
United Utilities Group PLC
Full year results
Year ended 31 March 2018
United Utilities
helping life flow smoothly

Cautionary statement

This presentation contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and the company undertakes no obligation to update these forward-looking statements. Nothing in this presentation should be construed as a profit forecast.

Certain regulatory performance data contained in this presentation is subject to regulatory audit.

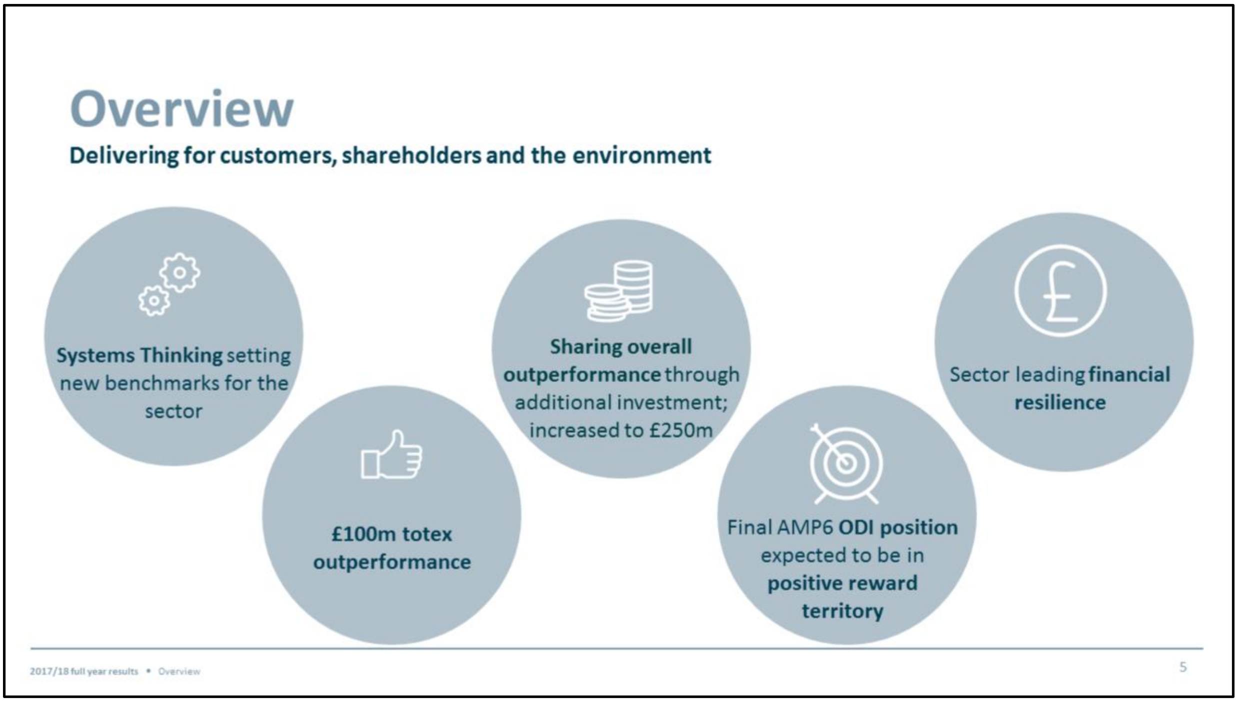
This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016 and for UK Regulatory purposes the person responsible for making the announcement is Simon Gardiner, Company Secretary.


Steve Mogford
Chief Executive
United Utilities
helping life flow smoothly
Crummock Water

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

The water sector is in the spotlight more than it has ever been before, but here at United Utilities, we are well placed to meet the challenges faced by the industry.

As you will see in today’s presentation, we are a consistent sector leader. The evidence is the satisfaction customers express with our services and operational performance metrics. We recently held an investor day at our Integrated Control Centre in Warrington during which we demonstrated how our operational approach, Systems Thinking, is being enabled through use of new technology and innovation from around the world through which we are setting a new performance frontier for the sector. The advances we are progressively delivering support ever higher standards of customer satisfaction and operational efficiencies. Our plans for the next five-year period further develop our application of Systems Thinking, underpinning our leadership position and the delivery of the outstanding service customers expect and deserve.



This slide gives the highlights from today's presentation.

Our innovative Systems Thinking approach is radically changing the way we operate, setting new benchmarks for the sector.

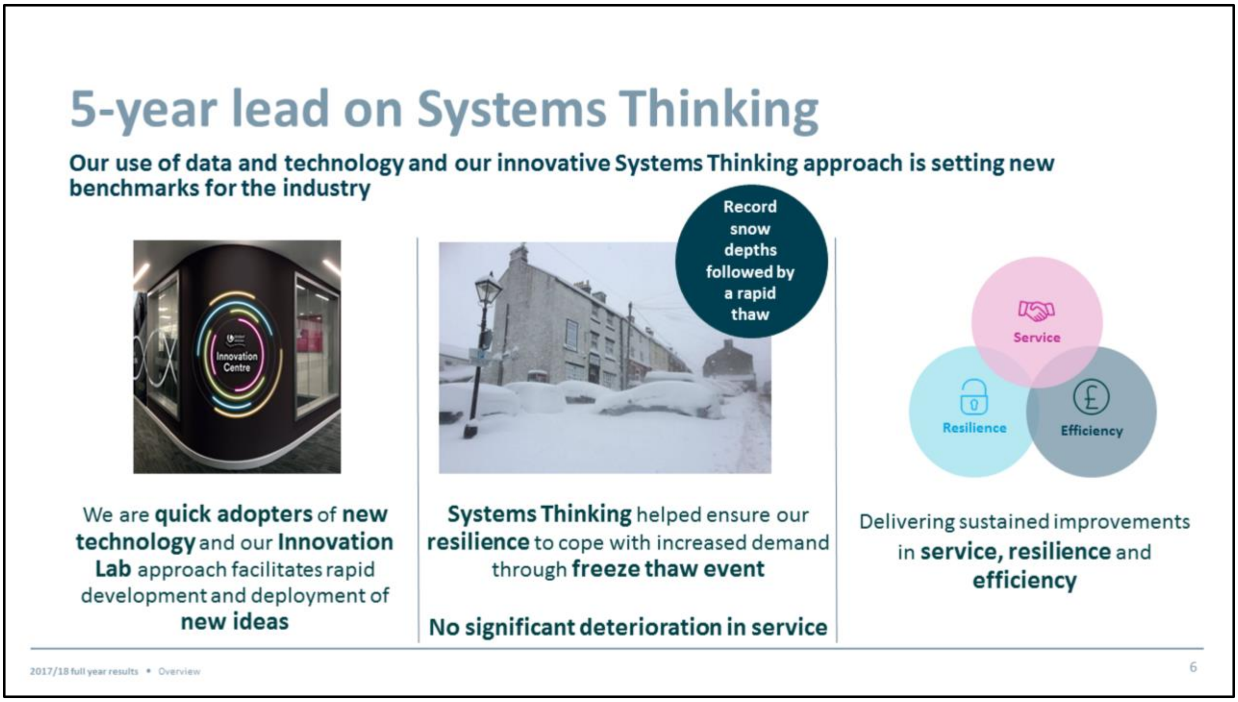
We have delivered efficiencies in our totex programme to meet our AMP6 allowance and we are now also confident that we can extend overall savings to yield £100 million of outperformance against the totex allowance in our final determination.

I have said before that we knew from the outset that, through our responsible financing arrangements, we would outperform the cost of capital allowed in AMP6. This represented a very significant outperformance opportunity provided we could deliver the necessary totex savings represented by our final determination allowance. This we have done and more. It also means that we approach AMP7 at unprecedented levels of operational efficiency.

We have a strong track record of sharing outperformance with customers and today, we are announcing that we are increasing the £100 million sharing of outperformance previously announced to a total of £250 million. This takes our sharing of outperformance across the current regulatory period and the last to a total of around half a billion pounds. We believe that it is appropriate to share our success with customers by re-investing in resilience measures, thereby improving service and reducing future bills.

Continued improvement in operational performance gives us confidence to adjust our guidance on ODIs for AMP6. We now expect our final AMP6 position to be in positive reward territory.

And finally, our strong balance sheet, relatively low gearing, financial risk management and pensions position are sector leading and provide financial resilience for the long-term.



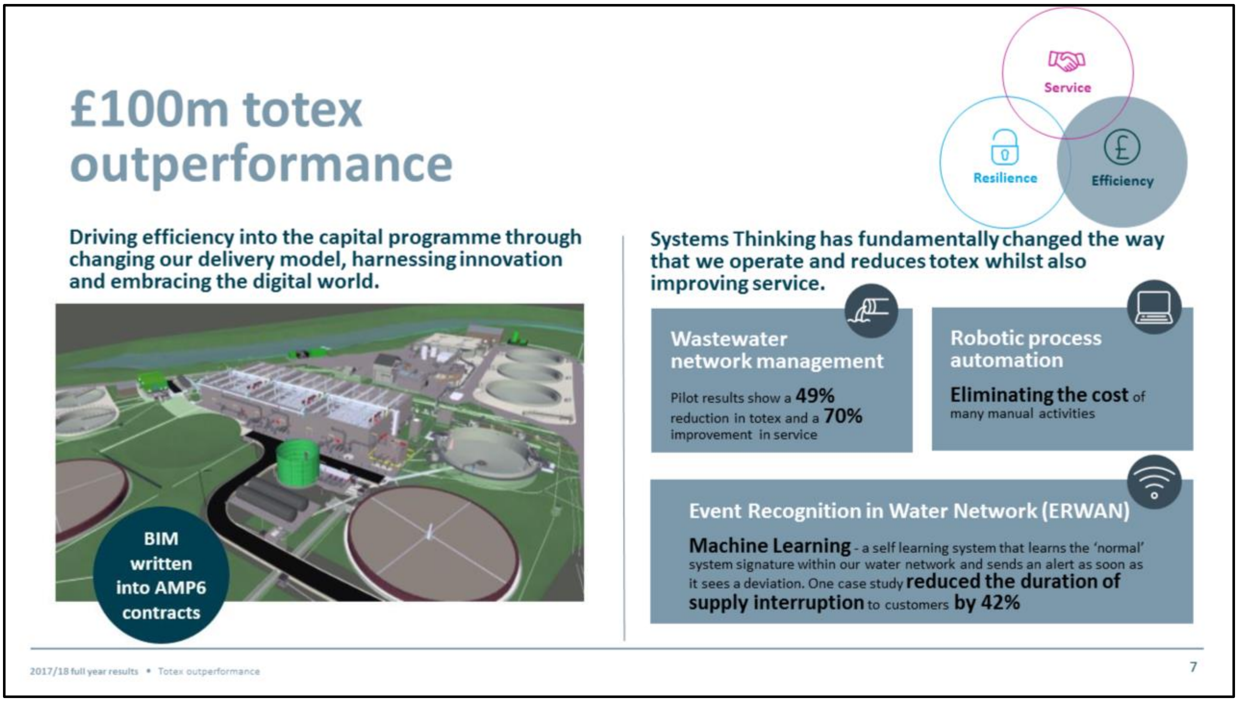
Now for some of the detail, and firstly, our deeply embedded culture of innovation that is helping to improve the service we provide – putting customers first is always our priority. We are rapid adopters of new technology and our Innovation Lab, where we work closely with suppliers that may have previously found it difficult to bring their ideas to the sector, facilitates the swift development and deployment of new ideas. This is a first for the sector and we are already seeing the benefits that this approach can bring.

We believe that our Systems Thinking approach is five years ahead of the rest of the sector and a number of you here today were kind enough to attend our capital markets event in March when we showcased a number of the capabilities we have developed and the benefits that they deliver. Through Systems Thinking, we have invested in the technology and infrastructure to allow us to capture huge volumes of data and to monitor and control our systems centrally from our Integrated Control Centre. This allows us to take a much more informed and proactive approach to operations and service delivery.

We are using advanced technology from around the world and from other sectors to accelerate the application of Systems Thinking. We have developed a full plan for evolution of our key capabilities and our business plan submission later this year will set out how this is to be delivered over the next five-year period.

One recent example of Systems Thinking in action is the enhanced capability we demonstrated through management of the freeze thaw event that hit most of the country earlier this year. Unlike many parts of the country, we had sufficient water to meet demand across the whole of our region throughout the event. The systems and processes we have developed meant that our customers saw no significant deterioration in service. You will be aware that this was not the case elsewhere and this is now the subject of a regulatory investigation.

Our use of data and technology and our Systems Thinking approach is a differentiator and is setting new benchmarks for the industry. In doing so, we are delivering enhanced levels of service and resilience along with sustainable improvements in efficiency.

