

United Utilities Group PLC
24 March 2011

UNITED UTILITIES TRADING UPDATE

United Utilities remains on track to deliver a solid underlying financial performance for the year ending 31 March 2011, with performance continuing slightly ahead of management expectations. The company will announce its full year results on 26 May 2011.

Regulated activities

Regulated revenue has continued the positive trend experienced in the first half of 2010/11. However, as expected and outlined previously, it is anticipated that regulated revenue will be a little lower in the second half of the financial year, compared with the first half, reflecting seasonality.

In line with the planned phasing of the capital investment programme, it is expected that infrastructure renewals expenditure and depreciation will be higher in the second half of 2010/11 compared with the first six months of the financial year. Total regulatory capital expenditure is expected to amount to over £600 million for the year, including infrastructure renewals expenditure, consistent with the company's planned investment profile for the 2010-15 period. This is good progress, reflecting the company's detailed advanced planning, and represents a significant increase in capital investment compared with the first year of the previous five-year period when £441 million was invested.

As expected, regulated underlying operating profit is therefore anticipated to be somewhat lower in the second half of 2010/11, compared with the first half, although the full year position represents a healthy financial performance in light of the impact of the price review.

The prolonged freeze experienced across the UK in December 2010, and the subsequent thaw, inevitably resulted in an increased number of leaks across United Utilities' network. However, the outstanding effort and commitment demonstrated by the group's employees ensured that the impact on customers was minimal and additional costs associated with the adverse weather were not significant. Nonetheless, these very difficult operating conditions have made the achievement of the company's 2010/11 regulatory leakage target extremely challenging, although the company has met its target in each of the last four years.

All other segments

Following completion of the non-regulated disposal programme, all other segments principally comprises United Utilities Property Services, the non-appointed activities of United Utilities Water and the contribution from the group's 35.3% holding in Tallinn Water, as well as certain central costs. This segment is expected to make a small underlying operating profit for the year ending 31 March 2011.

Other financial

The group continues to benefit from a robust financing position and now has headroom to cover its projected financing needs through to early 2013. Earlier this month, United Utilities supplemented its funding position by agreeing terms on a new £200 million index-linked loan facility with the European Investment Bank with an average term of c11 years.

Borrowings, net of cash and short term deposits and derivatives, at the year end are expected to be slightly lower than the position at 30 September 2010, subject to no material further fair value movements. This principally reflects operational cash flows and the cash inflow from the non-regulated disposals which completed during the second half of the year, offset by expenditure on the regulatory capital investment programme, payment of the 2010/11 interim dividend and payments of interest and tax.

The total current year effective tax rate on continuing activities, excluding the adjustment relating to deferred tax in the first half of the year as a result of the staged reduction in the rate of corporation tax, is expected to be broadly in line with the mainstream rate of corporation tax of 28%.

As part of the group's efficiency programme, one-off costs of £16 million were recognised in the first half of the year. This figure is expected to reduce slightly for the full year, principally reflecting the fact that actual restructuring costs were a little lower than expected.

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