
United Utilities
helping life flow smoothly
United Utilities Group PLC
Half year results
Six months ended 30 September 2016

Good morning ladies and gentlemen and welcome to our 2016/17 half year results presentation.

We aim to be the best water and wastewater company in the UK, delivering a great service to our customers and, as you will hear, we have taken further steps toward this goal over the last six months. In particular, we are seeing the benefit of a refreshed approach to customer satisfaction and our programme of accelerated investment is yielding improvements in operational performance to the benefit of customer service and our outcome delivery incentives (or ODIs). In addition, we are making excellent progress in embracing innovation and new technology across the business in our drive for more efficient and effective ways of working.

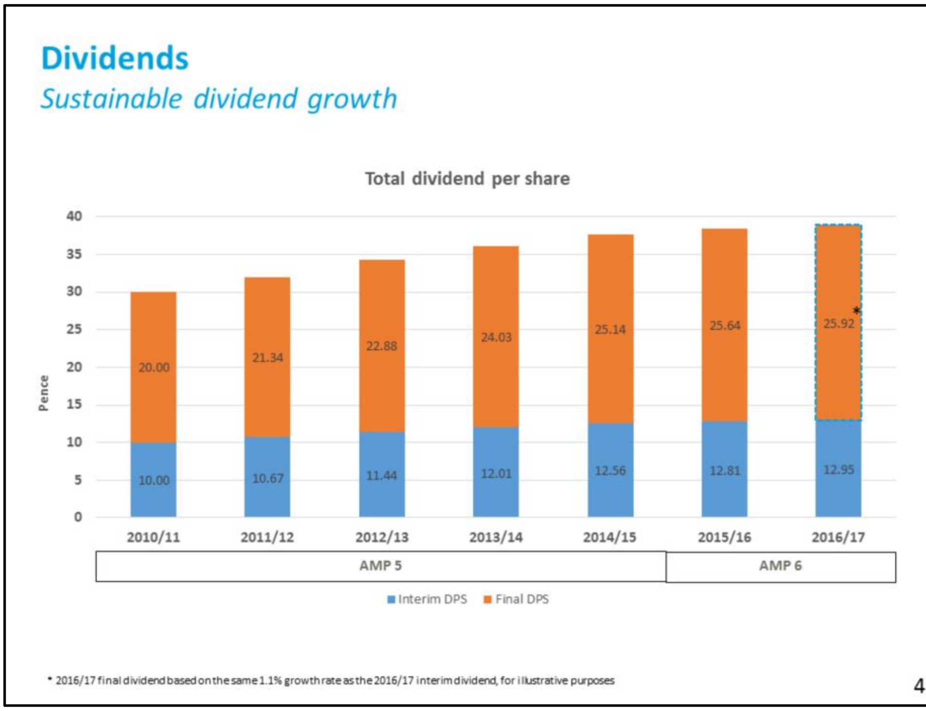
Highlights
Another strong performance

- Achieved our best AMP6 score under Ofwat's qualitative service incentive mechanism
- Acceleration of investment continues: £383 million in H1, on track for £800 million in full year
- Investment strategy contributing to further improvement in operational performance
- On track to meet our totex and ODI targets for this regulatory period
- Operating profit slightly ahead of last year
- Gearing remains within our target range at 62%
- Delivering strong financing outperformance
- Hedging policy protecting us from the pension headwinds hurting much of the FTSE

Today's highlights are as follows:

- We have achieved our best AMP6 score under Ofwat's qualitative customer service incentive mechanism.
- Our strategy for accelerated investment in the early part of this regulatory period has seen us invest capital of £383 million in the first six months of this year and we expect to invest around £800 million by year end, similar to last year.
- That accelerated investment is contributing to another year on year improvement in operational performance in our water and wastewater businesses.
- As a result, we are on track to meet our totex and ODI targets for this regulatory period.
- Operating profit is slightly ahead of last year. Gearing remains within our target range at 62 per cent.
- Our hedging policies are delivering strong financing outperformance and protecting our balance sheet from the pension headwinds hurting much of the FTSE.

And as you can see on the next slide, we are delivering sustainable dividend growth.



Our aim for investors remains consistent, namely to deliver sustainable dividend growth to shareholders, backed by a strong balance sheet.

This chart shows the growth across AMP5 and so far in AMP6.

The interim dividend of 12.95 pence per share for this first half, up 1.1% year on year, reflects our growth target of at least RPI over this five year regulatory period.

Agenda

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

Let’s get into some of the detail.

This is the agenda.

I will focus on operations and Russ will then take you through the numbers.

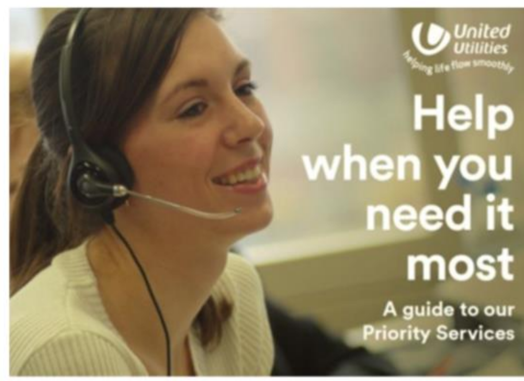
I’ll then finish with a summary and outlook for the group, before inviting questions.

So, starting with customer service.

Customer service

Delivering further service improvements for customers

- New retail management team delivering refreshed approach
- Our best AMP6 qualitative SIM scores achieved in 2016/17
- Our best ever billing SIM score
- 20% improvement in quantitative SIM score
- Customers rate UU highly for wastewater service
- Launched Priority Services for our customers



6

One of the strongest cultural shifts that we have achieved across the company is the focus on customers and their satisfaction. We made a step change during AMP5, becoming the most improved company using Ofwat's service incentive mechanism. However, to accelerate progress, we needed to refresh our approach.

Our new team, led by Lou Beardmore, is already delivering results, achieving our best ever AMP6 qualitative SIM scores in the first two quarterly surveys of 2016/17, and first place for billing among the WASCs last survey. Our overall scores so far this year have moved us above the industry average.

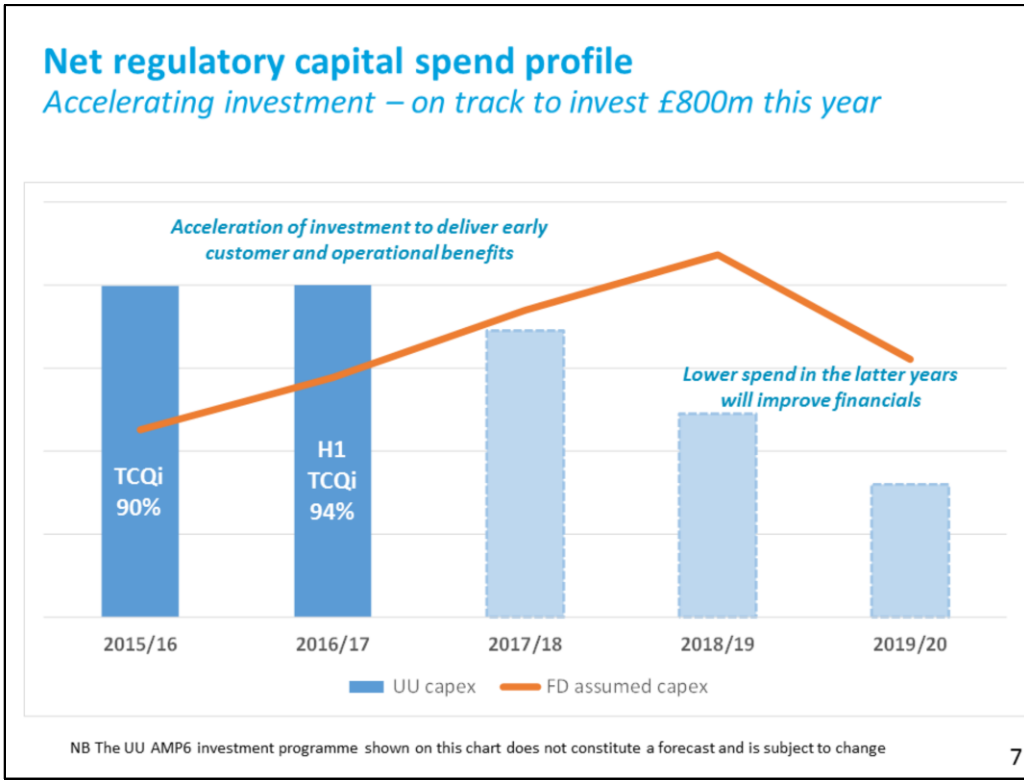
We also made significant improvements on our quantitative SIM score, which measures customer contacts. A number of companies don't share their data and so we won't know our relative sector position until after the financial year end, but we have improved our score for the first half by 20 per cent compared to this time last year.

Our wastewater customer satisfaction scores are consistently high. The operating model we designed when we took responsibility for private sewers delivers problem resolution on first visit for over 90 per cent of customers. It can be an unpleasant job but our wastewater team does it with a smile and regularly delivers first quartile qualitative SIM scores.

Our water network team SIM performance represents our biggest challenge. We will complete a root and branch review in this area of our end-to-end process and supply chain arrangements by year end.