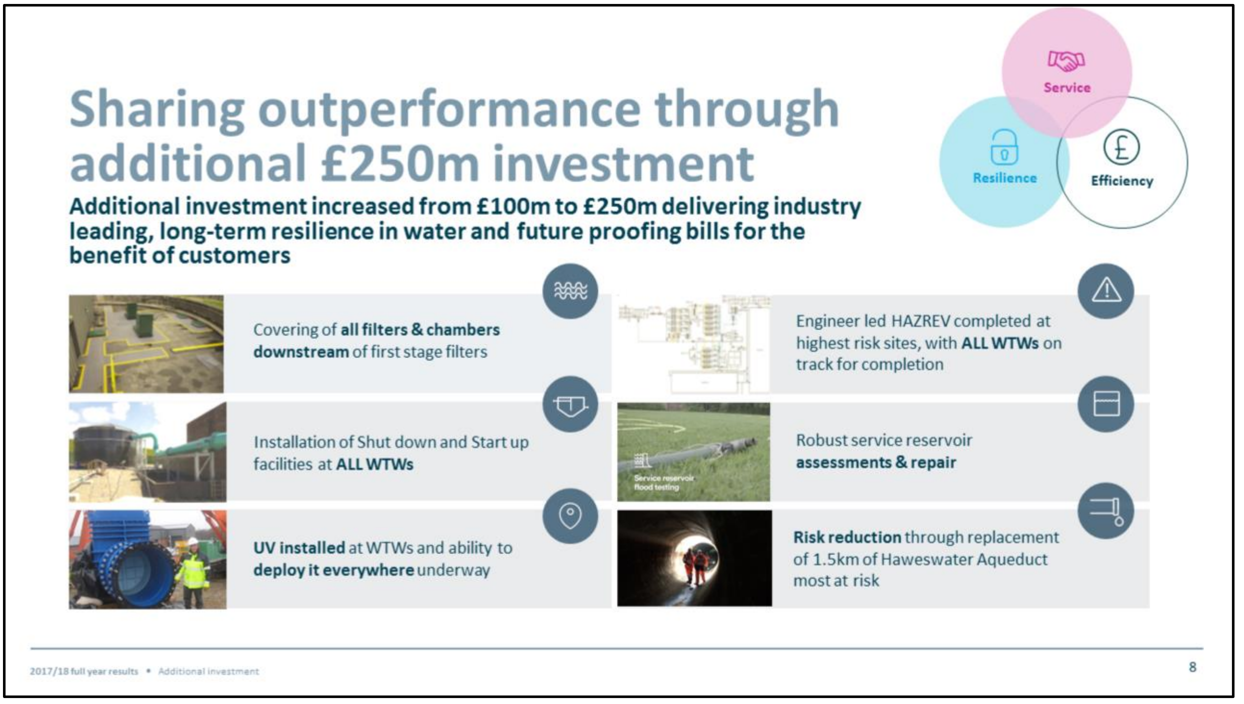


Moving on now to totex, and as I mentioned earlier, we are now confident of outperforming our totex allowance for AMP6 by £100 million. This has been achieved through a combination of driving efficiency into our capital programme and Systems Thinking.

Firstly, we have radically changed the business model for the delivery of our capital programme to a design and build model with most of our large programmes awarded on a competitive basis. This has helped drive significant and sustainable savings into our capital programme alongside the harnessing of other innovative techniques such as design for manufacture and assembly and Nereda, both of which we have talked about in previous presentations. Also contributing is the way we embrace the digital world. We are sector leaders in the use of Building Information Modelling, or BIM, to generate intelligent, 3D models for us and our construction partners to more efficiently plan, design and construct projects as part of our capital programme. BIM has been written into our AMP6 contracts and the information generated will form the basis of our approach to through life maintenance of our assets.

Once again we have maintained highly effective capital delivery as reflected in our Time: Cost: Quality index score which remains high at over 90 per cent for the last year.

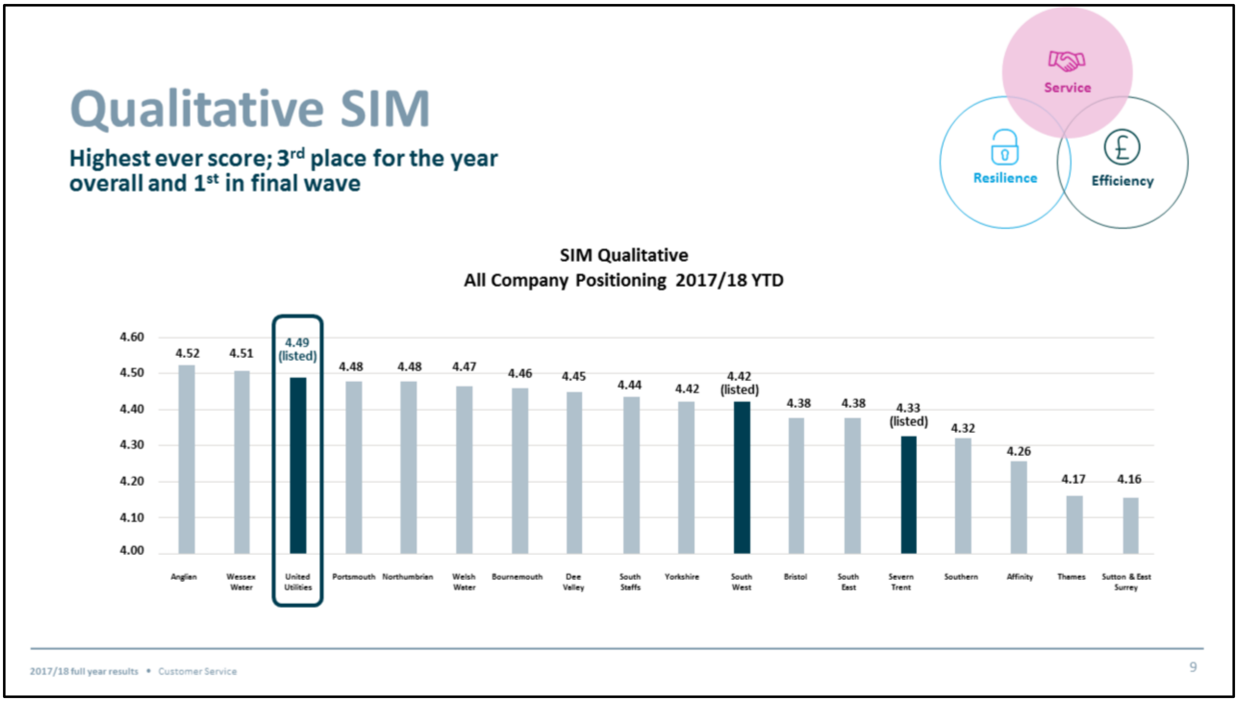
Secondly, as well as providing enhanced service and resilience, Systems Thinking delivers significant and sustainable efficiencies, contributing to our totex outperformance. The slide shows three examples that we discussed in more detail at our recent capital markets event. Wastewater network management looks at how a holistic drainage system can be optimised to reduce totex and improve service with pilot results showing a reduction on totex of nearly 50 per cent. In the area of robotic process automation we are using machines to undertake tasks previously done by our people. And finally, Event Recognition in Water Network, or ERWAN, is our machine learning in the network that spots problems before they are seen by customers – this was critical to our management of the recent freeze thaw event. This not only reduces supply interruptions to customers but also allows for more efficient and less costly proactive interventions.



Our position on totex coupled with our financing outperformance means that we are able to share our net outperformance against the AMP6 regulatory contract through additional investment in resilience. We have already committed to investing £100 million of our outperformance in AMP6 and today, we are increasing that amount to £250 million, to fund projects that were not part of our original PR14 settlement but that will help deliver long-term resilience for the benefit of customers and the environment, sooner than would otherwise have been the case. This level of investment is helping us to achieve a degree of resilience that is setting new benchmarks for the sector, whilst reducing future bills for customers and helping to give us a solid foundation for ODIs going forwards.

The slide shows some of the projects that we are undertaking in order to achieve this and I would draw your attention to the work on our Haweswater Aqueduct. This aqueduct is one of our most critical assets serving over 2 million people and we will be replacing a 1.5 kilometre section which, following two extensive surveys, we consider to be most at risk. There is more that needs to be done to underpin the long-term resilience of this asset and create a lasting legacy for our region, and we are therefore consulting extensively with customers and other stakeholders on the solution that will feature in our PR19 business plan submission.

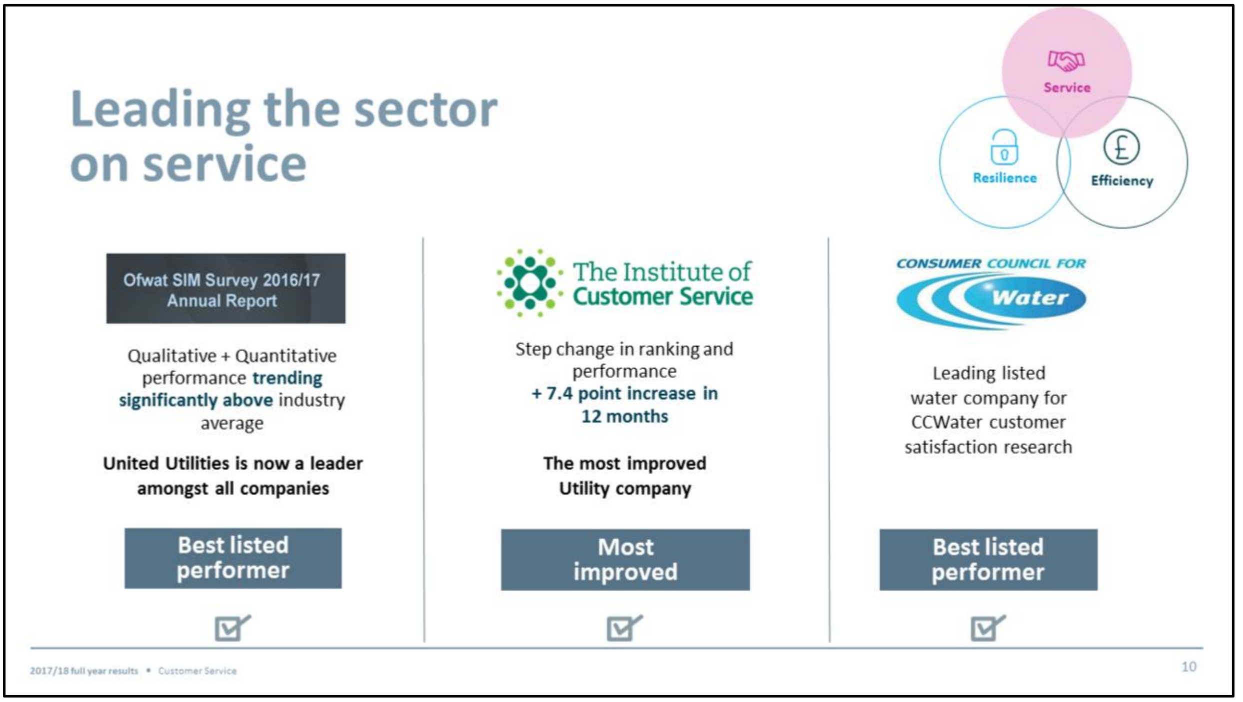
We believe that our approach of sharing outperformance with customers in this way is both appropriate and responsible.



