

United Utilities Group PLC
25 March 2021

UNITED UTILITIES TRADING UPDATE

United Utilities announces the following trading update ahead of its full year results on 27 May 2021.

Current trading is in line with the group's expectations for the year ending 31 March 2021.

Performing strongly

We have continued to perform strongly during the Covid-19 pandemic and to deliver excellent operational performance. We are on track to record our lowest ever level of leakage and the interruptions to water supply our customers experience has more than halved in the last 12 months. Our performance in relation to serious pollution incidents is the best in the sector with zero incidents for two consecutive years and we are on track to achieve the industry leading four star rating with the Environment Agency in its annual assessment for 2020.

As a result of our excellent performance for customers and the environment, we expect to achieve a reward of up to £20 million against our customer outcome delivery incentives (ODIs) for this year.

A digital utility

Through our unique Systems Thinking approach we make extensive use of technology, automation and machine intelligence in order to deliver better performance for customers and the environment. For example, hi-tech sensors in our pipe network allow us to spot potential leaks early and deal with them – reducing the risk of serious disruption for customers, as well as expensive repair work, further down the line. Since 2014, our purpose built technical training academy has provided skills development and certification to over 2,500 people and through the integration of our new digital skills academy, we ensure that we have the in-house skills to develop and deploy breakthrough technologies at pace and efficiently. The deployment of Systems Thinking is delivering tangible benefits to all our stakeholders.

ESG at our heart

Earlier this year we were delighted to be placed in the top 1 per cent of 15,000 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership. This is further recognition of our long-standing commitment to ESG alongside the progress we are making in other areas such as our six carbon pledges, which include a clear commitment to adopting science-based targets, and driving the sector's commitment to hit "net zero" by 2030.

Financial resilience

Cash collection from our household customer base remains strong. Although the pace and scale of the economic recovery from the Covid-19 pandemic remains uncertain, our extended social tariff and extensive range of financial assistance schemes underpin our confidence in our ability to limit any ongoing impact.

Group revenue is expected to be lower than last year, mainly reflecting the reduction in our allowed regulatory revenue, with lower consumption from businesses as a result of Covid-19 largely offset by higher consumption from households. Overall, the net reduction in revenue is expected to be around 3 per cent.

Underlying operating profit for 2020/21 is expected to be lower than 2019/20 largely reflecting the lower revenue and higher infrastructure renewals expenditure (IRE).

At the full year, we will be simplifying our approach to alternative performance measures (APMs) and will no longer, as a matter of course, adjust our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matters.

We expect the underlying net finance expense for 2020/21 to be around £100 million lower than in 2019/20 with roughly half of the reduction due to lower inflation applied to the group's index-linked debt and half due to the change in APMs.

Earlier this year we announced the sale of the company's 35.3 per cent stake in Tallinn Water (AS Tallinna Vesi) for cash consideration of EUR 100.26 million. Given the one-off nature of this transaction, the profit generated on disposal will be excluded from the underlying results.

In November 2020, Water Plus agreed a £70 million financing facility with Royal Bank of Scotland (RBS) and reduced the balance drawn on its facilities with United Utilities and Severn Trent. To provide a robust platform from which Water Plus can make a strong recovery as its business customers emerge from the Covid-19 pandemic, we expect to convert £32.5 million of existing working capital loans from United Utilities to Water Plus into long term fixed capital.

As the company continues to invest in its asset base we expect a small increase in group net debt at 31 March 2021 compared with the position as at 30 September 2020.

Our responsible approach to financial risk management continues to deliver benefits, including a strong balance sheet, a stable IFRS pension surplus and gearing within our target range supporting a solid A3 credit rating for United Utilities Water with Moody's.

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