Understanding the needs and circumstances of our customers is key to delivering and improving our service. Recent incidents have shown us that our traditional Extra Care offering did not address the full range of circumstances in which customers may find themselves. We developed a new Priority Services offering to bring together the range of targeted help and support that we can provide to customers who are experiencing short or long term difficulty at any point in their lives. Following extensive consultation, we launched Priority Services in May this year aimed at those customers who may be suffering physical or mental problems, as well as those in financial difficulty. Customer response has been strong and over 4,000 new customers have registered for the service since its launch. We are beginning to see the approach emulated elsewhere in the sector.

Now let's look at operational metrics.



This chart gives you an indication of our accelerated capex investment profile for the 2015-20 regulatory period. Our current plan is shown by the blue bars whereas the orange line represents the assumption contained in our final determination.

You know that last year we accelerated expenditure beyond that set out in our final determination to deliver early customer service and operational performance benefits, delivering outcomes that optimise performance against our ODIs. We said we would do the same this year and so expect to invest around £800 million in capital this year, having invested £383 million in the first six months.

We are obviously keen to ensure that we still spend effectively, notwithstanding this acceleration and so we are using use our time, cost and quality index, TCQi, to measure the effectiveness of our investment programme. I'm pleased that this metric continues to track above 90 per cent so far this year showing us that we are spending effectively across our large, diverse investment programme.

We recognise that higher IRE spend in the first two years of this regulatory period depresses underlying operating profit in the early years but this will reverse out in later years. We are confident this approach provides the best overall outcome for customers and shareholders.

Overall we expect to spend around £3.5 billion across 2015-20.

Systems Thinking driving performance

Further roll-out of capability

- Integrates our assets to deliver enhanced customer and environmental outcomes
- Telemetry backbone enables enhanced connectivity of assets to our integrated control centre, improving responsiveness and performance
- Real time water production planning and incident response across our system of 91 water production sites
- Recently completed 8-week Haweswater aqueduct planned maintenance outage
- Preston wastewater catchment pilot
- CEO graduate challenge

Using penetrating radar to inspect Haweswater aqueduct

8

In previous presentations you have heard me describe our Wholesale operating model, as Systems Thinking. This model integrates our assets to deliver enhanced performance and, better, more efficiently delivered outcomes for customers and the environment. Using this model we are progressively building a radically different way of working through investment in a comprehensive set of new operational capabilities. This is a significant cultural shift for a traditional water company and I am delighted with the change in thinking and performance that we are achieving. We are open to new ways of working, new ideas coming from the supply chain and non-water sectors and to the use of emerging technology. Having driven this agenda since joining the company, I now have hundreds of like-minded colleagues driving change in their area of the business.

Installation of our new telemetry backbone is largely complete and this enables significantly enhanced connectivity of our assets to our integrated control centre, or ICC. The monitoring team in our ICC is now able to triage asset alarms and remotely intervene so that we only call out local support when absolutely necessary. This is improving our response to alarms, reducing staff overtime and contributing to improvement in our year on year quality performance.

We now run water demand planning and production in real time across our 91 water production sites. Although initially established to optimise water production cost, the system has proved invaluable in re-planning during major incidents. We recently completed an 8 week outage of the Haweswater aqueduct for planned inspection and repairs. This aqueduct normally supplies water to around 2 million people in and around Manchester – up to 35 per cent of our daily regional supply - and our production control system played a critical part in our ability to take it out of supply for such a significant period. This capability significantly de-risked the outage for us.

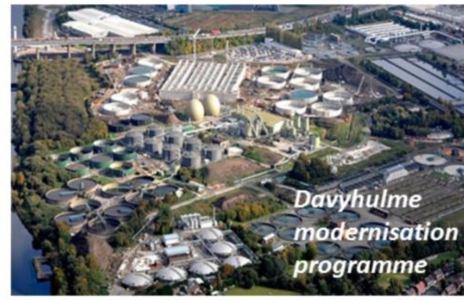
Particularly exciting is the pilot we are running in our Preston wastewater catchment. This is a large, densely populated drainage area associated with a sensitive bathing water coastline. We are using our Preston site as an intelligent hub from which we monitor the performance of surrounding treatment sites and the associated wastewater network. By integrating predictive rainfall data and in-sewer sensing we can identify and address 'hotspots' across the drainage area. The aim is to target issues before they create problems for customers or the environment thereby avoiding the high cost of flood response and clean up – in addition to reducing the very unpleasant implications of sewer flooding for customers.

Change is not just from the top. Each year my CEO Challenge presents our first and second year graduates with the task of developing solutions to operational challenges facing the business. They readily embrace Systems Thinking and this annual challenge has proved to be a successful way of engaging their fresh, open minds in developing new ways of working. Many of their innovations are now in daily use across the business. One such idea involved incineration of material removed from wastewater at our inlet screens, reducing the volume of material going to landfill by over 90 per cent. The idea was so good we modified our design for one of our major site upgrades to accommodate this capability.

Embracing innovation

New approaches delivering totex savings

- New design and construction partners
- Benefit from early involvement of partners in project lifecycles
- Davyhulme modernisation programme is one of our largest projects in AMP6 at c£200m
- Design for manufacture and assembly (DfMA) – off-site construction delivering savings and standardisation benefits
- Innovative Nereda process control technology offers significant efficiency benefits in wastewater treatment
- Operational performance and ODI benefits



9

New thinking is not limited to the way we run our business but also how we design and build our assets, embracing innovation available from the supply chain.

We have overhauled our engineering leadership team, bringing in extensive experience from other sectors to complement our water sector knowledge base. Application of this experience in the field is paying dividends in finding cost-effective solutions to performance issues, often avoiding what would have traditionally been capex intensive solutions.

We dispensed with the construction alliances that we used in AMPs 4 and 5, choosing new design and construction partners for AMP6. Whilst still relatively early in maturing these new relationships, we are already seeing significant benefit from involving our partners earlier in project lifecycles, helping to optimise totex spend and reduce through life costs.

We piloted design for manufacture and assembly, or DfMA, in AMP5 – the prefabrication of a significant proportion of a project off site. We selected partners that had invested in these techniques and we are targeting over 75 per cent of our projects in AMP6 to employ this approach. DfMA offers improvements in safety, quality, maintainability and reduces build time on site. The photos show our £200 million modernisation programme at our biggest wastewater treatment works, Davyhulme in Manchester, where DfMA will reduce build time on site by 15 per cent, save us 11,000 man days of effort on site and deliver a 10 per cent saving in construction cost compared to traditional construction methods.

Work has also started on a huge storm tank project at our Preston wastewater treatment works. By using DfMA for the tank walls we are saving 25 per cent build time on site.

We are exploiting innovation in treatment process. Last year Davyhulme celebrated 100 years since being the first in the UK to use activated sludge in wastewater treatment but the process has not since been subject of significant innovation – until now. Following successful trials, our engineering team approved use of a new innovation, Nereda. This process technology offers significant efficiency and cost-saving benefits in wastewater treatment, not only reducing the time wastewater has to sit in the tanks as it is treated but also needing less oxygenation, thereby reducing power consumption. We recently let the contract for our first Nereda plant at Kendal – the first in the UK of significant size – and are targeting up to a 20 per cent through life cost reduction by using this technology. Other site applications will follow.

This is all contributing to improved operational performance and ODI benefits.

Leading operational and environmental performance

UU assessed as Industry Leading Company

	Pollution incidents	Serious pollution incidents	Discharge permit compliance	Satisfactory sludge disposal	Self reporting of pollution incidents	AMP National Environment Programme Delivery	Overall performance rating
Water and sewerage companies							
A	Green	Amber	Green	Green	Amber	Green	Above average company
B	Amber	Amber	Green	Green	Green	Green	Above average company
C	Green	Green	Green	Green	Green	Green	Industry leading company
D	Amber	Amber	Green	Green	Amber	Green	Above average company
E	Red	Red	Red	Amber	Amber	Green	Poor performing company
F	Green	Amber	Green	Green	Amber	Green	Above average company
UU	**Green**	**Green**	**Amber**	**Green**	**Green**	**Green**	**Industry leading company**
H	Green	Amber	Green	Green	Green	Green	Industry leading company
I	Amber	Amber	Green	Green	Green	Green	Above average company

Source: Environment Agency's "Environmental Performance Assessment 2015" published in July 2016 (excludes Welsh Water)

10

This slide reproduces the Environment Agency's latest annual assessment of water and wastewater company performance, published in July 2016 in which we were awarded Industry Leading Company status. We were particularly pleased to deliver another strong performance in the area of pollution incidents – a significant AMP6 ODI for us.

On water quality, the Drinking Water Inspectorate's Northern Region report earlier this year showed us having delivered the best performance among the Northern companies although at industry level our performance has generally been around the sector average.

Both we and the DWI recognise that the configuration of many of our legacy assets means that we are mitigating higher than average underlying risk to deliver this performance. As a result, we are investing in a number of asset improvements to address this issue and since beginning the programme earlier this year we have seen a significant improvement in water quality performance.