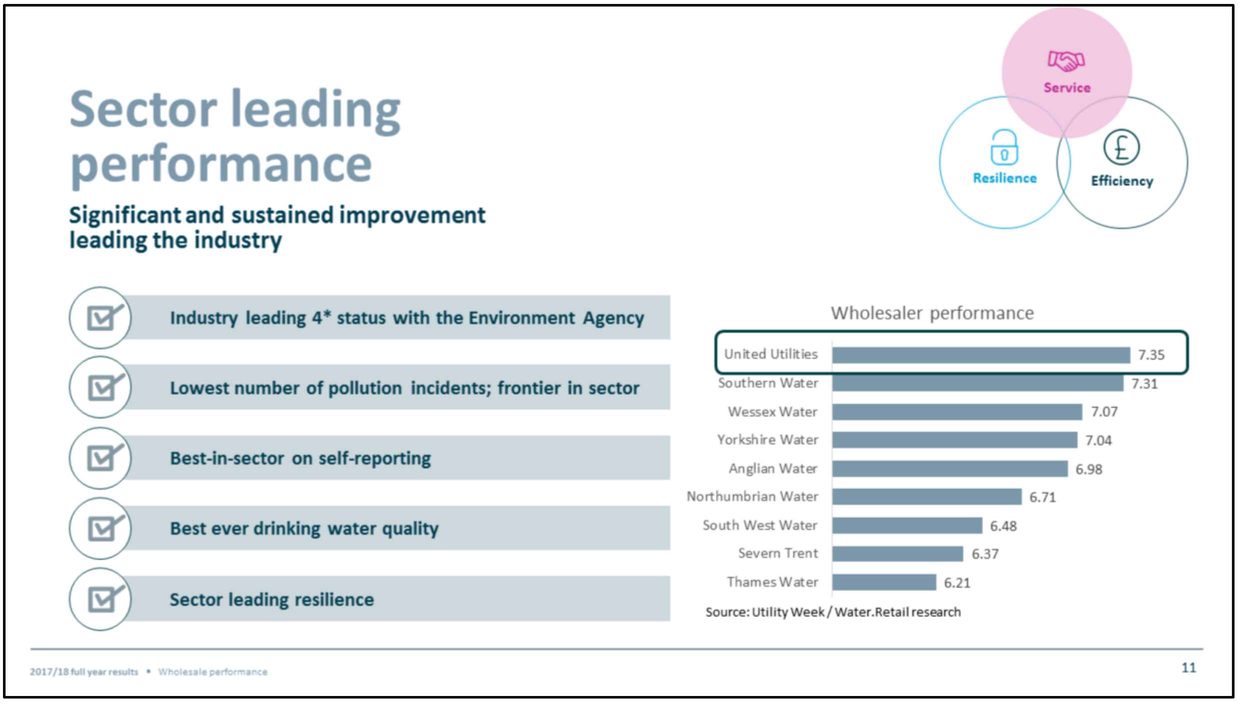
Now turning to customer satisfaction. We are delighted with another step change in performance this year. We achieved our highest ever scores against Ofwat's qualitative SIM measure, finishing sector first in the final survey of the year and third for the year overall. On quantitative performance we have reduced complaints by over 32 per cent and the need for customers to contact us a second time by 63 per cent over the last two years. This builds on the sustained improvements we have been making since the introduction of SIM and our upper quartile position points to us being well placed against the opportunity for the rewards likely to be available under the customer service measure, C-MeX in AMP7.

Affordability and vulnerability remain key areas of focus for us. We are now supporting more than 50,000 customers in need of help through our Priority Services scheme and in January, we hosted the first ever North West Affordability summit, engaging with many of our stakeholders and facilitating the co-creation of solutions to tackle these very important and real issues.

What is also really pleasing is that whilst we have been improving service to customers, we have also been driving down costs having reduced our cost to serve per customer by over 22 per cent so far in AMP6, proof in itself that great service costs less.



And when we talk about great customer service, we are not only referring to Ofwat's SIM measure against which we are a leader. Against the cross sector Institute of Customer Service index, we are in an upper quartile position and the most improved utility company. We are the best listed performer against the Consumer Council for Water customer satisfaction research – it's pleasing that, whichever metric you choose, the fact that we put customers at the heart of everything we do is being recognised.



Our leading status is reflected in the key performance metrics used by our quality regulators.

We have held the Environment Agency's top, four star status for the last two years and will retain it once again, for a third time, this year.

Our pollution performance is the best in the sector, as is our self-reporting in this area.

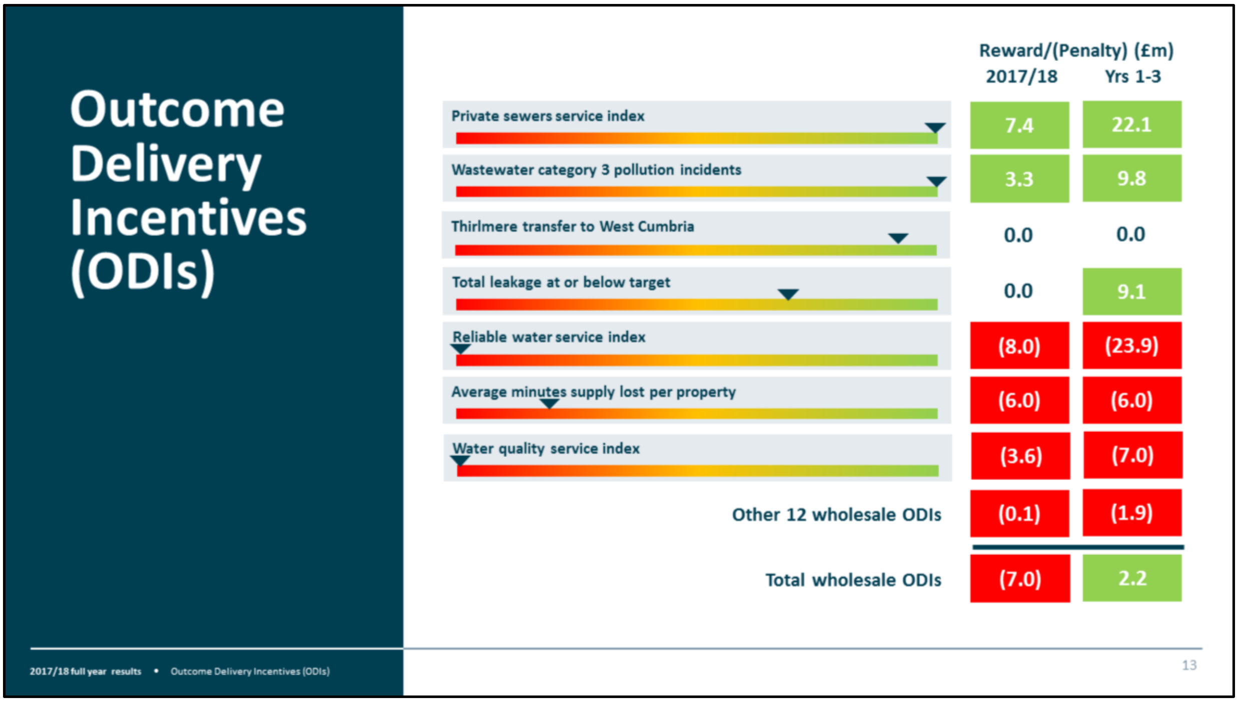
Our drinking water quality has improved and is the best it has ever been.

And we are leading the sector on resilience.

The introduction of competition for business retail has involved enormous change for the sector. We were a leading player in getting the market operator, MOSL, off the ground and we were a first mover in the formation of our retail joint venture, Water Plus. We were delighted to learn that in some recent research by Water.Retail, our wholesale business has been awarded top place by business retailers for its performance and ease of doing business.

I'd now like to ask Steve Fraser, our Chief Operating Officer to take you through our Outcome Delivery Incentive, or ODI, results for the year.

Thanks Steve and good morning everybody.

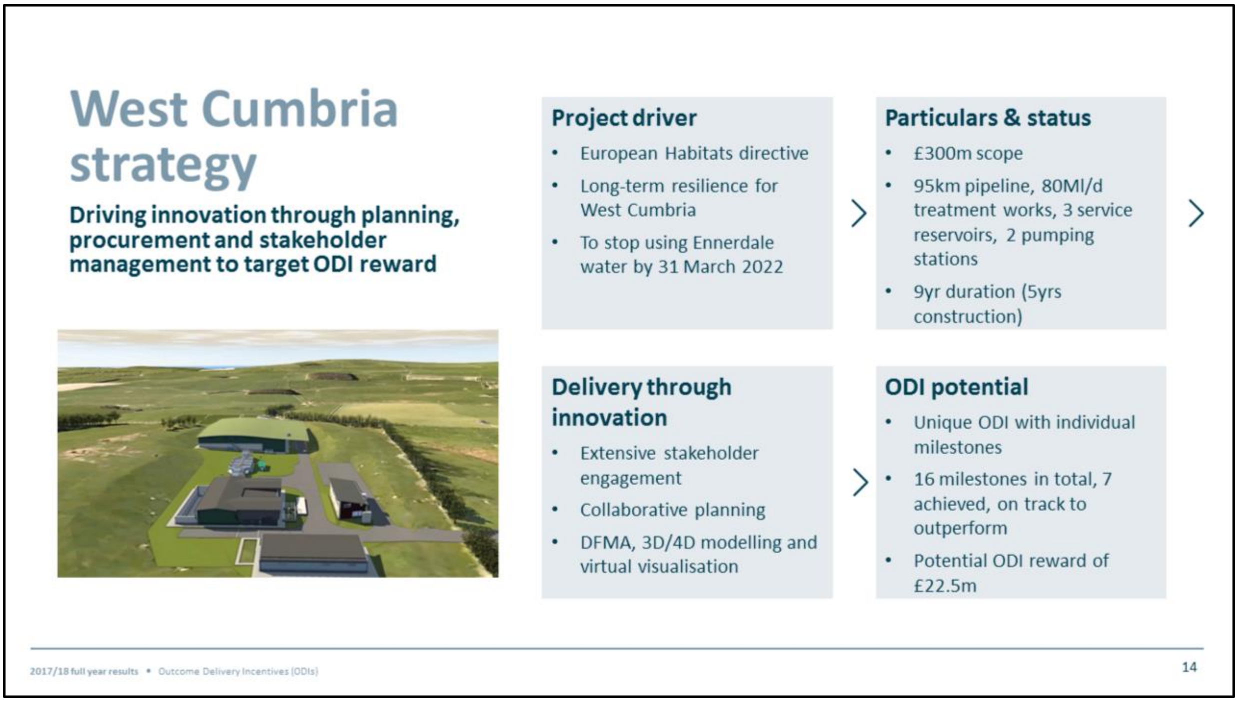


This slide summarises our performance against our ODIs for the year, and also the cumulative position over the first three years of AMP6.

As you can see, our position over the first three years of the AMP is in positive reward territory; well ahead of our initial expectations. Our performance for the year was again good on wastewater where we have earned the maximum reward available against a number of key areas. Our water metrics in the first three years of the AMP have been impacted by a number of big bursts on our network. We have been successful in minimising the impact of these events on customers but our ODI package suffers from a disproportionate level of penalty. We are working hard to improve performance in this area further, reducing the likelihood of such events and minimising the impact on customers if they do occur. Our Systems Thinking approach helps with this, and together with a reset and harmonised ODI regime in the next regulatory period, means that we would expect a more positive ODI outcome in AMP7.

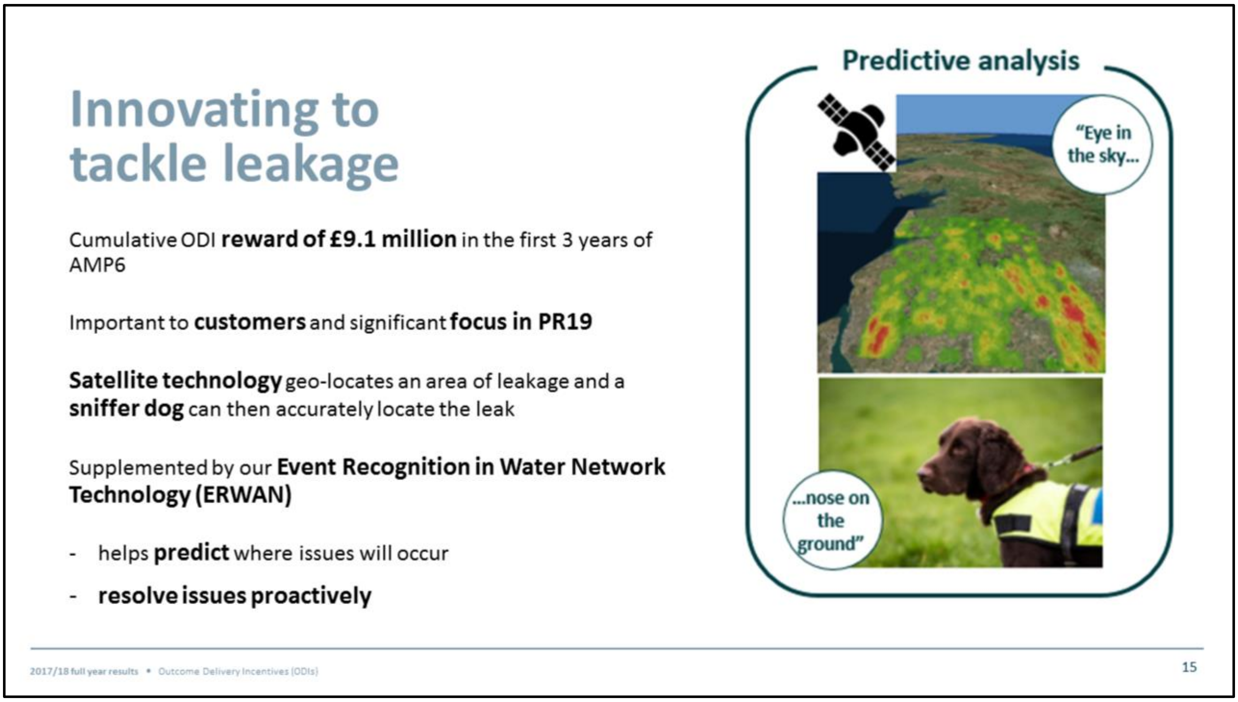
Overall, we are pleased with our performance to date where we have seen the positive impact of the acceleration of our investment programme delivering benefits early. This, coupled with our sector leading operational performance, now means that absent any unforeseen events over the remainder of the AMP, we would expect to end AMP6 in positive reward territory. This is a considerable achievement and an improvement of over £300 million compared with the mid-point of our original P10/P90 range.

