United Utilities Group PLC
29 January 2020

UNITED UTILITIES ACCEPTANCE OF FINAL DETERMINATION AND DIVIDEND POLICY UPDATE

On 16 December 2019, Ofwat published the final determination for United Utilities Water Limited (UUW) covering the period 2020-25 (AMP7). United Utilities Group PLC (UUG) today announces that after careful consideration, its principal subsidiary, UUW, has accepted the final determination.

Steve Mogford, Chief Executive Officer, said:

“We were pleased last year to have been awarded fast-track status reflecting the high quality of our business plan. Our plan provides further service improvements for customers, lower bills, continuing high levels of investment to future proof the region’s water infrastructure and maintains our responsible approach to financing. This includes having a fully funded pension scheme on a self-sufficiency basis and being the first water company in the FTSE 100 to secure the Fair Tax Mark.

“We have a long track record of sharing outperformance with customers as well as the widest range of payment solutions and affordability schemes in the sector. The final determination delivers the third successive five year period in which customer bills have reduced in real terms.”

Background

Our plan for AMP7 was fast-tracked through the price review process recognising the high quality and ambition it demonstrated, setting a new standard for the sector. We are regarded as having the most deeply embedded innovation culture and also lead the sector in other areas such as our approach to affordability and securing long-term operational, corporate and financial resilience. Average bills for UUW customers have fallen in real terms over the 10 years from 2010 to 2020 and delivery of the final determination will mean that average bills will fall further in real terms for another five years to 2025, whilst service standards and environmental quality continue on a path of significant improvement.

The sustainable improvements in performance that we have achieved in recent years and the plans we have in place for AMP7 give us confidence that we can further improve services for customers and provide an appropriate return for investors.

Capital structure

UUG gearing, measured as group net debt to regulatory capital value (RCV), has remained stable over the last ten years, always comfortably within our target range of 55 to 65 percent. We believe that it is appropriate to retain this target gearing range over AMP7 in order to maintain efficient access to debt capital markets throughout the economic cycle. We also note that the range is consistent with Ofwat’s notional gearing assumption of 60 per cent.

Credit ratings targets

Assuming no significant changes to existing rating agency methodologies or sector risk assessments, the group aims to maintain long-term issuer credit ratings for UUW of at least A3 with Moody’s and BBB+ with Standard & Poor’s (S&P) and a senior unsecured debt rating for UUW of at least A- with Fitch.

UUW currently has long-term credit ratings of A3 on stable outlook with Moody’s, A- on negative outlook with S&P, and a senior unsecured debt rating of A- on stable outlook with Fitch. We expect S&P to resolve its ratings outlook in the next month.

UUG AMP7 dividend policy

In line with UUG's existing dividend policy for 2015-20 (AMP6), the total dividend per ordinary share for 2019/20 is expected to be 42.60 pence.

With respect to its AMP7 dividend policy, the UUG board announces that the group will target growing its dividend per share by CPIH inflation each year from 2019/20 through to 2024/25. The change from the current RPI growth to the lower CPIH growth for AMP7 is consistent with the change to CPIH as the basis for indexing allowed revenues.

This target reflects a detailed assessment of the final determination, including the lower allowed regulatory return for AMP7.

We have a long track record of sharing outperformance with customers exemplified by the additional investment in excess of £600 million in total across the period 2010-20 (AMPs 5 and 6). The balance of outperformance after sharing with customers has been retained by the group and is therefore available for distribution.

Whilst the PR19 final determination is challenging, the group enters the new regulatory period in a financially robust position and is therefore confident in distributing this accumulated regulatory outperformance given a backdrop of lower investment requirements and therefore lower growth in UUW's RCV across AMP7.

The basis for UUG dividend distributions in AMP7 comprises expected returns from UUW based on AMP7 performance, including the base dividend return of 4 per cent (nominal) on the equity portion of the Shadow RCV, together with accumulated outperformance in prior periods that has been retained by the group after sharing with customers.

More detail on the UUW AMP7 dividend policy can be found in the appendix including a summary of the UUW dividend policy disclosure that will be included in the Annual Performance Report (APR) for 2019/20 later this year.

The UUG board believes that this approach represents an appropriate balance, recognising our assessment of the final determination, the importance of income to shareholders and the need to retain a robust and sustainable financial profile in the interest of all stakeholders.

Future events

We will hold a conference call to provide the opportunity to ask questions regarding our decisions outlined above at 14.00 today and will host a capital markets day in London on 2 March 2020. The details of the conference call are as below with further details to follow regarding the capital markets day.

The conference call can be accessed by dialling:
UK toll: +44 (0)20 3936 2999
Passcode: 306115

For further information, please contact:

Gaynor Kenyon – Corporate Affairs Director	+44 (0) 7753 622 282
Robert Lee – Head of Investor Relations	+44 (0) 7500 087 704
Graeme Wilson – Tulchan Communications	+44 (0) 2073 534 200

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.

LEI 2138002IEYQAOC88ZJ59
Classification – PR19 Final Determination acceptance and dividend policy

Appendix

UNITED UTILITIES WATER LIMITED (UUW) DIVIDEND POLICY UPDATE

In its final determinations, Ofwat updated its view of the appropriate cost of equity and therefore updated its assessment of a reasonable base dividend for AMP7. Ofwat has proposed a base dividend yield of up to 4 per cent as reasonable for companies that have little RCV growth and that perform in line with the final determination. As a result, the board of UUW (United Utilities Group PLC's (UUG's) principal subsidiary) has decided to rebase its dividend policy to reflect the lower returns and accordingly, the base dividend from UUW is expected to reduce to 4 per cent of the equity portion of RCV for AMP7, down from 5 per cent in AMP6.

Consistent with the core principles that we set out in our business plan, dividend payments above this base level will only be made to reflect outperformance against the final determination. If distributions are much higher than expected, an automatic sharing mechanism will provide customers with a matching benefit sharing payment. The boards of UUG and UUW will continue to monitor and report on their approach to dividends annually, giving consideration to the impact on financial resilience, customers and employees before any distribution is declared.

The UUW dividend policy for AMP7, that will be disclosed in the Annual Performance Report (APR) for 2019/20 later this year, is summarised below.

UUW dividend policy

UUW's dividend policy for the 2020-25 regulatory period is to distribute:

- A base dividend return of 4% (nominal) on the equity portion of the Shadow Regulatory Capital Value (RCV);
- The profit after tax in relation to the non-appointed activities of UUW; and
- An amount no greater than demonstrable outperformance versus the final determination.

In addition, there will be a true-up of the previous year's dividend, arising from differences between the forecast and actual components of the dividends paid.

Application of the policy will also be subject to the commitments made to stakeholders as part of the company's PR19 business plan submissions and the overarching intention of the board to deliver an approach which contributes to building trust and confidence in the company and its treatment of a broad range of stakeholders.

The board believes this represents an appropriate policy taking into consideration:

- The challenges of the 2020-25 final determination;
- Ofwat's assumed equity return of 4.19% (real) in CPIH terms;
- The importance of income to shareholders; and
- The need to retain a robust and sustainable capital structure.

The board reviews the ongoing appropriateness of its dividend policy annually.