West Cumbria Pipeline
Planning permission secured

- Largest project in AMP6 at £300m
- Pipeline will be 100km in length
- Crosses some of the most special areas of the Lake District National Park
- Gravity-fed engineering

- Highest levels of stakeholder engagement and consultation needed to secure support
- Achieved planning consent four months ahead of schedule

11

You'll be aware that one of our major projects this AMP is the £300 million, 100 kilometre West Cumbria Pipeline project. This will provide a secure, long term supply for the area and ease pressure on environmentally sensitive local water resources.

The pipeline will cross some of the most special areas of the Lake District National Park and, as a result, we have developed a solution which respects this sensitivity whilst delivering the lowest whole life cost.

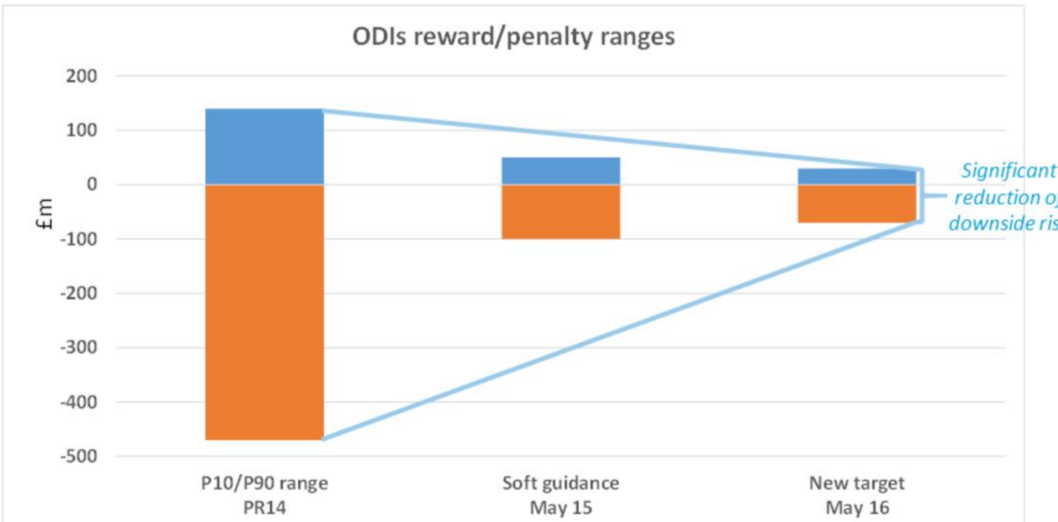
The project demands the highest levels of stakeholder engagement and consultation to secure support so we were particularly pleased last week to receive the third and final planning approval for this project. We have been engaging with local communities on the proposed route since 2013 and this milestone reflects an outstanding job by the project team.

Achieving planning consent is an ODI milestone and we have delivered it four months ahead of schedule. Our ODI for the pipeline requires us to achieve several critical milestones throughout the programme and this represents a good start.

Now, looking at our ODIs in a bit more detail.

Outcome delivery incentives (ODIs)

On track to meet our targets



Confidence in our target range of £30m net reward to £70m net penalty

12

You may recall this chart from our full year presentation last May. It shows how our view has developed of the range for our cumulative AMP6 ODI outcome. The narrowing of the range reflects improving underlying performance, the anticipated benefit arising from our accelerated investment programme and delivery of a first year performance of a net reward of £2.5 million.

You may remember at this time last year I identified that a number of our ODIs are calendar year measures where the award can be susceptible to one off events. Although we are in a better position than this time last year, we still have to get to year end, and so we will have to wait until the full year before I can update you. We have seen continued strong first half performance in the areas of private sewers and pollution incidents and our first half performance supports delivery of an outcome within our target range.

At this stage, we are not updating our cumulative AMP6 targets, but will revisit this at the full year results next May.

Moving onto our renewable energy capability.

Renewables generation

Enhancing energy resilience at reduced operating cost

- Maximise energy from sludge
- Non-regulated investment of £100m+ across 2015-20, mainly solar
- Capital project to upgrade biogas produced on site and inject into the National Grid Network
- Qualified for the Government's Renewable Heat Incentive tariff
- Battery technology becoming viable


Biomethane gas to grid project

13

Energy is one of our biggest costs at around £65 million per annum and we are investing in our energy infrastructure to provide for improved resilience at reduced operational cost. Our approach is to think of our major sites as electricity micro-grids and leverage the opportunities available to us as a major energy consumer and generator, by entering into commercial relationships with National Grid and our local DNOs as they seek to balance supply and demand.

Core to our strategy is to maximise the energy we produce from sludge digestion and much is being done to improve our digester performance and optimisation of the wastewater treatment/digester interface. This is all good preparation for when this aspect of our value chain becomes exposed to competition post 2020.

Second is to invest in other sources of renewable generation, mainly solar. Subject to acceptable returns, we are targeting non-regulated investment of around £100 million, principally in solar installations by 2020, having invested £37 million of this sum to date at an expected average post-tax IRR of around 11 per cent. Following the recent reductions in tariffs announced by the Government, we have reduced our investment threshold for solar but we still see this as an attractive area for investment. Solar therefore remains an important plank in our renewable energy strategy.

We recently completed our project to deliver a gas to grid connection at Davyhulme, pictured above. This project was fast tracked to successfully qualify for the Government's Renewable Heat Incentive tariff, first delivering gas to grid in March this year.

Battery technology is now reaching the point where investment in storage is looking viable and we are developing our plans in this space in line with our micro grid concept, to ensure we can optimise use of the electricity generated on each site.

Now, looking at developments in retail competition.

Non-household retail

Preparations for market opening well advanced

- Joint venture with Severn Trent completed on 1 June – Water Plus
- Water Plus now serving UU non-household customers
- All customers to be transferred to Water Plus by end of November
- Entered shadow operations on schedule on 3 October
- Continue to be a significant player in the Scottish market
- Significant number of new entrants to the English market
- Anticipate an active market when it opens in April 2017

14

Preparations for opening the retail market for non-household customers in England remain on track for April 2017.

Following CMA approval, we have been busy establishing operations in new premises in Stoke on Trent. We are very focused on Water Plus being a low cost operation offering customers great service.

Water Plus began serving its first customers mid year following which we have been progressively transferring customer accounts to Water Plus, with full transfer expected to be completed before year end.

The sector began shadow operations – essentially a rehearsal for full market opening – last month. With no material issues emerging, this increases confidence that the market will open on time next year.

A significant number of new entrants are emerging, which indicates that the market may be active earlier than was the experience in Scotland, and there could well be significant customer gains and losses for the incumbent suppliers.

You may know that Ofwat recently gave its response to the Government regarding the potential to open the domestic retail market to competition and we now await its decision.

Finally, I'd just like to touch on our corporate responsibility credentials, before handing over to Russ.

Strong corporate responsibility credentials

External recognition

- Industry Leading Company as measured by the Environment Agency
- Retained Dow Jones Sustainability Index World Class rating for 9th consecutive year
  - very good achievement in light of ever evolving standards
  - only water and sewerage company to hold a World Class rating
- Joint winner for Excellence in reporting in the FTSE 100 at 2015 BPT Awards
  - Building Public Trust Awards sponsored by PwC
- Won Communicating Integrated Thinking award at 2016 Finance for the Future Awards
  - sponsored by Deloitte, Accounting for Sustainability & Institute of Chartered Accountants in England & Wales

15

We aim to run our business in a responsible manner and benchmark ourselves to see how we compare with others in this regard and to help us continuously improve.

As I mentioned, we attained Industry Leading status as measured by the Environment Agency.

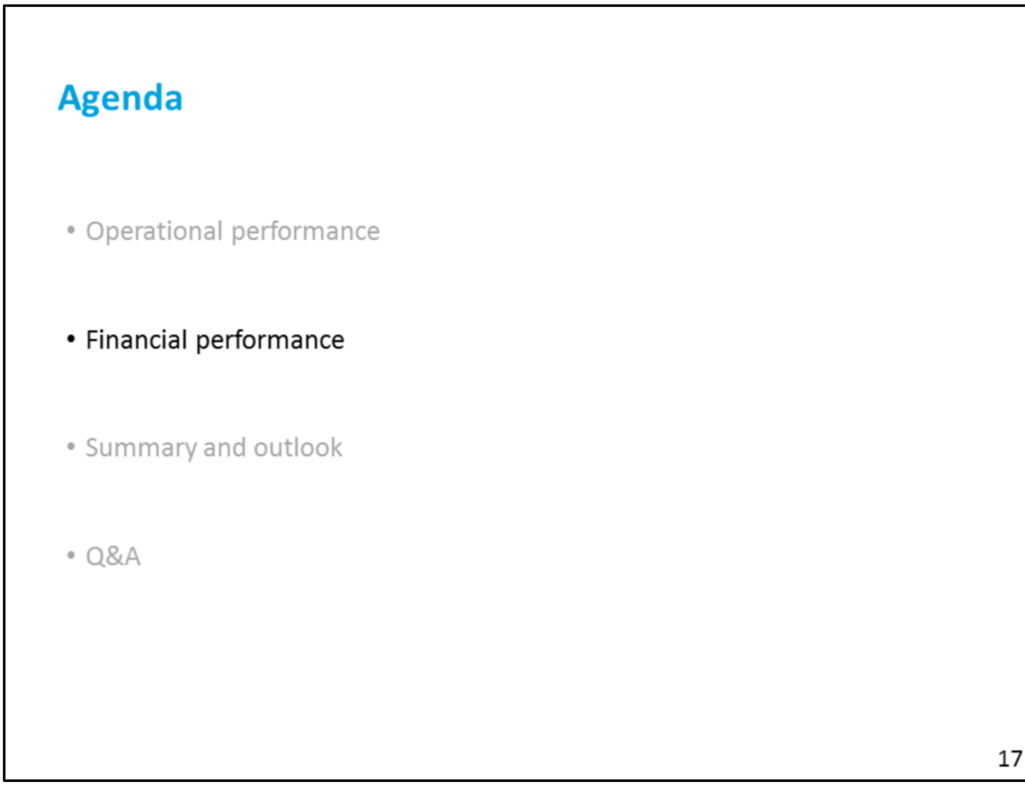
And we were delighted, earlier this year, to retain our World Class rating by Dow Jones under its sustainability index. This is the 9th consecutive year we have been awarded this rating and find ourselves as the only water and sewerage company in this class.