I now want to take you through some areas of opportunity that give us the confidence in achieving this position.



One of our major capital projects this AMP is the £300 million West Cumbria pipeline project to provide a secure, long-term water supply for the area and to ease pressure on environmentally sensitive local water resources. This project is unique in our capital programme in that it has its own individual ODI with 16 distinct milestones, of which we have already achieved seven, either on, or ahead of schedule. We last spoke about West Cumbria in detail when we secured planning permission back in 2016, a milestone achieved four months ahead of schedule.

We have driven innovation through all stages of the project including planning, procurement and stakeholder management. The project design is fully underpinned by the principles of Systems Thinking, facilitating effective and efficient future operations. As a result of this, we are on track to outperform against our targets. This is an environmentally sensitive project where completion as soon as practical is important. The ODI associated with the West Cumbria project provides us with the potential to earn a reward of just over £22 million in the last year of the AMP. If we continue with our current rate of progress, we stand a very good chance of earning this reward.



Leakage is a measure that is important to customers and will be given significant focus as part of PR19. In the first three years of AMP6, we have performed well against our leakage ODI earning a cumulative reward of just over £9 million, and having beaten our regulatory leakage target for over a decade.

Tackling leakage is a real priority for us and we are always looking for new and innovative ways to do the job more effectively. With leakage detection, it is about building the evidence using a range of different technologies. In rural areas, where water from leakage does not always show on the surface, we use satellite technology, first developed by NASA to detect water on other planets, to geo-locate potential leaks on our network. The satellite can identify areas of potential leaks down to a range of around 80 metres for us to then send in the UK's first leakage sniffer dog to pinpoint the exact location of the leak. Our sniffer dog, Snipe, can recognise the tiniest traces of chlorine used to disinfect the water and can accurately locate leaks on our network facilitating a more effective and efficient repair process. Trials have been so successful that we are now expanding this approach across our region with Snipe helping to train a team of canine apprentices.

This approach of 'an eye in the sky and a nose on the ground' is supplemented by our Event Recognition in Water Network, or ERWAN, technology that helps us to predict where issues will occur, allowing us to resolve them before customers experience a problem; again, Systems Thinking getting us ahead of operational issues.

This, and the West Cumbria project, are just two examples of what we are doing to give us confidence in achieving an ODI outcome for AMP6 in positive reward territory. We recently submitted our list of proposed ODIs to Ofwat ahead of our business plan submission in September. Recognising ODIs will have a much bigger role in the overall return to be earned, we are absolutely determined to be in the best place possible to take advantage of the opportunities that AMP7 will present. We anticipate a more equitable range of ODIs that better reflect the true operational performance of companies.

I'll now hand you over to Russ to take you through our financial performance.

Thank you Steve and good morning.

Reported income statement

£m Year ended 31 March	2018	2017
Revenue	**1,735.8**	**1,704.0**
Operating expenses	(722.6)	(733.6)
EBITDA	**1,013.2**	**970.4**
Depreciation and amortisation	(376.8)	(364.9)
Operating profit	**636.4**	**605.5**
Investment income and finance expense	(206.6)	(189.0)
Profit on disposal of non-household retail business	-	22.1
Share of profits of joint ventures	2.3	3.8
Profit before tax	**432.1**	**442.4**
Tax	(77.5)	(8.5)
Profit after tax	**354.6**	**433.9**
Earnings per share (pence)	**52.0**	**63.6**
Total dividend per ordinary share (pence)	**39.73**	**38.87**

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We have delivered another good set of results for the year ended 31 March 2018.

Reported operating profit of £636 million was up £31 million, mainly due to our allowed regulatory revenue changes and lower operating costs partly offset by a higher depreciation charge.

Reported profit before tax of £432 million was down £10 million, as the increase in reported operating profit was more than offset by a higher finance expense due to higher RPI inflation on our index-linked debt and the one-off impact in last year's results of the disposal relating to the Water Plus JV.

Reported profit after tax of £355 million was down £79 million and reported EPS was down 18 per cent as the prior year included a deferred tax credit of £58 million relating to changes in the Government's future planned tax rate and a further tax credit of £16 million relating to prior years' tax matters.

Underlying income statement

£m Year ended 31 March	2018	2017
Revenue	**1,735.8**	**1,704.0**
Operating expenses	(566.8)	(567.9)
Infrastructure renewals expenditure	(147.1)	(148.3)
EBITDA	**1,021.9**	**987.8**
Depreciation and amortisation	(376.8)	(364.9)
Operating profit	**645.1**	**622.9**
Net finance expense	(277.2)	(237.3)
Share of profits of joint ventures	2.3	3.8
Profit before tax	**370.2**	**389.4**
Tax	(65.3)	(76.0)
Profit after tax	**304.9**	**313.4**
Earnings per share (pence)	**44.7**	**46.0**
Total dividend per ordinary share (pence)	**39.73**	**38.87**

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

Revenue of £1.7 billion was up £32 million. This largely reflects our allowed regulatory revenue changes partly offset by the accounting impact in last year's results of our Water Plus JV which completed on 1 June 2016.

Underlying operating profit of £645 million was up £22 million. This reflects the increase in revenue partly offset by an increase in depreciation.

Underlying profit before tax of £370 million was £19 million lower, as the increase in underlying operating profit was more than offset by a £40 million increase in the underlying net finance expense due to higher RPI inflation on our index-linked debt.

Underlying profit after tax of £305 million was down £8 million and underlying EPS reduced by 3 per cent, reflecting the decrease in underlying profit before tax partly offset by slightly lower underlying tax due to the reduction in the headline rate of corporation tax.

Underlying operating costs

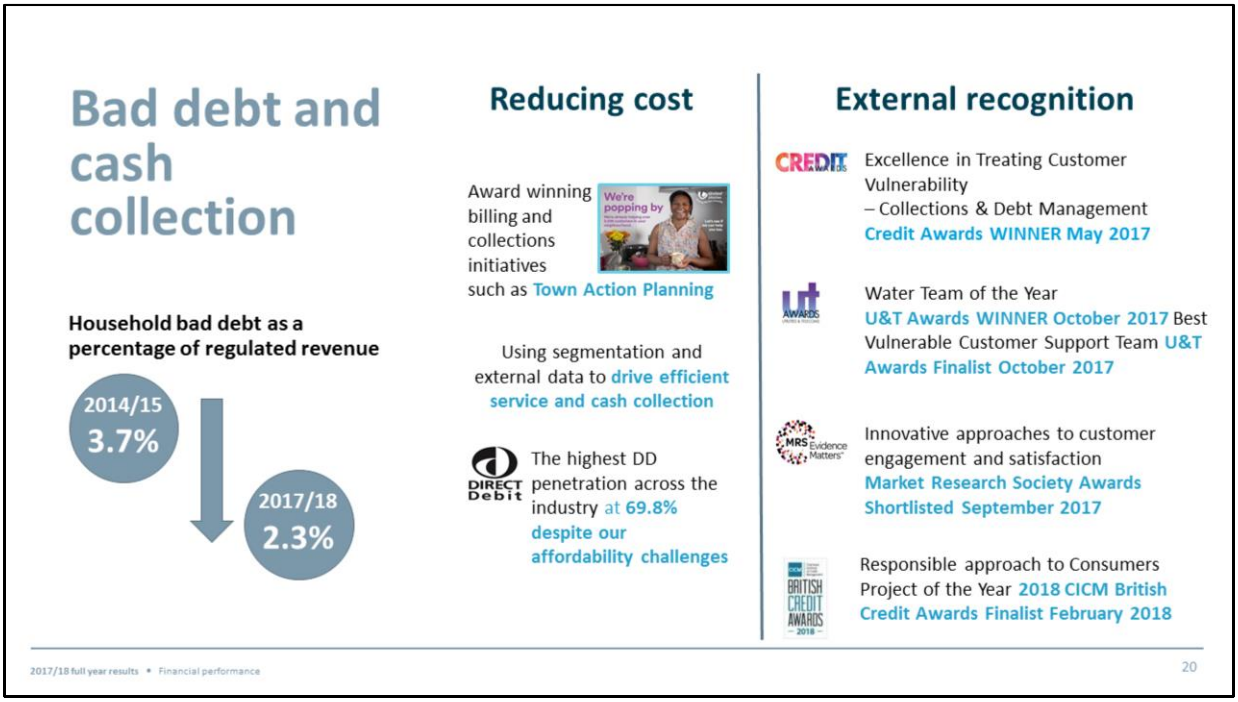
Movements

£m Year ended 31 March	2018	2017	Movement
Revenue	**1,735.8**	**1,704.0**	
Employee costs	(147.0)	(140.9)	(6.1)
Hired and contracted services	(95.4)	(93.4)	(1.9)
Property rates	(90.5)	(91.6)	1.1
Power	(70.4)	(68.7)	(1.7)
Materials	(66.7)	(62.8)	(3.9)
Regulatory fees	(29.7)	(26.8)	(2.9)
Bad debts	(20.8)	(29.9)	9.1
Third party wholesale charges	-	(3.0)	3.0
Cost of properties disposed	(9.8)	(8.6)	(1.2)
Other expenses	(36.5)	(42.2)	5.7
	(566.8)	**(567.9)**	**1.1**
Infrastructure renewals expenditure (IRE)	(147.1)	(148.3)	1.2
Depreciation and amortisation	(376.8)	(364.9)	(11.9)
Total underlying operating expenses	**(1,090.7)**	**(1,081.1)**	**(9.5)**
Underlying operating profit	**645.1**	**622.9**	
Adjustments:			
Flooding incidents (net of insurance proceeds)	(1.7)	(1.5)	
Non-household retail market reform[1]	(1.0)	(5.8)	
Restructuring costs	(6.0)	(10.1)	
Reported operating profit	**636.4**	**605.5**	

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

We have again managed to maintain tight cost control on our underlying cost base against a backdrop of rising inflation.

Total underlying operating expenses increased by £10 million, or less than 1 per cent compared with last year. This increase is primarily the result of an expected £12 million increase in depreciation partly offset by a £9 million reduction in our bad debt charge due to a reduction in the non-household provision following the sale of our non-household debt book and our continued effective household debt collection initiatives that I will discuss in more detail on the next slide. Of the remaining increase in total underlying operating expenses, £6 million was an increase in employee costs largely due to higher costs in relation to our defined benefit pension schemes.



The excellent work undertaken by our customer facing team continues with our household bad debt tracking at its lowest ever level of 2.3 per cent of regulated revenue, an improvement from 2.5 per cent for last year and a significant improvement from the 3.7 per cent we experienced in 2014/15.

Our bad debt performance has benefitted from the sustained improvement in our cash collection performance which led to a cleaner debt book being brought forward into 2017/18. We are also seeing the positive impact of billing and collections initiatives such as our Town Action Plan which engages with customers face-to-face in our most deprived areas and this initiative alone has contributed to 10,000 customers signing up to agreed payment plans. We have introduced four new payment reminders based on previous payment history that allows us to better differentiate between customers with different payment histories. Additionally, around 70 per cent of our customers now opt to pay their bills by direct debit plans, and this is the highest direct debit penetration across the industry. This allows us to align cash collection with households' income cycles, increasing the certainty of future payments.

We are delighted with this continued improvement and are pleased that our debt management practices are consistently recognised by the number of awards we receive. We are particularly pleased with a number of cross sector awards, recognising great performance not just as a company in the water sector, but across service providers from all sectors.

Our sustained improvement has been encouraging against a backdrop of higher deprivation than any other region in the sector and so we will be working hard to maintain our current low level of bad debt or improve further still.

