

United Utilities Group PLC
25 March 2020

UNITED UTILITIES TRADING UPDATE

United Utilities announces the following trading update ahead of its full year results on 22 May 2020.

Current trading is in line with the group's expectations for the year ending 31 March 2020.

A high performing company

We end AMP6 as a high performing company having delivered sustainable improvements in service, resilience and efficiency for customers over the last 10 years. Customers are always at the heart of everything we do and our innovative systems thinking approach has been fundamental to the transformation of our operational performance. We expect to deliver further improvements in AMP7 and beyond.

Prepared for AMP7

Having been awarded fast track status in the PR19 price review we are well prepared for AMP7. We have invested £100 million over the last twelve months to accelerate planned improvements and achieve a flying start to the period. We accepted our final determination in January 2020.

Winter storms

Throughout February 2020 the UK experienced a succession of severe winter storms. Our workforce worked tirelessly throughout this period to minimise the impact on customers and the environment. We do not expect the storms to result in any material incremental costs but they did cause some service interruptions that will reduce our anticipated Outcome Delivery Incentives (ODIs) for AMP6 to a net reward of around £40 million from around £50 million previously.

COVID-19

We have enacted our robust contingency plans in response to the COVID-19 outbreak. These are designed to protect our employees so that we can continue to provide a great public service to customers. We offer some of the sector's most innovative affordability schemes and will continue to make these available to customers experiencing difficulty in the current economic climate. Our revenues are fixed under the regulatory revenue control for the next five years, with shortfalls in any year being recoverable in later years. In addition we have a robust liquidity position extending out for 24 months which is at the upper end of our policy range. This means that we are well protected against financial shocks that may be experienced as a result of the outbreak in the short to medium term. However, we recognise that there is a significant degree of uncertainty associated with how the current situation develops and we will therefore continue to closely monitor our position and approach.

Financials

Group revenue is expected to be higher than last year, largely reflecting our allowed regulatory revenue changes.

Underlying operating profit for 2019/20 is expected to be higher than 2018/19. Underlying infrastructure renewals expenditure in the second half of 2019/20 is expected to be higher than the first half of the year.

Reported operating profit will be impacted by an accelerated depreciation charge of around £80 million in relation to Bioresources assets consistent with the expected level and allocation of RCV to Bioresources included in our business plan submissions and final determination. To provide a more representative view of business performance, this accelerated depreciation will be excluded from the underlying profit measures.

The current economic climate has resulted in an increase in credit spreads which is expected to significantly increase the UU Group IFRS pension surplus at 31 March 2020. The economic climate is also expected to affect the ability of business customers to pay our joint venture company, Water Plus, and so, despite making good progress on the issues that impacted the underlying operating performance in the first half of the year, its recovery plan is now likely to be far more challenging, take longer and be less certain.

The RPI inflation that is applied to the group's index-linked debt is higher than last year and we therefore expect the underlying net finance expense for 2019/20 to be around £15 million higher than 2018/19.

We expect group net debt at 31 March 2020 to be broadly flat compared with the position as at 30 September 2019.

Our responsible approach to financial risk management continues to deliver benefits including a strong balance sheet and gearing comfortably within our target range of 55 per cent to 65 per cent net debt to RCV, supporting a solid A3 credit rating for United Utilities Water with Moody's.

United Utilities contacts:

Gaynor Kenyon, Corporate Affairs Director	+44 (0) 7753 622282
Robert Lee, Head of Investor Relations	+44 (0) 1925 237033
Graeme Wilson, Tulchan Communications	+44 (0) 20 7353 4200

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