There is significant focus on governance and transparency by corporates and in particular the utilities due, in part, to the nature of the essential service we provide. We were pleased to be selected joint winner of Excellence in reporting in the FTSE 100 at the PWC 2015 Building Public Trust Awards.

Having been an early mover on integrated reporting we were also delighted that our last Annual Report and Accounts won the Communicating Integrated Thinking award at the Finance for the Future Awards in October 2016. Something we are particularly proud of.

Now, over to Russ for the numbers.

Thank you, Steve.



So, moving onto our financial performance.

Reported Income statement

One-off tax credit and profit on disposal enhance earnings

£m Six months ended 30 September	2016	2015
Revenue[1]	853.0	857.0
Operating expenses	(371.4)	(393.6)
EBITDA	**481.6**	**463.4**
Depreciation and amortisation	(178.0)	(185.1)
Operating profit	**303.6**	**278.3**
Investment income and finance expense	(168.0)	(64.9)
Profit on disposal of non-household retail business	20.9	-
Share of profits of joint ventures	1.9	2.2
Profit before tax	**158.4**	**215.6**
Taxation	44.2	(43.7)
Profit after tax	**202.6**	**171.9**
Basic earnings per share (pence)	**29.7**	**25.2**
Interim dividend per ordinary share (pence)	**12.95**	**12.81**

[1] UU Water appointed: £840m, UU Water non-appointed: £4m, Non UU Water: £9m (H1 2016/17)

18

The group has delivered a good set of financial results for the six months ended 30 September 2016.

In light of the ESMA guidelines, which have recently come into force, a wider range of communications, including investor presentations, must now show adjusted performance measures with no greater prominence than IFRS measures. I am therefore starting today with our IFRS reported numbers. However, we continue to believe that our underlying measures provide a more representative view of business performance and we will look at the underlying measures on the next slide.

Revenue was down £4 million, as expected, at £853 million, reflecting the accounting impact of our Water Plus JV, which completed on 1 June 2016, partly offset by our allowed regulatory revenue changes.

Based on Ofwat's revenue adjustment mechanisms, there are some revenue adjustments we need to make in future periods and we have provided information on page 8 of the RNS announcement to help with your modelling. These adjustments relate to both the impact of the 2014/15 revenue correction mechanism, from the last regulatory period, and Ofwat's new wholesale revenue forecasting incentive mechanism, which applies from the 2015/16 financial year.

Reported operating profit was up £25 million, at £304 million, mainly as a result of reduced profit in the first half of last year principally due to costs associated with the water quality incident.

Reported profit before tax decreased by £57 million to £158 million, mainly due to fair value movements partly offset by a profit on disposal relating to the Water Plus JV.

Reported profit after tax was £31 million higher at £203 million, mainly reflecting a deferred tax credit relating to the Government's future planned tax changes.

Reported EPS was up 18 per cent for the same reasons that moved profit after tax.

Underlying income statement

Good financial performance

£m Six months ended 30 September	2016	2015
Revenue[1]	853.0	857.0
Operating expenses	(290.3)	(287.7)
Infrastructure renewals expenditure	(72.2)	(75.6)
EBITDA	**490.5**	**493.7**
Depreciation and amortisation	(178.0)	(185.1)
Operating profit	**312.5**	**308.6**
Net finance expense	(125.4)	(106.1)
Share of profits of joint ventures	1.9	2.2
Profit before tax	**189.0**	**204.7**
Tax	(37.5)	(41.5)
Profit after tax	**151.5**	**163.2**
Earnings per share (pence)	**22.2**	**23.9**
Interim dividend per ordinary share (pence)	**12.95**	**12.81**

[1] UU Water appointed: £840m, UU Water non-appointed: £4m, Non UU Water: £9m (H1 2016/17)

19

Now, looking at the underlying income statement, which we believe gives a more representative view of business performance.

Underlying operating profit at £313 million was £4 million higher than last year. This reflects the allowed regulatory price changes and slightly lower total costs, which I'll discuss in more detail on the next slide, partly offset by the accounting treatment of Water Plus.

Underlying profit before tax was £189 million, £16 million lower than the first half of last year, as the £4 million increase in underlying operating profit was more than offset by a £19 million increase in underlying net finance expense as a result of higher RPI inflation, which principally impacted the portion of the group's index-linked debt with a three month lag.

Underlying profit after tax of £152 million was £11 million lower than last year, reflecting the £16 million decrease in underlying profit before tax partly offset by lower underlying tax on lower profits.

Underlying EPS was down by 1.7p, or 7 per cent, for the same reasons that moved profit after tax.

The detailed adjusting items are shown in the profit after tax reconciliation slide in the appendix to this presentation.

Now, onto our cost base.

Underlying operating costs

Maintaining tight cost control

£m Six months ended 30 September	2016	2015	Movement
Revenue	**853.0**	**857.0**	
Employee costs	(72.7)	(71.3)	(1.4)
Hired and contracted services	(45.5)	(47.0)	1.5
Property rates	(47.2)	(46.4)	(0.8)
Materials	(34.2)	(32.1)	(2.1)
Power	(33.2)	(30.4)	(2.8)
Bad debts[1]	(17.7)	(19.7)	2.0
Regulatory fees	(16.4)	(8.6)	(7.8)
Third party wholesale charges	(3.0)	(6.5)	3.5
Other expenses	(20.4)	(25.7)	5.3
	(290.3)	**(287.7)**	**(2.6)**
Infrastructure renewals expenditure (IRE)	(72.2)	(75.6)	3.4
Depreciation and amortisation	(178.0)	(185.1)	7.1
Total underlying operating expenses	**(540.5)**	**(548.4)**	**7.9**
Underlying operating profit	**312.5**	**308.6**	
Adjustments:			
Water quality incident	-	(24.8)	
Flooding incidents (net of insurance proceeds)	(0.9)	-	
Business retail market reform[2]	(3.4)	(5.4)	
Restructuring costs	(4.6)	(0.1)	
Reported operating profit	**303.6**	**278.3**	

[1] Of which £16.4m relates to Household Retail in 2016/17 and £16.9m in 2015/16

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

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.

The main decreases were depreciation (£7 million, as we recognised some accelerations in depreciation in the first half of last year), and other costs (£5 million, mainly because of legal and other provisions last year).

The main increase was regulatory fees (£8 million, as we received a rebate in the first half of last year).

Overall, our total underlying operating expenses were down £8 million.

Bad debt and cash collection

Bad debt improved in a challenging environment

- North West is the most deprived region in England
- Household bad debt reduced to 2.8% from 3.0% of regulated revenue for H1 2016/17
- Reflects ongoing focus on managing bad debt
- Bad debt will continue to be challenging in difficult North West environment

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

Deprivation remains the principal driver of our higher than average bad debt, with the North West having the highest proportion of deprived customers in the country.

Following the formation of Water Plus, we believe it is now more appropriate to look at household bad debt to provide a view of our performance. This is a new breakdown and shows that we have managed to improve our performance and reduced household bad debt to 2.8 per cent of regulated revenue, from 3.0 per cent in the first half of last year. This is slightly better than our expectations.

We have maintained our strong focus on improving our bad debt and cash collection performance, including working with Equifax to share customers' credit data to encourage those who can pay to do so. We also have a wide range of schemes to help those who are genuinely struggling to pay.

So, we've made a good start to the year, but bad debts will remain challenging in our high deprivation region.

Financial position

Robust capital structure

£m At	30 Sep 16	31 Mar 16
Property, plant and equipment	10,196.2	10,031.4
Retirement benefit surplus	214.8	275.2
Other non-current assets	310.8	208.7
Cash	237.4	213.6
Other current assets	374.2	412.3
Total derivative assets	937.9	765.6
Total assets	**12,271.3**	**11,906.8**
Gross borrowings	(7,316.9)	(6,978.0)
Other non-current liabilities	(1,565.3)	(1,592.5)
Other current liabilities	(383.8)	(369.1)
Total derivative liabilities	(335.0)	(261.7)
Total liabilities	**(9,601.0)**	**(9,201.3)**
TOTAL NET ASSETS	**2,670.3**	**2,705.5**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	1,839.5	1,878.8
Other reserves	328.1	324.0
SHAREHOLDERS' EQUITY	**2,670.3**	**2,705.5**
NET DEBT[1]	**(6,476.6)**	**(6,260.5)**

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

22

Turning now to the statement of financial position.