Financial position

£m At 31 March	2018	2017
Property, plant and equipment	10,790.5	10,405.5
Retirement benefit surplus	344.2	247.5
Other non-current assets	421.1	384.2
Cash	510.0	247.8
Other current assets	302.2	333.4
Total derivative assets	635.5	807.7
Total assets	**13,003.5**	**12,426.1**
Gross borrowings	(7,912.3)	(7,384.5)
Other non-current liabilities	(1,741.5)	(1,620.8)
Other current liabilities	(297.8)	(349.5)
Total derivative liabilities	(101.0)	(249.7)
Total liabilities	**(10,052.6)**	**(9,604.5)**
TOTAL NET ASSETS	**2,950.9**	**2,821.6**
Share capital	499.8	499.8
Share premium	2.9	2.9
Retained earnings	2,120.3	1,991.2
Other reserves	327.9	327.7
SHAREHOLDERS' EQUITY	**2,950.9**	**2,821.6**
NET DEBT[1]	**(6,867.8)**	**(6,578.7)**

[1] Net debt includes cash, borrowings and derivatives (slide 41)

Turning to the statement of financial position.

Property, plant and equipment was up £385 million and net debt was up £289 million, reflecting expenditure on our large capital programme.

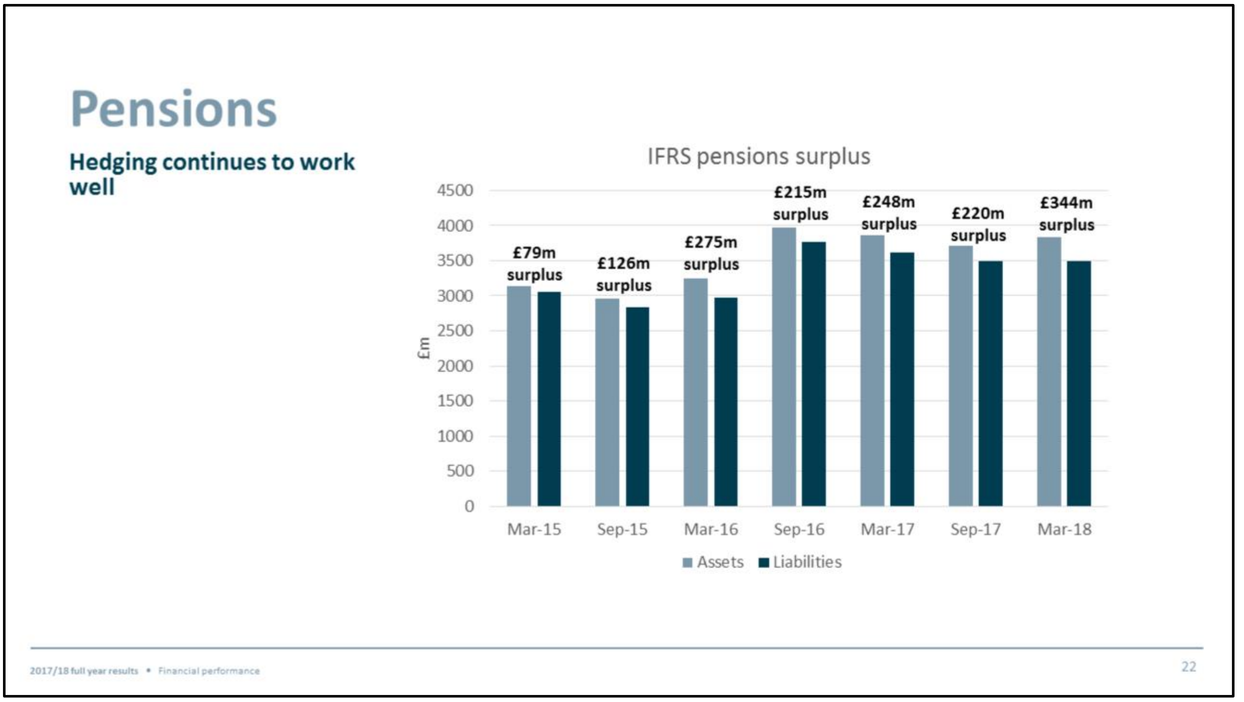
We continue to have an IAS 19 retirement benefit surplus, which I will talk about on the next slide.

Cash and short term deposits were up £262 million compared with last year, mainly reflecting the timing of finance raised in the year.

Derivative assets of £636 million were down £172 million, reflecting a strengthening of the pound in the period, particularly against the US dollar. Derivative liabilities of £101 million were down £149 million, reflecting a close out and a re-couponing of a proportion of our regulatory swap portfolio as previously reported.

Gross borrowings of £7.9 billion were up £528 million, mainly due to debt raised exceeding maturities.

Retained earnings of around £2.1 billion were up £129 million, largely reflecting retained profits of £355 million and post-tax remeasurement gains on our defined benefit pension schemes of £50 million partly offset by dividends of £267 million.



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

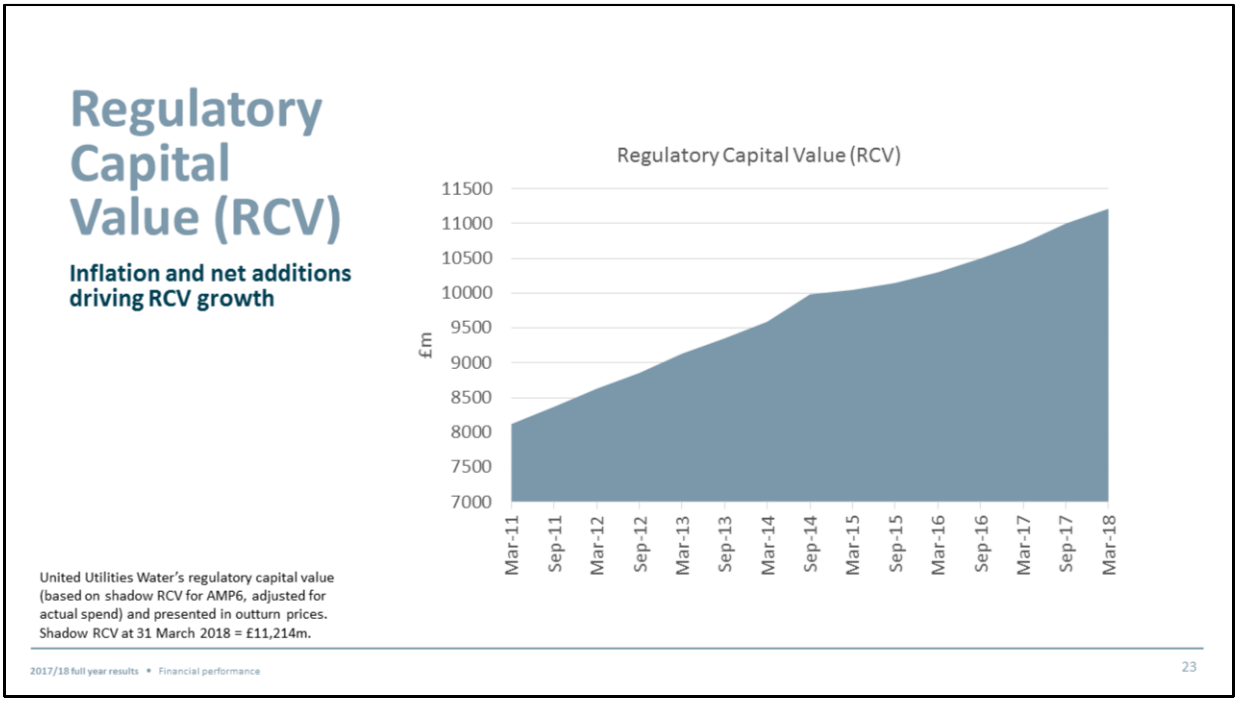
Pension deficits are a form of debt. The Employer Debt Regulations 2005 legally established deficits as debt. The ratings agencies treat them as debt, and now, Ofwat rightly considers pension deficits to be a debt obligation in its assessment of resilience and conclusions on long-term viability. It is therefore wrong to treat pension deficits as a form of contingent liability or solely as a cash flow funding issue.

Indeed, Ofwat's latest methodology suggests companies should have regard for their pension position in the context of the appropriateness of dividend payments and we consider ourselves to be in a strong position in this regard.

We have for many years adopted a responsible approach to funding and hedging our pensions schemes, adopting an asset / liability matching approach to avoid unnecessary risk for pension scheme members and shareholders. This policy continues to work well as you can see from the relative stability of the accounting surpluses we have reported in the last few years.

Our pensions position remains strong with an IFRS surplus of £344 million as at 31 March 2018 putting us in a much better position relative to our water sector peers and many other FTSE companies. This surplus is £124 million higher than at 30 September 2017 mainly reflecting a decrease in credit spreads and the favourable impact of updating mortality assumptions.

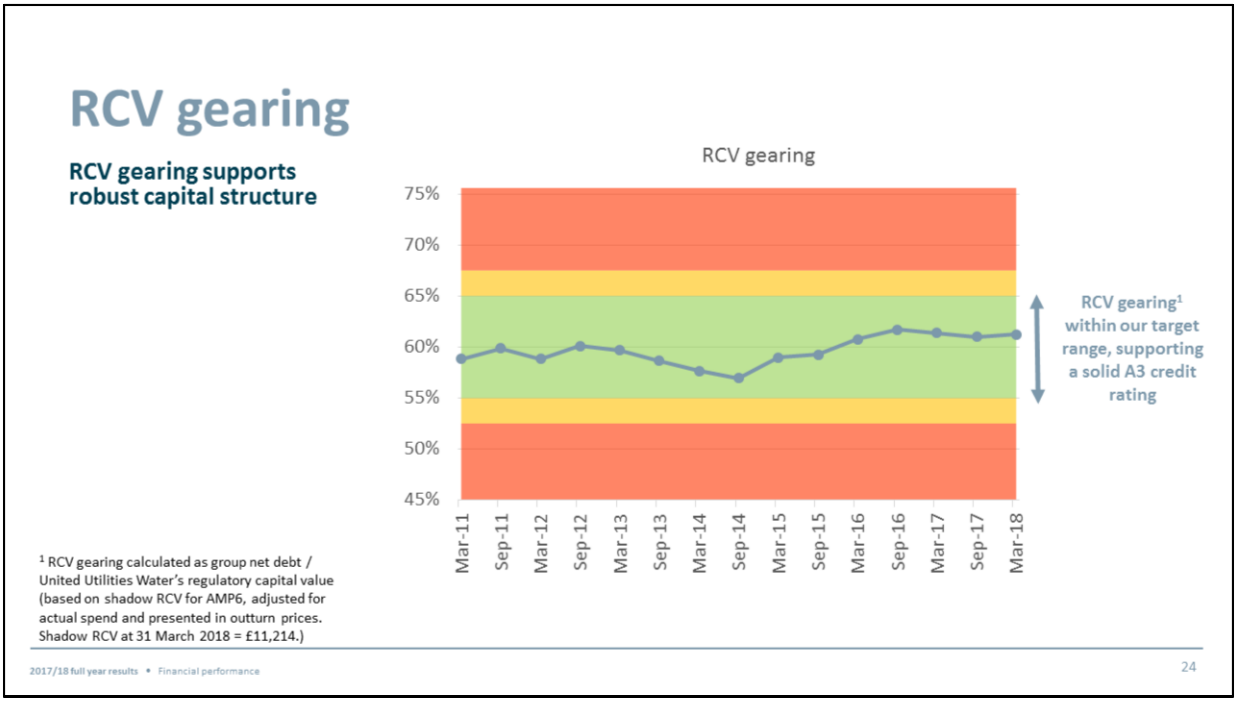
Finally on pensions, and particularly given Ofwat's latest stance, we maintain that the best available method for cross-company comparisons of value is normalised IFRS, which should be used for all 'sum of the parts' valuations.



Moving now to our RCV.

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

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



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

For many years we have maintained a consistent policy of supporting a solid A3 credit rating with Moody's by targeting an RCV gearing of 55 – 65 per cent. We believe this to be a responsible position, helping to secure the sustainable financial resilience of the business for the long-term.

In its PR19 methodology, Ofwat reduced the RCV gearing of the notional company to 60 per cent, in the middle of our range, reinforcing the logic of our existing policy.

And earlier this week, Moody's changed its scoring for the water regulatory regime from Aaa to Aa. Our policy meant that the Moody's change did not affect our A3 credit rating, again reinforcing the merit of our existing policy. Of the water companies rated by Moody's, four more moved onto negative outlook and we are now the only English water company with an A3 stable rating.

