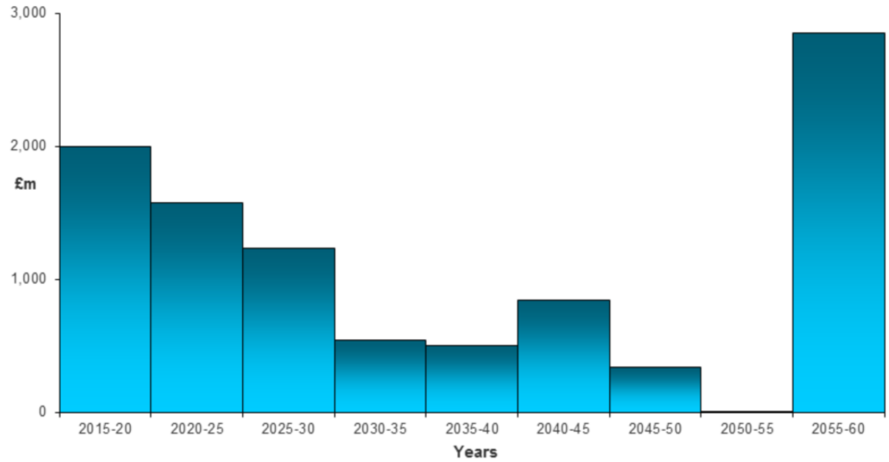
## Term debt maturity profile[1]

*Average term to maturity of over 20 years*




[1] Future repayments of index-linked debt include inflation based on an average annual RPI rate of 3%

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# Debt structure at 30 September 2015

**United Utilities Group PLC**

**United Utilities PLC**
Baa1 stable; BBB- positive

**Yankees:**
- \$250m in 18s
- \$350m in 19s
- \$400m in 28s

**Other debt:**
- Short-term loans £58m

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

**Euro MTNs:**
- £425m in 15s
- ¥5bn in 17s
- £150m in 18s
- €500m in 20s
- £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]
- £50m in 43s[1]
- £50m in 46s[1]
- £50m in 49s[1]
- £510m in 56s[1]
- £150m in 57s[1]

**Other debt:**
- EIB index-linked loans £1,000m[1]
- Other index-linked loans £200m[1]
- Other EIB loans £500m
- Short-term loans £41m
- ¥10bn dual currency loan
- Other sterling loans £29m

**United Utilities Water Finance PLC[2]**
Guaranteed by United Utilities Water Ltd

**Euro MTNs:**
- £25m in 25s[1]
- €52m in 27s
- £35m in 30s[1]

[1] Index-linked finance
[2] 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.

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## 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.