Property, plant and equipment was up £165 million in the half year to £10.2 billion, reflecting expenditure on our large capital programme.

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

Cash and short term deposits were up £24 million, compared with March.

Derivative assets increased by £172 million, to £938 million, reflecting both a weakening of sterling and a decrease in market interest rates during the period. Derivative liabilities were up £73 million, at £335 million, reflecting the decrease in market interest rates.

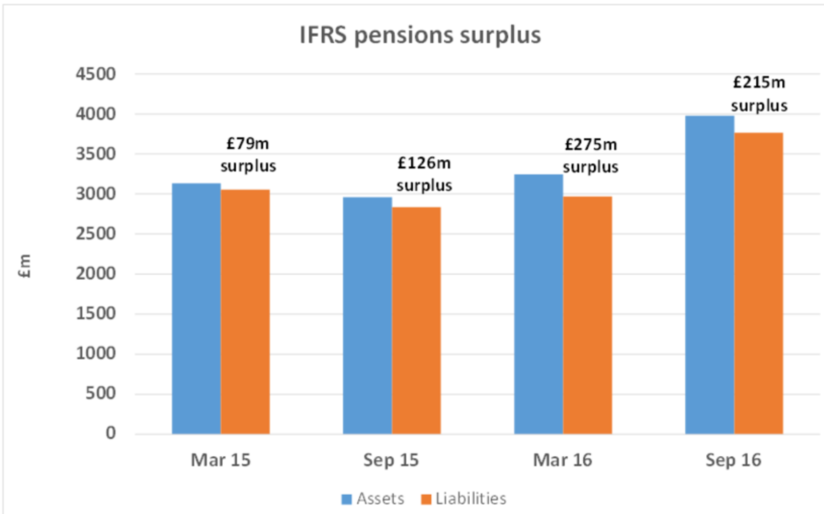
Gross borrowings increased by £339 million, to £7.3 billion, due to debt raised exceeding maturities, the inflation uplift on index-linked debt and a weakening of sterling and a fall in market interest rates.

Retained earnings have reduced slightly by £39 million to £1.84 billion, impacted by remeasurement losses on our defined benefit pension schemes.

Net debt was £216 million higher than the position at March 2016, mainly reflecting accelerated expenditure on our substantial capital investment programme and, to a lesser extent, our loans to Water Plus.

Pensions

Hedging working well

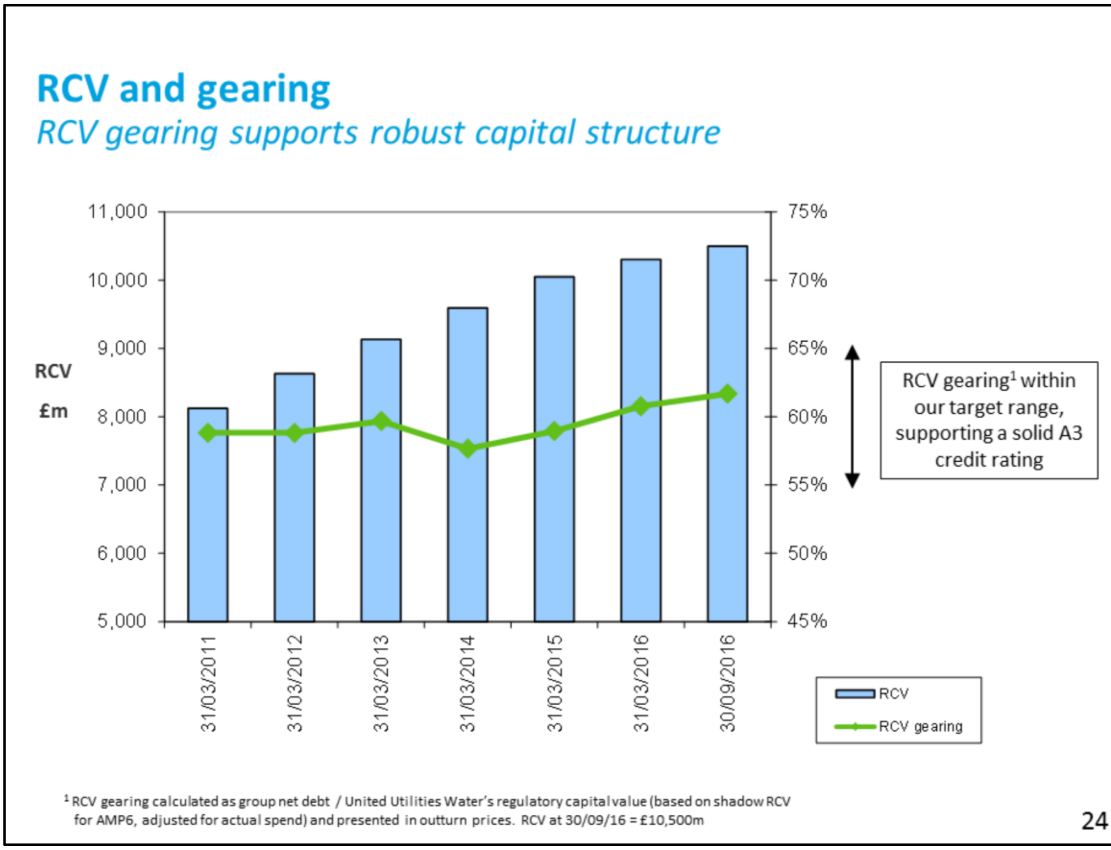


So, looking at our pensions position in a bit more detail.

Our hedging policy for our pension schemes is to adopt an asset/liability matching approach to avoid unnecessary volatility in the funding and accounting surplus or deficit. This policy is working well, as you can see from the accounting surpluses in our last few sets of results.

We have seen a decrease in surplus of £60 million compared with March 2016. This movement mainly reflects a decrease in credit spreads, which has increased the pensions schemes' liabilities, partially offset by a better return than assumed on the pension schemes' assets.

Nonetheless, our pensions position remains strong, with a £215 million surplus as at 30 September 2016, and we are in a much better place relative to many other FTSE companies.



This chart shows our RCV and gearing level.

The blue bars show the growth in our RCV. We have adjusted our RCV for this regulatory period to reflect our accelerated levels of investment, as suggested by a number of analysts.

The green line shows the movement in RCV gearing over the last few years. Across the periods to March 2015, our gearing had remained relatively stable, at around 60 per cent, with the growth in net debt largely offset by the growth in the RCV. In the early part of this regulatory period, as expected, gearing has nudged up slightly, reflecting the acceleration of our investment programme, our £46 million loan to Water Plus and lower inflationary growth in the RCV. The acceleration of our investment has had a short-term impact on gearing, but this should reverse out in the later years of this AMP.

As at 30 September 2016, RCV gearing was 62 per cent. This remains comfortably within our target gearing range of 55 to 65 per cent and supports a solid A3 credit rating.

Cash flow statement

Cash from operations covers investing activities

£m Six months ended 30 September	2016	2015
Net cash generated from operating activities	419.7	370.0
Net cash used in investing activities	(375.8)	(313.0)
Net cash generated (used in)/from financing activities	(13.7)	50.2
Net movement in cash	**30.2**	**107.2**

25

Moving on to cash flow.

Net cash generated from operating activities at £420 million was £50 million higher than the first half of last year, mainly as a result of lower profit last year, principally reflecting the impact of the additional costs associated with the operational incidents in that period.

Cash used in investing activities was up £63 million, to £376 million, mainly reflecting higher capital investment and lending to our Water Plus JV.

Net cash used in financing activities was £14 million, compared with cash generated of £50 million in the first half of last year, as we received lower net proceeds from borrowings in the first half of this year.

Now, onto financing.

Financing

Over half of 2015-20 funding already raised

- >£1.5bn of c£2.5bn 2015-20 financing requirements already raised

  Index-linked

  - c£53m raised from private placements raised in September 2016, with 12-year and 20-year maturities
  - £250m EIB[1] loan with 10-year average life; £175m still to be drawn down
  - Total of £510m raised previously

  Nominal

  - c£76m private placements raised in June 2016, with 15-year maturities
  - Total of £660m raised previously

- Additional £200m committed bank facilities agreed since March 2016

- Financing headroom into 2019

[1] European Investment Bank

26

Over the 2015-20 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 have continued our good start and have now raised over £1.5 billion, which means we have already raised over half of our requirements for this five-year period.

Since our full year results in May, we have raised £53 million of private placements, in index-linked form, via our EMTN programme. This fund raising was split into two tranches, one with a 12-year maturity and the other with a 20-year maturity, and at our best ever real interest rates.