Cash flow statement

Cash from operations covers investing activities

£m Year ended 31 March	2018	2017
Net cash generated from operating activities	815.6	820.8
Net cash used in investing activities	(723.2)	(804.6)
Net cash generated from financing activities	184.7	22.0
Net movement in cash	**277.1**	**38.2**

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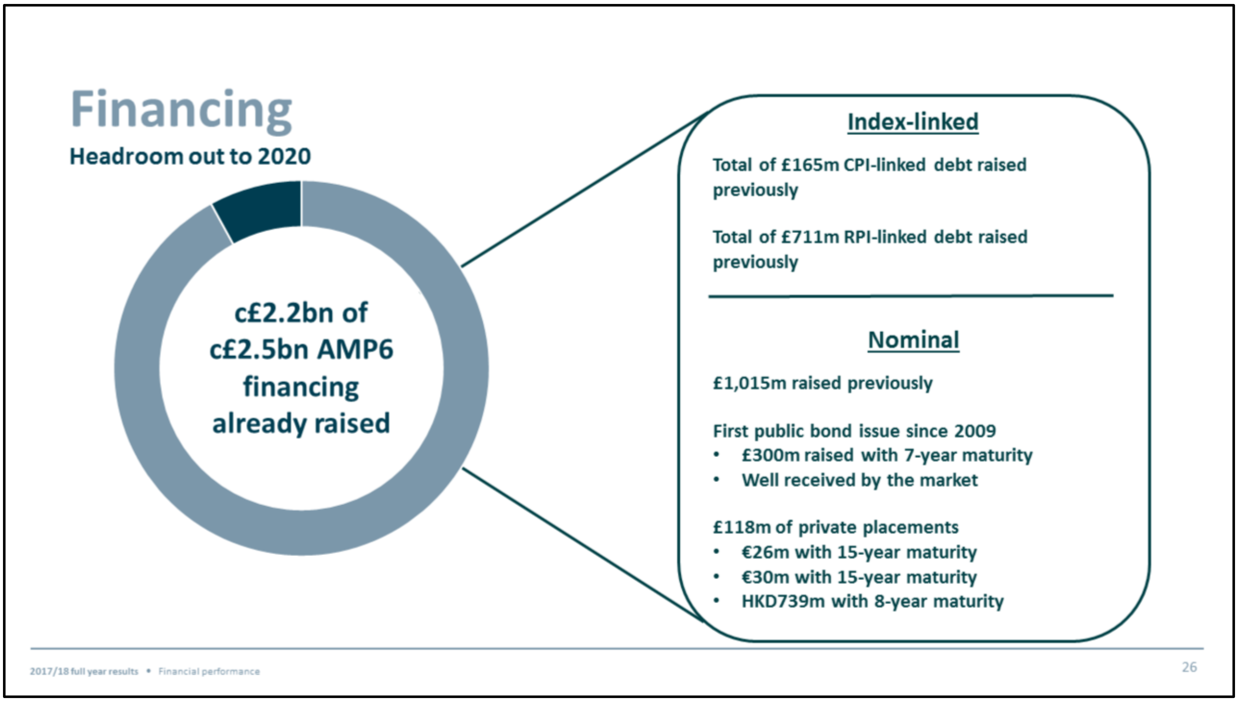
Turning now to cash flow.

Net cash generated from operating activities was £816 million, largely reflecting operating profit adjusted for depreciation.

Net cash used in investing activities was £723 million, largely reflecting net capital expenditure in the regulated water and wastewater investment programmes.

Net cash generated from financing activities was £185 million, reflecting higher new borrowings compared with maturities.



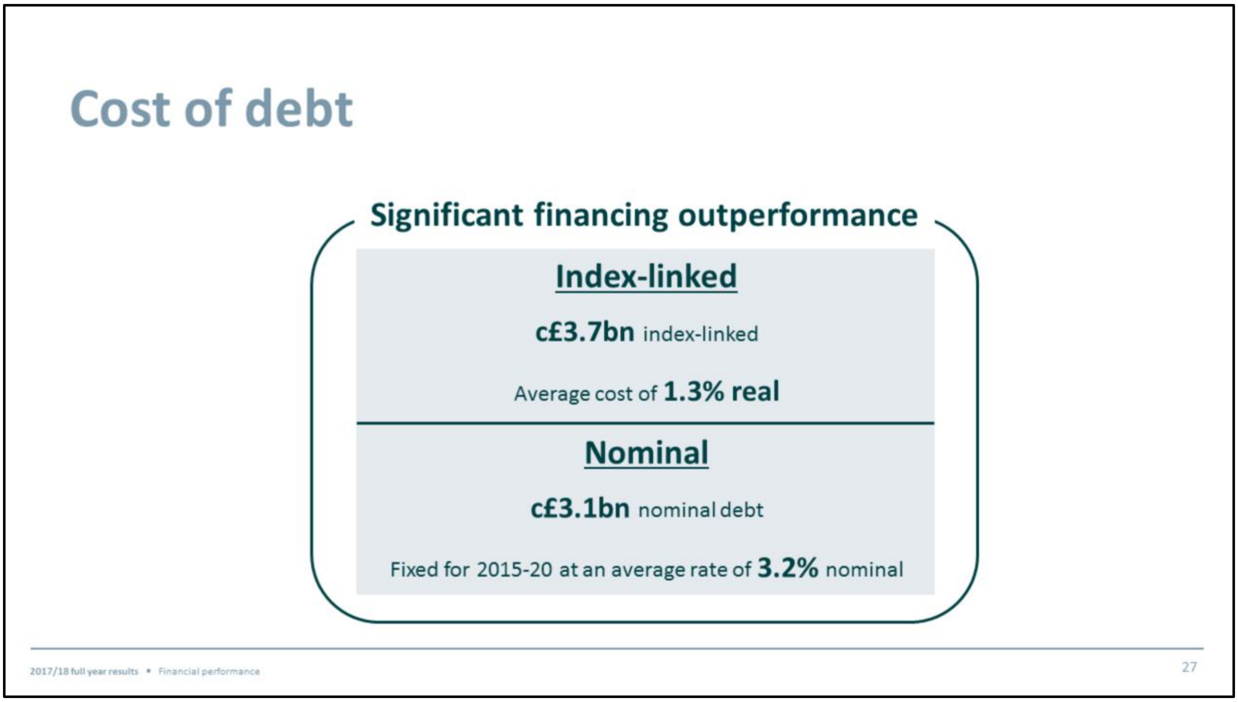
Over the 2015-20 regulatory period, we have financing requirements totalling around £2.5 billion, of which we have now raised over £2.2 billion and have financing headroom out to 2020.

We remain the sector leader in the issuance of CPI-linked debt having previously raised £165 million, in response to Ofwat's decision to transition away from RPI.

In February, we returned to the public bond market for the first time since 2009 with a £300 million bond issue. This was well received by the market with good investor engagement and notwithstanding a degree of market volatility at the time of issuance, we were pleased to price the bond at a very satisfactory level.

Supplementing this public bond issue, we have issued three private placement notes in nominal form under our EMTN programme, raising a total of around £118 million since our half year results in November.

Since September 2017, we have also renewed £100 million of committed bank facilities, out of a total of £750 million under our rolling bilateral revolving credit facilities programme.

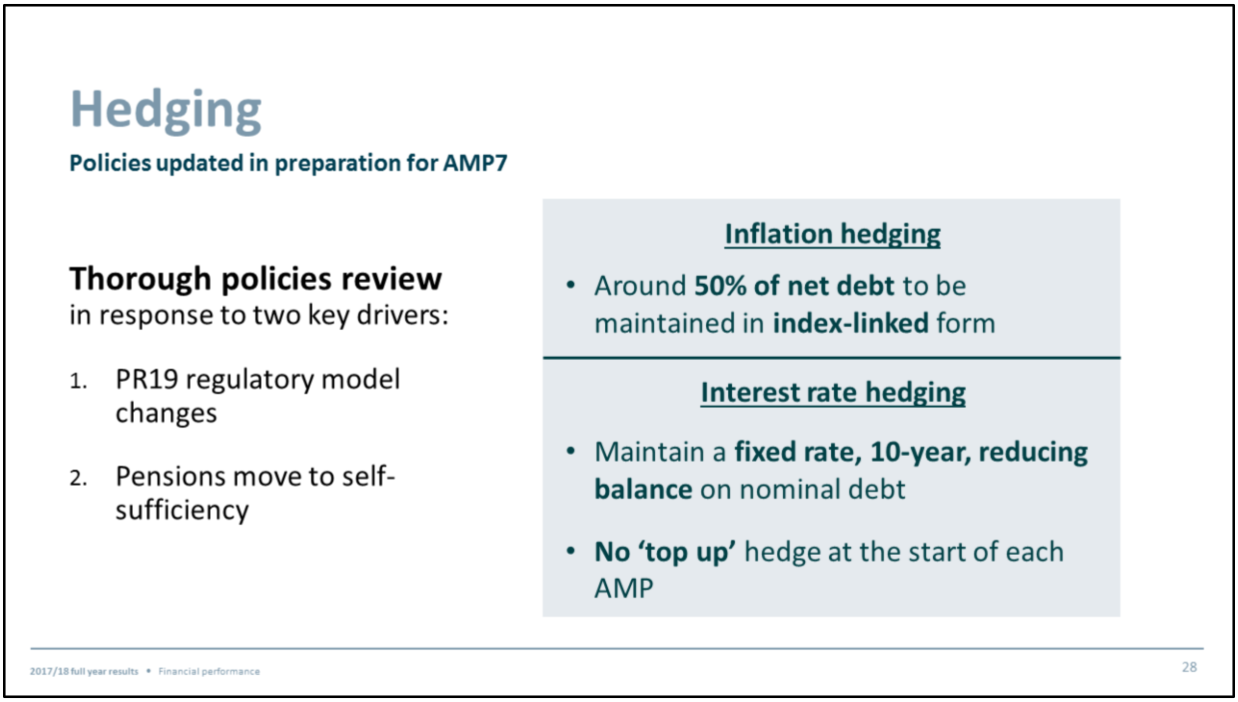


And now turning to our cost of debt.

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

In respect of our nominal debt, this is virtually all fixed for the 2015-20 period at an average interest rate of around 3.2 per cent nominal.

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



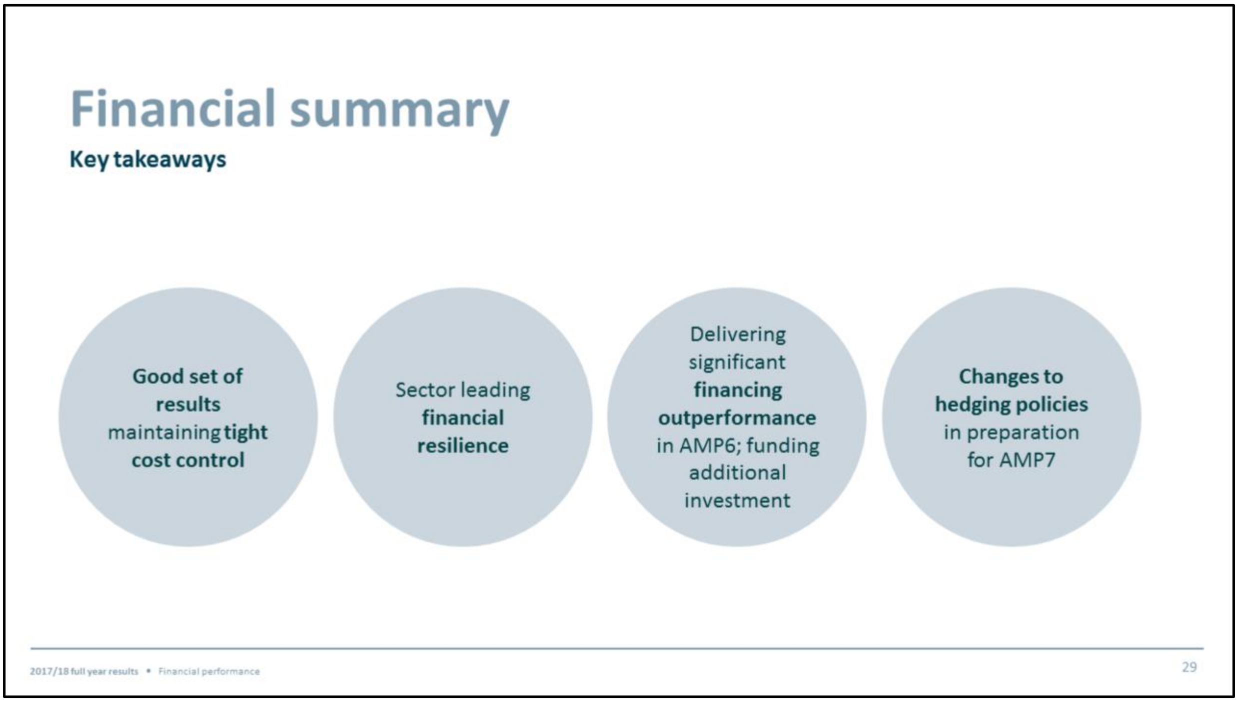
And finally, with regards to hedging we have a strong track record of aligning our financial risk management with the regulatory model.

Historically, our inflation hedging policy has been to leave the equity portion of the RCV exposed to RPI inflation by largely hedging the debt portion of the RCV for inflation through index-linked debt and via our pensions Inflation Funding Mechanism, whereby contributions on the unhedged portion of the group's pension scheme liabilities are flexed reflecting movements in RPI. Two developments led us to review our inflation hedging policy. First, the move from RPI towards CPIH in Ofwat's PR19 methodology; and second, the intent of our pension scheme trustees to exit the Inflation Funding Mechanism in favour of market based RPI hedging as the next step of their de-risking journey toward self-sufficiency.

Our review has involved a balanced assessment across a range of factors including maintaining an appropriate economic hedge of the RCV and associated cash flows, the availability and costs of hedging instruments, the impact of different hedging strategies on key financial indicators including income statement metrics, along with a consideration of broader sector positioning. As part of this review we took informal soundings from around 20 of our larger shareholders. Taking all of these factors into account, we have decided to maintain a target of around 50 per cent of net debt to be maintained in index-linked form as the pension scheme replaces the Inflation Funding Mechanism with market based RPI hedges.

With regards to interest rate hedging, we consider it appropriate to maintain our existing policy of fixing interest rates on our nominal debt on a 10-year reducing balance basis, thereby broadly replicating a 10-year trailing average. However, recognising Ofwat's intentions to apply debt indexation for new debt raised during the AMP7 period, we will no longer implement a 'top up' hedge at the start of each AMP, an approach we have previously used to substantially fix interest rates on our nominal debt for each 5-year regulatory period once the allowed cost of debt is known.

These changes to our hedging policies ensure that we maintain a close alignment to the regulatory model as we move from AMP6 to AMP7, and should put us in a strong position to perform well again on financing in AMP7.



So to summarise our financial performance:

This is another good set of results in which we have continued to maintain tight cost control.

Our strong balance sheet, relatively low gearing, financial risk management and pensions position are sector leading and provide financial resilience for the long-term.

The low cost of debt that we have locked-in places us in a strong position to deliver significant financing outperformance up to 2020, allowing us to fund additional investment in resilience for the benefit of customers.

And as you have just heard, we have made some changes to our inflation and interest rate hedging policies in order to align them to the new regulatory model in AMP7.

I’ll now hand you back to Steve.

Thanks Russ.

So as you can see, our gearing and balance sheet strength put us in a strong position opposite the challenges the sector is facing.

I now want to talk about why we believe behaving responsibly is so fundamentally important. In many ways, we have the benefit of being a listed company with all the rigour, scrutiny and transparency that this brings. We do, however, go much further than the requirements of our listed status.

Our approach to affordability and vulnerability is setting new benchmarks and we are engaging with customers and key stakeholders to co-create many of the schemes that we offer to customers and this will be a cornerstone of our PR19 business plan.

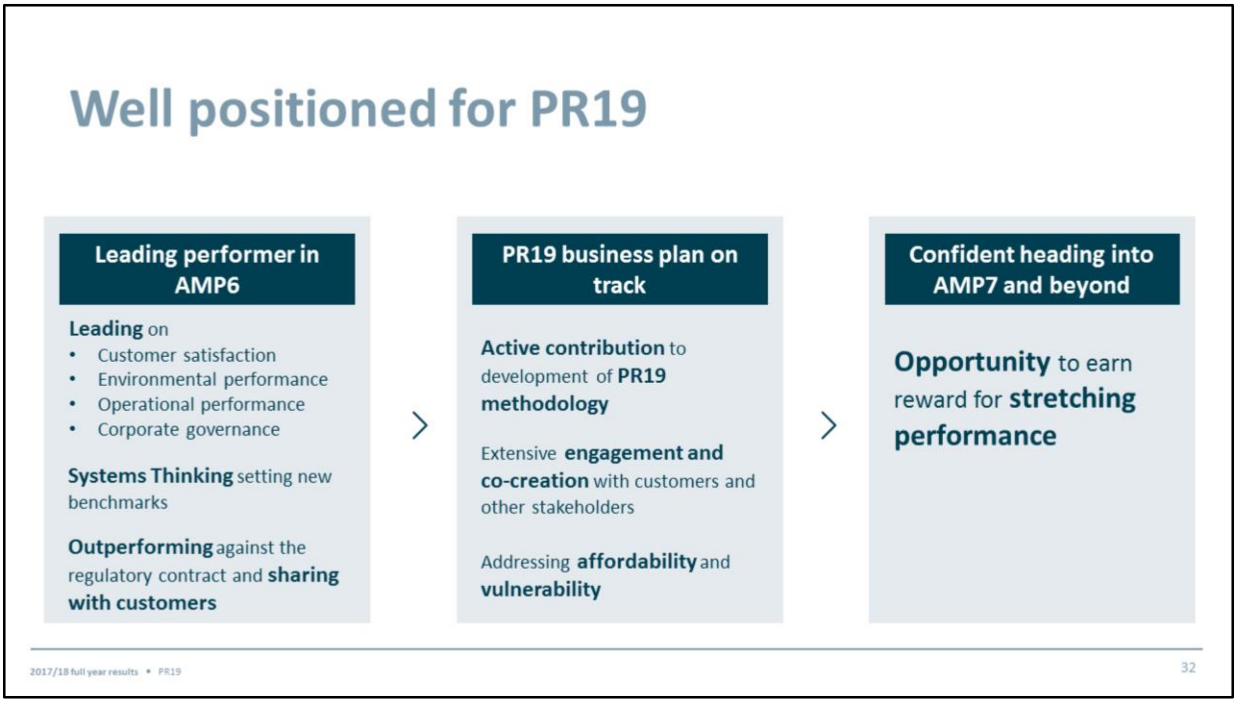
We share our outperformance with customers through re-investment, providing long-term resilience and easing the burden on future bills for customers. Over the course of the current regulatory period and the last, we expect the amount of re-investment from outperformance to total around half a billion pounds.

Under Ofwat's reporting framework, reflecting the trust and confidence customers can have in our transparency and integrity, we are one of only three companies to attain self-assured status and the only listed company in this category.

We are early adopters of new standards. Since 2015, our annual report has been an Integrated Report in accordance with International <IR> Framework and has won cross sector awards for this. We were the first water company - and one of the first FTSE100 companies – to publish a Long-term Viability Statement in 2015. In 2016, we were one of the first to publish tax policies and objectives and to apply FR Lab guidance on best practice disclosure in dividends.

As you've heard from Russ, we have a leading position on pensions, mitigating risk for members of our pension schemes and shareholders alike.

This is helping to secure to our long-term financial resilience alongside our strong operational resilience.



Although we are still only two thirds of the way through this regulatory period eyes are turning to the next price review, PR19 covering the period 2020 to 2025 – AMP7. We have given ourselves a good launch platform for AMP7.

We have used AMP6 to establish ourselves as a leader in the sector. If you look at the data, you will find us a leading player on customer satisfaction, environmental performance and operations. The capability we are building through Systems Thinking is setting new benchmarks for the sector.

We are delivering performance ever more efficiently. We will outperform our AMP6 totex allowance by £100 million and re-invest £250million of our total outperformance in resilience measures.

And as you've just heard, we hold ourselves to the highest standards of corporate governance.

When we submit our business plan this September it will represent three years of work in establishing our priorities for the next regulatory period.

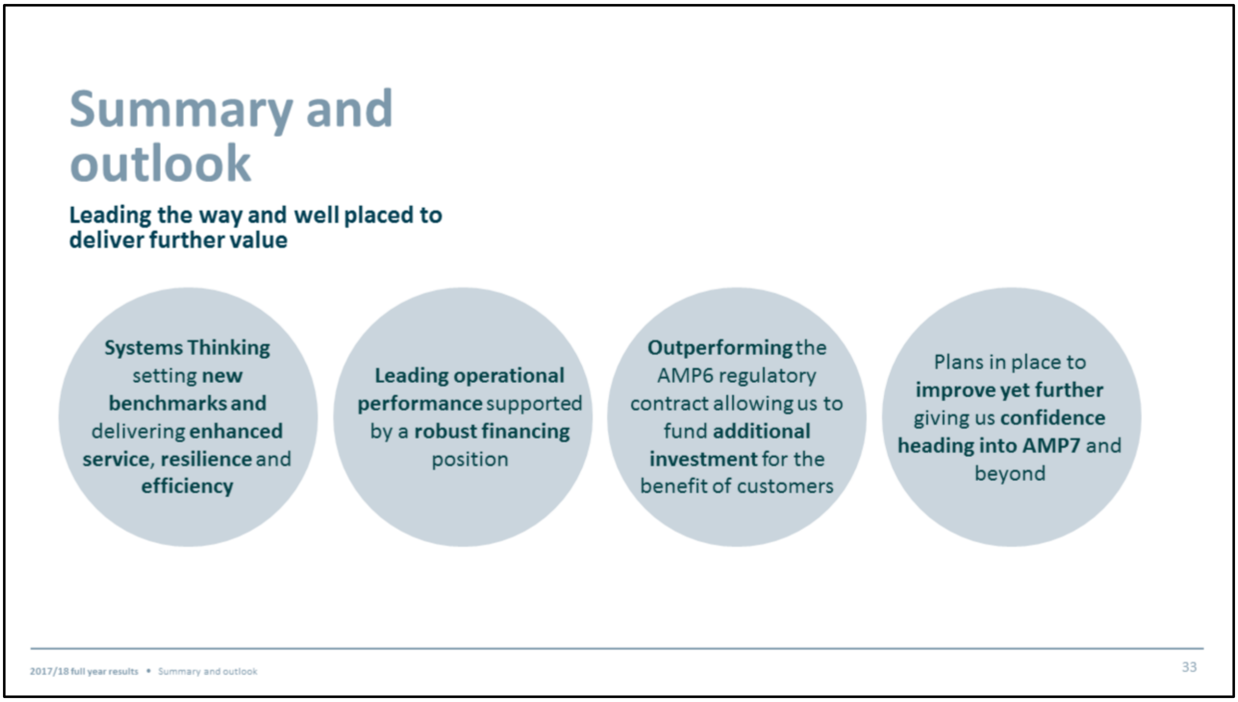
We have been an active participant with Ofwat in its various consultations about its methodology for PR19, applying the many lessons learned from PR14 and AMP6.

Our plan will reflect extensive consultation with customers and other stakeholders using opinions, preferences and co-creation of solutions from day to day interactions as well as bespoke engagements.

Our plan will address the key issues of vulnerability and affordability – a critical issue for our region which continues to be the most socio economically deprived in the country.

We will end AMP6 at unprecedented levels of operational efficiency delivering sector leading performance. Every key cost driver has been benchmarked and our solutions reflect best value for money.

And finally, ODIs will be re-set for AMP7 and our proposals will provide us opportunity to earn rewards for stretching performance.



So, in summary:

As attention turns to AMP7 I am delighted with what we have achieved so far in AMP6.

Putting customers first has always been our priority and their trust and confidence in us is evident in their feedback – whichever metric one uses.

We are a leading performer in the sector.

We were confident that Systems Thinking would deliver and the results are now there to see. We are setting new benchmarks for the sector and Systems Thinking, together with our approach to exploiting technology and innovation, is delivering better service and enhanced resilience at lower cost.

We are outperforming the AMP6 regulatory contract. Our financing outperformance is significant and we are confident in outperforming our totex allowance. We are sharing the benefits of this outperformance with customers through additional investment, delivering long-term resilience and mitigating future bill increases.

We expect to end AMP6 with our ODIs in positive territory.

We approach AMP7 as a strong, high performing and responsible company in which customers can have trust and confidence.

When we submit our business plan for AMP7 in September it will build on this leading position. AMP7 represents a re-set in performance expectations and incentives and we will put our best foot forward in setting out a plan that will balance the need for further improvements in service and value to customers, for which we can earn reward for outperformance and a fair return for investors.

Thanks for listening and I would now like to invite your questions.