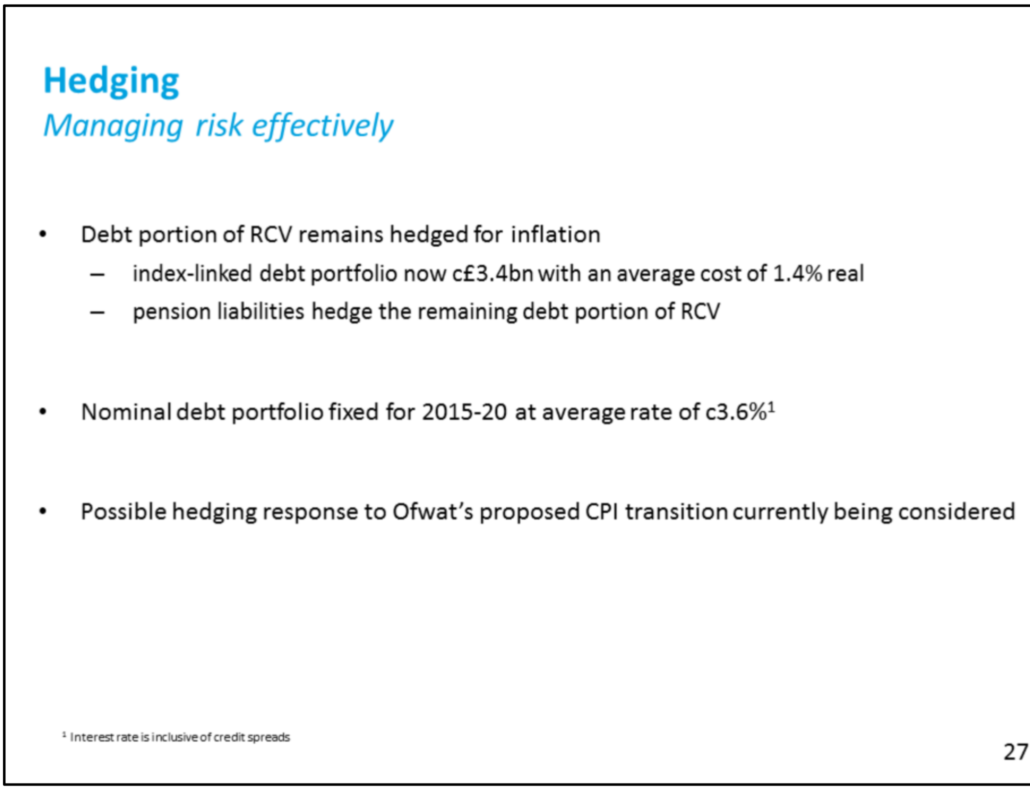
We have also raised a further £76 million in nominal form, via private placements, again off our EMTN programme and these have 15-year maturities.

This supplements the £250 million EIB loan that UUW signed in April 2016.

As I have previously highlighted, Brexit will have no impact on the terms of our existing EIB debt portfolio and for the time being the EIB remains committed to signing new loans. However, further borrowings from the EIB are unlikely after the completion of Brexit negotiations. There is a chart in the appendix which demonstrates that our existing EIB funding has a medium to long-term maturity profile. There will be very little impact in the short to medium-term.

Furthermore, since March 2016, we have agreed £200 million of committed bank facilities and the total under our bilateral revolving credit facilities programme is £700 million.

As a result, we now have headroom to cover our projected financing needs into 2019.



And finally, an update on our approach to hedging.

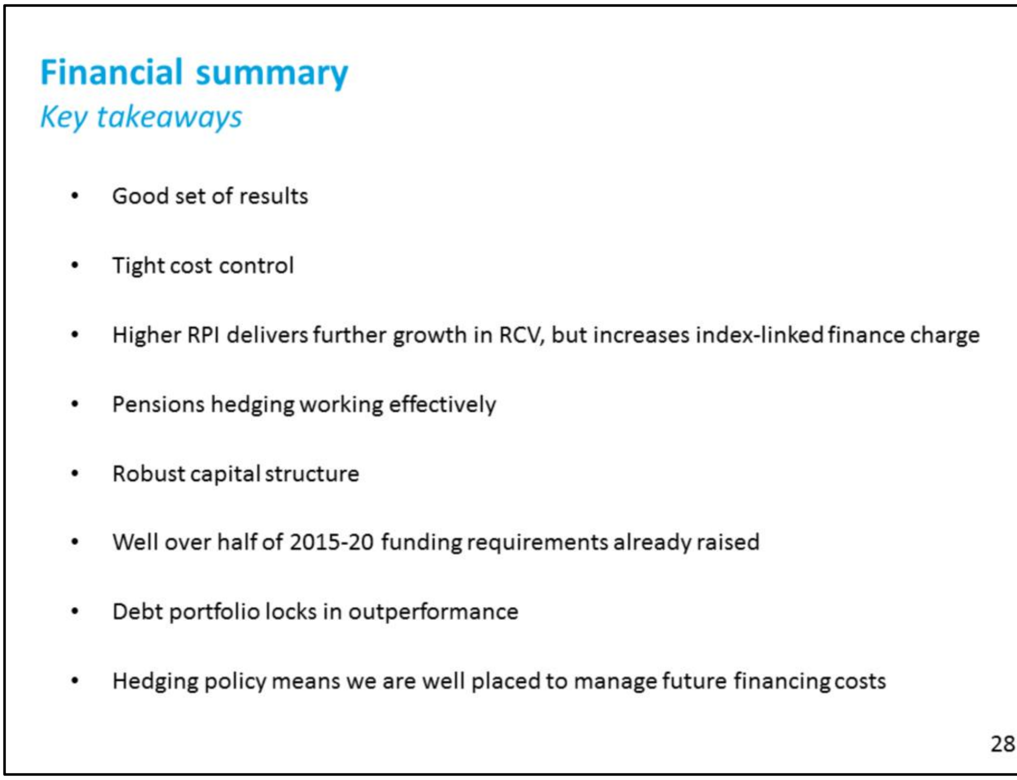
Our hedging policy for business exposures is to leave the equity portion of the RCV exposed to RPI inflation by hedging the debt portion of the RCV for inflation through index-linked debt and the effect of our pension scheme liabilities.

The average cost of our £3.4 billion, long-term, index-linked debt portfolio has now reduced to 1.4 per cent real, reflecting the more recent index-linked debt we have raised which is at much more attractive rates.

In respect of our nominal debt, this is virtually all fixed for the 2015-20 period at an average interest rate of around 3.6 per cent.

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

Whilst we recognise that Ofwat wishes to transition from RPI to CPI or CPIH inflation, we will need to know the final form of that transition before we can judge the appropriate hedging response.

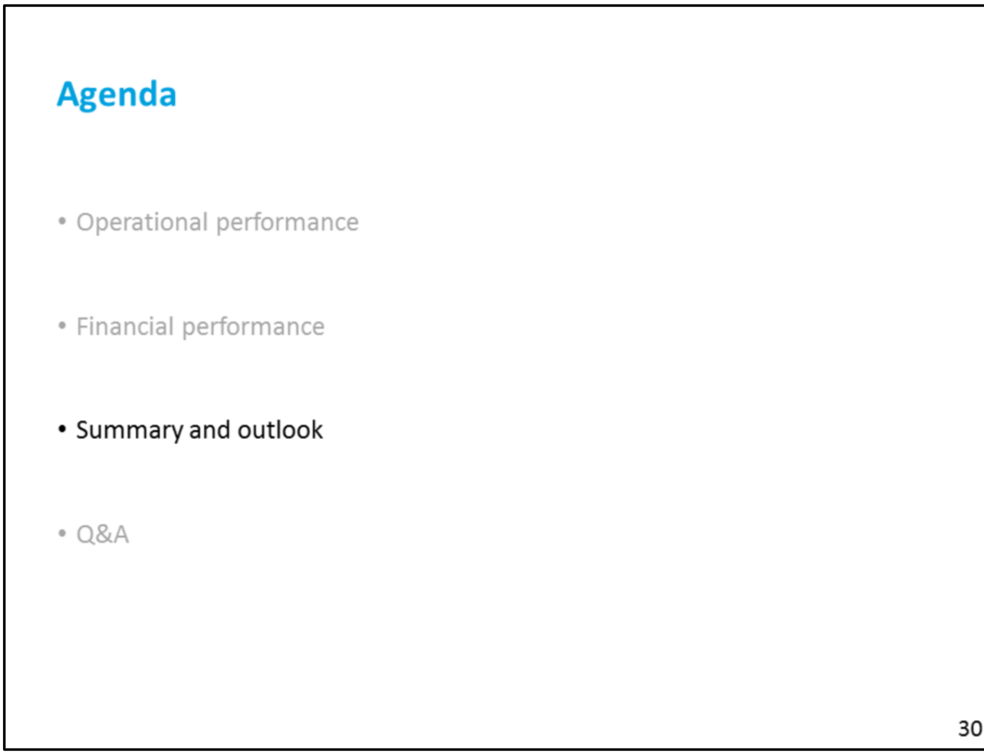


So, in summary:

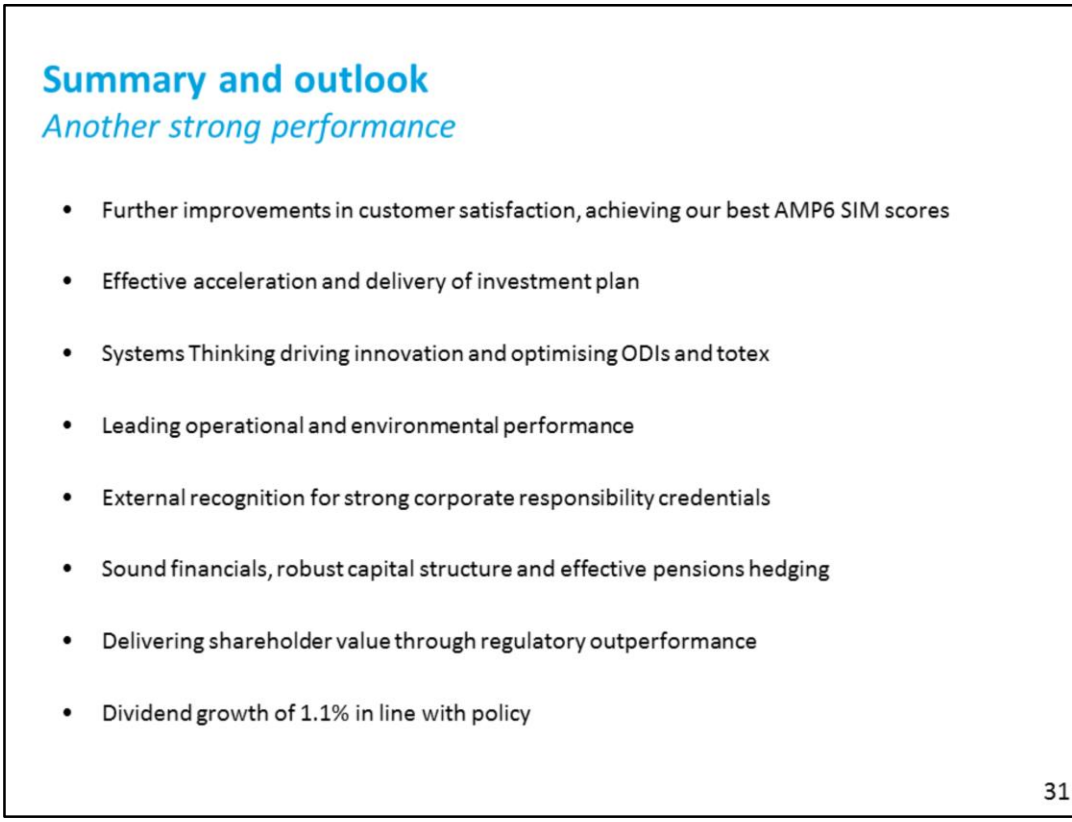
- we have delivered a good set of half year results and have robust financials;
- we have continued to maintain tight cost control;
- we have seen higher RPI inflation deliver further growth in our RCV, although this has also increased our index-linked finance charge this half year;
- our pensions hedging strategy is working effectively and this places us in a strong position;
- we continue to maintain a strong balance sheet and solid credit ratings;
- we have already raised well over half of our £2.5 billion financing requirements for the five-year regulatory period;
- we have locked in a low cost of debt for 2015-20, with an appropriate mix of index-linked and nominal debt, and this is delivering outperformance; and
- our hedging policy means we are well placed to manage future financing costs.

Now, back to Steve.

Thank you, Russ.



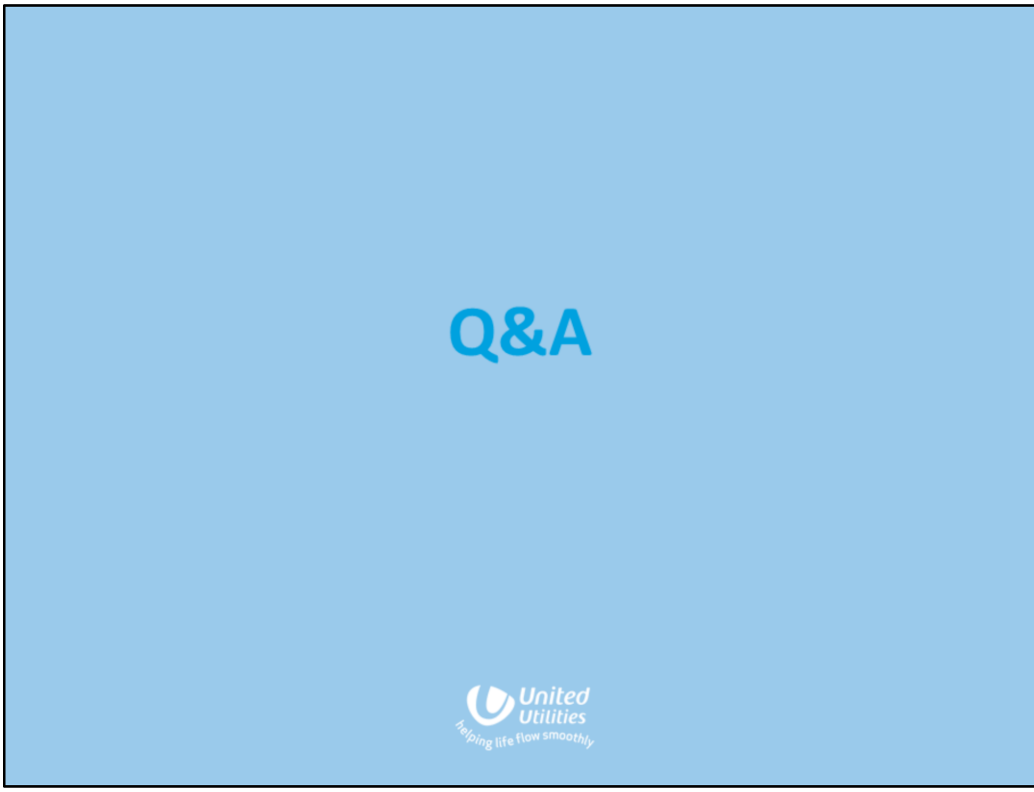
Before Russ and I take questions, I would like to summarise the key points from our presentation this morning.



We are continuing to make good progress in delivering our plans.

- We are seeing the benefits of a refreshed approach to customer service, delivering our best ever satisfaction scores.
- We are on track with our programme of accelerated investment, and expect to invest around £800 million this year to deliver early customer and operational benefit.
- We are embracing innovation to optimise ODIs, totex and through life costs.
- We continue to deliver enhanced operational capability under our Systems Thinking model.
- We have attained industry leading environmental performance and are seeing improved water quality performance year on year.
- We have gained external recognition for our strong corporate responsibility credentials.
- Our hedging policies are delivering strong financing and pension performance.
- We have a robust capital structure with gearing within our target range.

All of this supports dividend growth of 1.1 per cent, in line with our policy of an annual growth target of at least RPI inflation up to 2020.



That concludes our presentation.
Thank you for listening.
We’d now like to take questions.

Supporting information

- Profit before tax reconciliation
- Profit after tax reconciliation
- Finance expense
- Derivative analysis
- Movement in net debt
- Financing and liquidity
- Term debt maturity profile
- EIB funding maturity profile
- Debt structure

United Utilities
helping life flow smoothly

Profit before tax reconciliation

£m Six months ended 30 September	2016	2015
Operating profit	303.6	278.3
Investment income and finance expense	(168.0)	(64.9)
Profit on disposal on non-household retail business	20.9	
Share of profits of joint ventures	1.9	2.2
Reported profit before tax	**158.4**	**215.6**
Adjustments:		
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	0.9	-
Non-household retail market reform[1]	3.4	5.4
Restructuring costs	4.6	0.1
Profit on disposal on non-household retail business	(20.9)	-
Net fair value losses/(gains) on debt and derivative instruments	54.8	(36.9)
Interest on swaps and debt under fair value option	8.5	7.9
Net pension interest income	(4.8)	(1.4)
Capitalised borrowing costs	(15.9)	(10.8)
Underlying profit before tax	**189.0**	**204.7**

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

Profit after tax reconciliation

£m Six months ended 30 September	2016	2015
Reported profit after tax	**202.6**	**171.9**
Adjustments:		
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	0.9	-
Non-household retail market reform[1]	3.4	5.4
Restructuring costs	4.6	0.1
Profit on disposal of non-household retail business	(20.9)	-
Net fair value losses/(gains) on debt and derivative instruments	54.8	(36.9)
Interest on swaps and debt under fair value option	8.5	7.9
Net pension interest income	(4.8)	(1.4)
Capitalised borrowing costs	(15.9)	(10.8)
Deferred tax credit - change in tax rate	(57.1)	-
Agreement of prior years' tax matters	(14.3)	-
Tax in respect of adjustments to underlying profit before tax	(10.3)	2.2
Underlying profit after tax	**151.5**	**163.2**
Basic earnings per share (pence)	**29.7**	**25.2**
Underlying earnings per share (pence)	**22.2**	**23.9**

[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

£m Six months ended 30 September	2016	2015
Investment income	6.6	2.5
Finance expense	(174.6)	(67.4)
	(168.0)	**(64.9)**
Less net fair value losses/(gains) on debt and derivative instruments	54.8	(36.9)
Adjustment for interest on swaps and debt under fair value option	8.5	7.9
Adjustment for net pension interest income	(4.8)	(1.4)
Adjustment for capitalised borrowing costs	(15.9)	(10.8)
Underlying net finance expense	**(125.4)**	**(106.1)**
Average notional net debt	**6,182**	**5,775**
Average underlying interest rate	**4.1%**	**3.7%**
Effective interest rate on index-linked debt	4.0%	3.1%
Effective interest rate on other debt	4.2%	4.3%