Any questions?
United
Utilities
helping life flow smoothly
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Supporting information

Revenue analysis

£m Year ended 31 March	2018	2017
UU Water appointed	1,708	1,671
UU Water non-appointed	9	9
Non-UU Water	19	24
Revenue	**1,736**	**1,704**

Profit before tax reconciliation

£m Year ended 31 March	2018	2017
Operating profit	636.4	605.5
Investment income and finance expense	(206.6)	(189.0)
Profit on disposal of non-household retail business	-	22.1
Share of profits of joint ventures	2.3	3.8
Reported profit before tax	**432.1**	**442.4**
Adjustments:		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	1.7	1.5
Non-household retail market reform[1]	1.0	5.8
Restructuring costs	6.0	10.1
Profit on disposal of non-household retail business	-	(22.1)
Net fair value losses/(gains) on debt and derivative instruments	(47.3)	(24.3)
Interest on swaps and debt under fair value option	23.5	15.4
Net pension interest income	(7.1)	(10.2)
Capitalised borrowing costs	(39.7)	(29.1)
Underlying profit before tax	**370.2**	**389.3**

[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 Year ended 31 March	2018	2017
Reported profit after tax	**356.4**	**433.9**
Adjustments:		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	1.7	1.5
Non-household retail market reform[1]	1.0	5.8
Restructuring costs	6.0	10.1
Profit on disposal of non-household retail business	-	(22.1)
Net fair value (gains)/losses on debt and derivative instruments	(47.3)	(24.3)
Interest on swaps and debt under fair value option	23.5	15.4
Net pension interest income	(7.1)	(10.2)
Capitalised borrowing costs	(39.7)	(29.2)
Deferred tax credit – change in tax rate	-	(58.2)
Agreement of prior years' tax matters	-	(15.5)
Tax in respect of adjustments to underlying profit before tax	11.8	6.2
Underlying profit after tax	**304.9**	**313.4**
Basic earnings per share (pence)	**52.0**	**63.6**
Underlying earnings per share (pence)	**44.7**	**45.9**

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

Finance expense

£m Year ended 31 March	2018	2017
Investment income	12.0	13.7
Finance expense	(218.6)	(202.7)
	(206.6)	**(189.0)**
Less net fair value (gains)/losses on debt and derivative instruments	(47.3)	(24.3)
Adjustment for interest on swaps and debt under fair value option	23.5	15.4
Adjustment for net pension interest income	(7.1)	(10.2)
Adjustment for capitalised borrowing costs	(39.7)	(29.2)
Underlying net finance expense	**(277.2)**	**(237.3)**
Average notional net debt	**6,614**	**6,232**
Average underlying interest rate	**4.2%**	**3.8%**
Effective interest rate on index-linked debt	5.0%	3.7%
Effective interest rate on other debt	3.1%	3.9%

Finance expense: index-linked debt

£m Year ended 31 March	2018	2017
Cash interest on index-linked debt	(47.8)	(48.2)
RPI adjustment to index-linked debt principal – 3 month lag[1]	(107.8)	(65.6)
CPI adjustment to index-linked debt principal – 3 month lag[2]	(3.7)	-
RPI adjustment to index-linked debt principal – 8 month lag[3]	(26.3)	(15.1)
Finance expense on index-linked debt	**(185.6)**	**(128.9)**
Interest on other debt (including fair value option debt and swaps)	(91.6)	(108.4)
Underlying net finance expense	**(277.2)**	**(237.3)**

- Cash interest payment of £48m on c£3.7bn of index-linked debt
- Increase in indexation charge mainly due to higher RPI on 3 month lagged debt
- RPI impact on RCV exceeds RPI impact on debt principal

[1] Affected by movements in RPI between January 2017 and January 2018
[2] Affected by movements in CPI between January 2017 and January 2018
[3] Affected by movements in RPI between July 2016 and July 2017

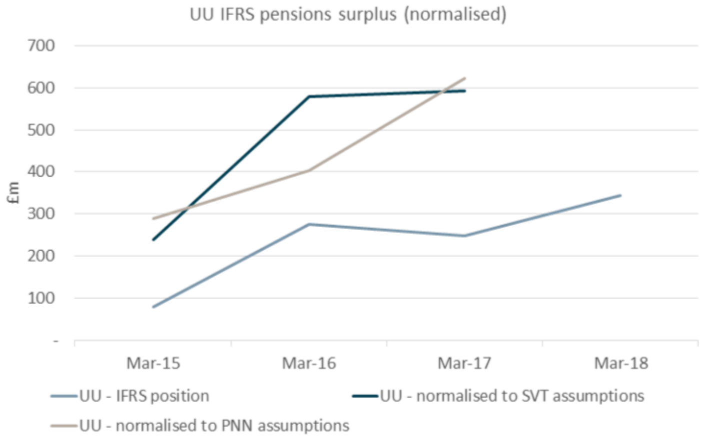
Derivative analysis

£m At 31 March	2018	2017
Derivatives hedging debt	585.5	810.0
Derivatives hedging interest rates	(50.1)	(243.0)
Derivatives hedging commodity prices	(0.9)	(9.0)
Total derivatives assets and liabilities (slide 21)	**534.5**	**558.0**

- 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

UU IFRS pension surplus normalised for different assumptions

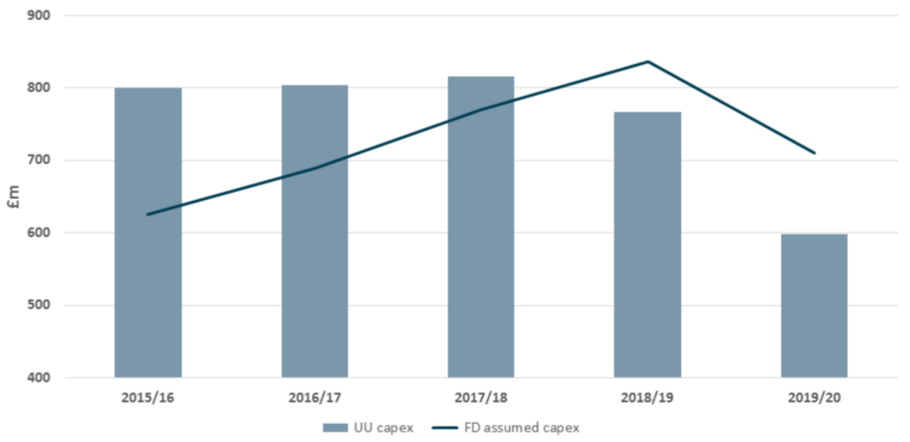
UU's Mar-17 IFRS pension surplus increases by c£350m if normalised[1] for Severn Trent's or Pennon's assumptions



Source: Companies' annual report and accounts

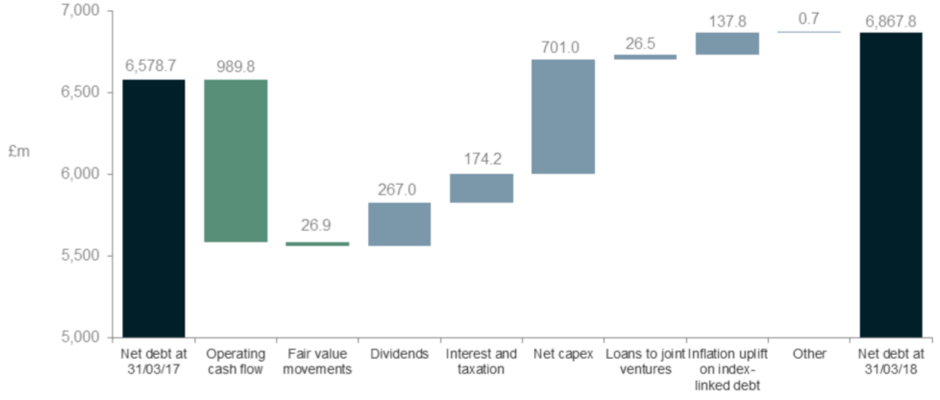
[1] Adjusting for inflation, discount rate and mortality assumptions

Net regulatory capital spend profile



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

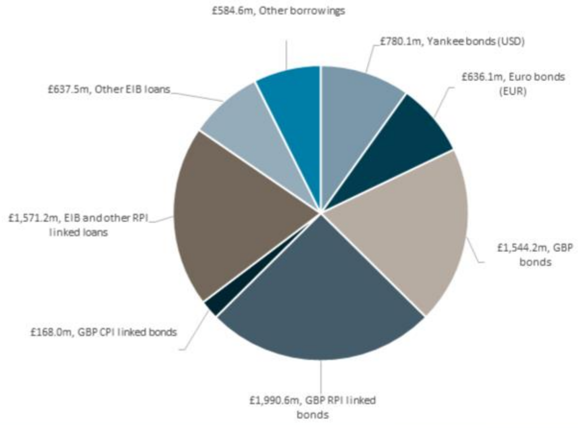
Movement in net debt[1]



[1] Net debt includes derivatives which incorporate regulatory swaps

Financing and liquidity at 31 March 2018

Gross debt = £7,912.3m



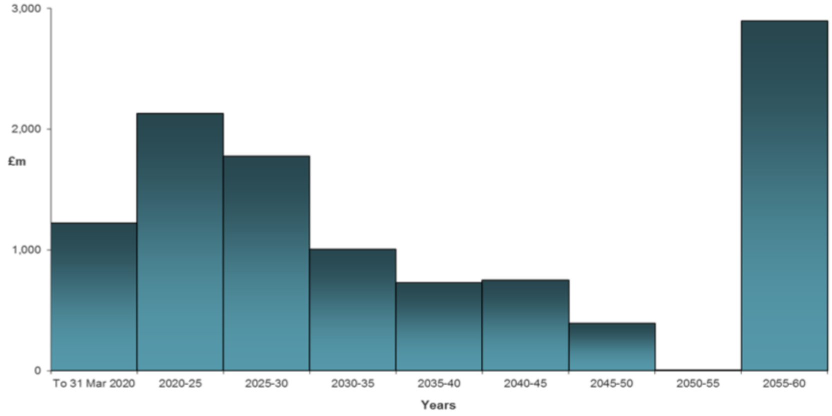
Headroom / prefunding = £435.2m

	£m
Cash and short-term deposits	510.0
Medium-term committed bank facilities[1]	650.0
Short-term debt	(174.3)
Term debt maturing within one year	(550.5)
Total headroom / prefunding	**435.2**

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

Term debt maturity profile as at 31 March 2018[1]

Average term to maturity of just under 20 years



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

Debt structure at 31 March 2018

United Utilities Group PLC

United Utilities PLC

Baa1 stable; BBB stable

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

Other debt:
- Short-term loans £117m

United Utilities Water Limited

A3 stable; A- stable

Ring-fenced and regulated by Ofwat

Euro MTNs:
- £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]
- £20m 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 £1,059m[1]
- Other index-linked loans £300m[2]
- Other EIB loans £638m
- Short-term loans £45m
- ¥10bn dual currency loan
- Other sterling loans £128m

United Utilities Water Finance PLC[3]

Guaranteed by United Utilities Water Ltd

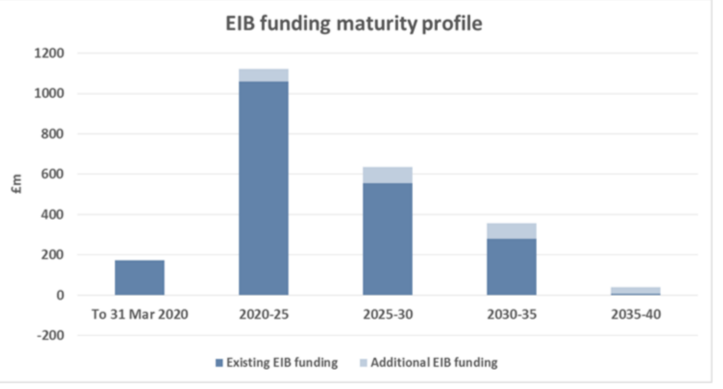
Euro MTNs:
- £25m in 25s[1]
- £300m in 25s
- HK$739m in 26s
- HK$830m in 27s
- €52m in 27s
- £20m in 28s[1]
- £35m in 30s[1]
- €30m in 30s
- €30m in 31s
- HK$600m in 31s
- £38m in 31s[1]
- £20m in 31s[2]
- €26m in 32s
- €28m in 32s
- €30m in 33s
- £27m in 36s[1]
- £29m in 36s[1]
- £20m in 36s[2]
- £60m in 37s[2]
- £32m in 48s[2]
- £33m in 57s[2]

[1] RPI linked finance

[2] CPI linked finance

[3] United Utilities Water Finance PLC (UUWF) is a financing subsidiary of United Utilities Water Limited (UUW) established to issue new listed debt on behalf of UUW. Notes issued by UUWF are unconditionally and irrevocably guaranteed by UUW and are rated in line with UUW's credit ratings.

European Investment Bank funding maturity profile



Notes

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

Dark blue areas represent EIB loans currently drawn and outstanding.

Light blue areas represent a further £250m AMP6 loan assuming this will be signed and drawn in 2018 (being the second tranche of a £500m AMP6 funding package approved by EIB in 2016). It is assumed that this loan will be drawn down in floating rate tranches on an amortising repayment basis with an average loan life of approximately 10-years.

PR19 timetable