Finance expense: index-linked debt

Cash benefit for the group

£m Six months ended 30 September	2016	2015
Cash interest on index-linked debt	(25.1)	(25.5)
RPI adjustment to index-linked debt principal - 3 month lag[1]	(43.6)	(26.2)
RPI adjustment to index-linked debt principal - 8 month lag[2]	(1.8)	2.4
Finance expense on index-linked debt	**(70.5)**	**(49.3)**
Interest on other debt (including fair value option debt and swaps)	(54.9)	(56.8)
Underlying net finance expense	**(125.4)**	**(106.1)**

- Cash interest payment of £25m on c£3.4bn 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 2016 and July 2016
[2] Affected by movement in RPI between July 2015 and January 2016

Derivative analysis

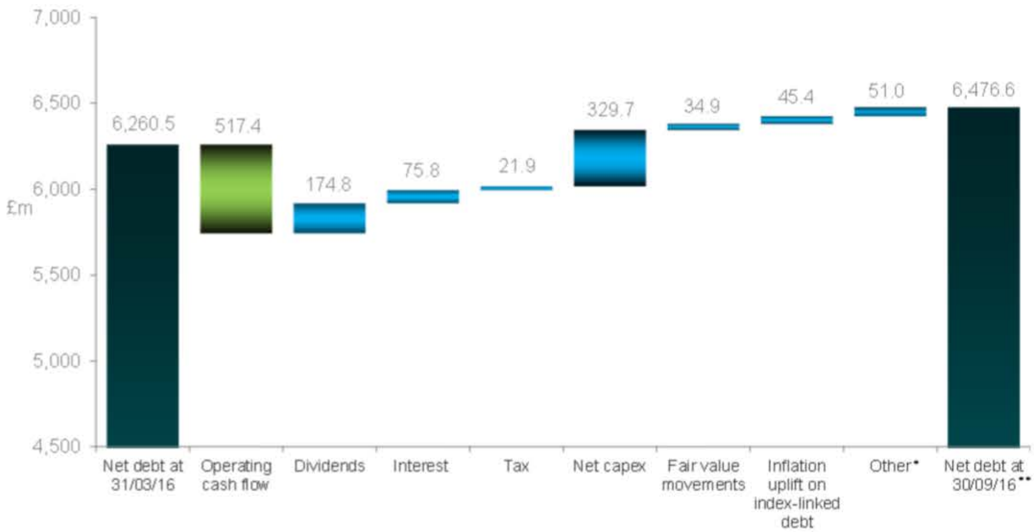
Derivatives intrinsically linked to debt

£m At	30 Sep 16	30 Sep 15
Derivatives hedging debt	939.4	654.9
Derivatives hedging interest rates	(326.1)	(172.4)
Derivatives hedging commodity prices	(10.4)	(8.8)
Total derivatives assets and liabilities (slide 22)	**602.9**	**473.7**

- **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

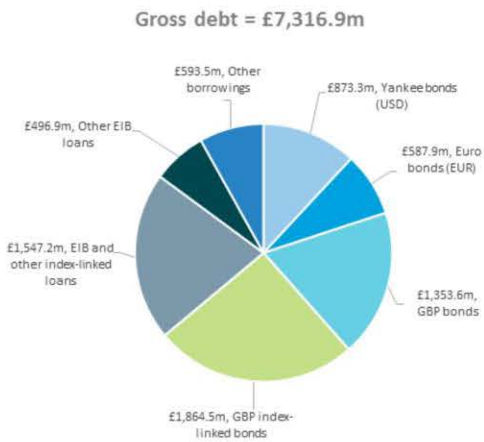
Moderate increase in line with expectations



* Includes £46.0m loans to joint ventures

** Net debt includes derivatives which incorporate regulatory swaps

Financing and liquidity at 30 September 2016



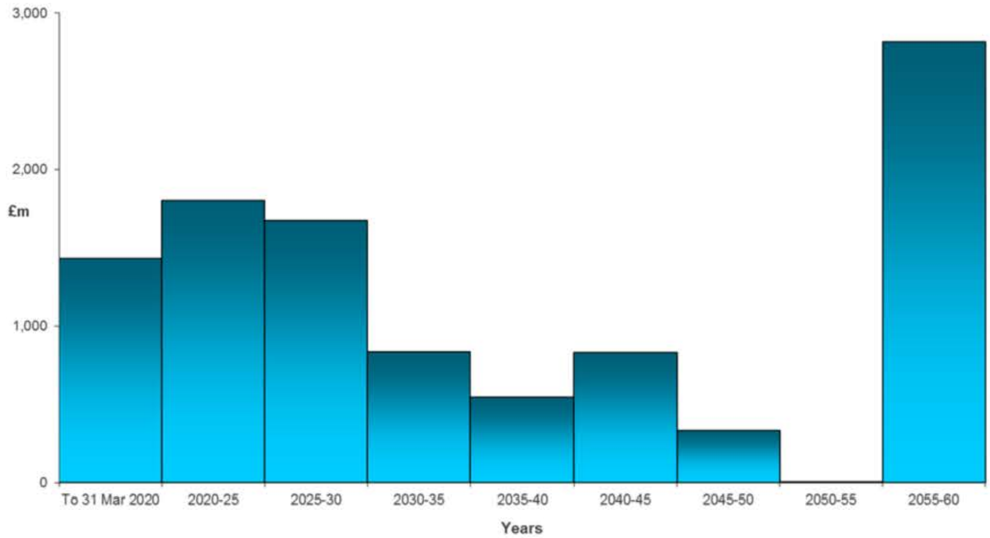
Headroom / prefunding = £610.0m

	£m
Cash and short-term deposits	237.4
Medium-term committed bank facilities[1]	500.0
Undrawn EIB term loan facilities	175.0
Short-term debt	(251.2)
Term debt maturing within one year	(51.2)
Total headroom / prefunding	**610.0**

[1] Excludes £200m facilities maturing within one year

Term debt maturity profile as at 30 September 2016[1]

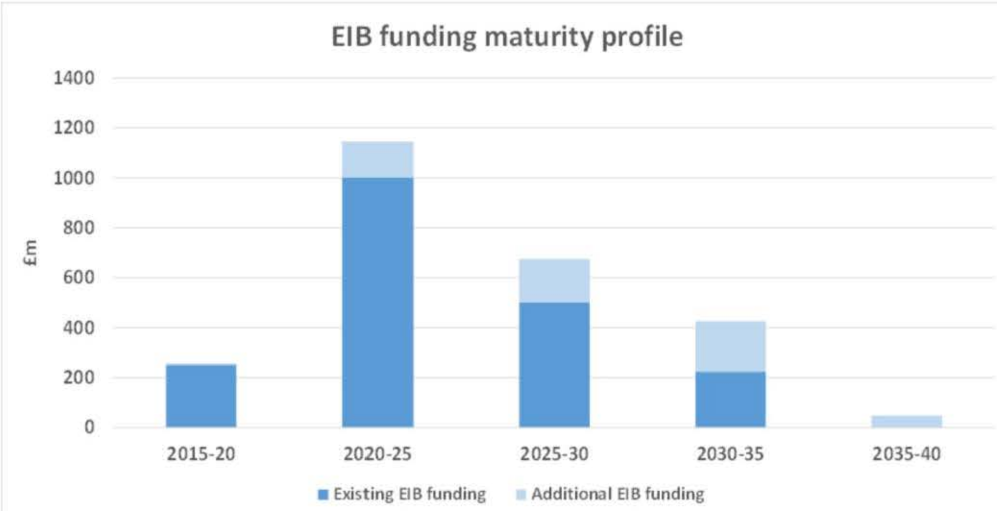
Average term to maturity of around 20 years



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

European Investment Bank funding maturity profile

Medium to long-term maturity profile



Notes

Future repayments of EIB index-linked debt include inflation based on an average annual RPI rate of 3%.

Dark blue areas represent EIB loans currently drawn and outstanding.

Light blue areas include the remaining £175m of £250m AMP6 loan signed April 2016 (assumes drawn in 2017), and assumes a further £250m AMP6 is signed and drawn in 2018 (this being the second tranche of a £500m AMP6 funding package approved by EIB in 2016). It is assumed that these loans are drawn down in index-linked form on an amortising repayment basis with an average loan life of approximately 10-years.

Debt structure at 30 September 2016

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 £119m

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

Euro MTNs:
- ¥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 £1,102m[1]
- Other index-linked loans £300m[1]
- Other EIB loans £497m
- Short-term loans £107m
- ¥10bn dual currency loan
- Other sterling loans £129m

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

Euro MTNs:
- £25m in 25s[1]
- €52m in 27s
- £20m in 28s[1]
- £35m in 30s[1]
- €30m in 30s
- €30m in 31s
- HK$600m in 31s
- £27m in 36s[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.

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.

United Utilities

helping life flow smoothly