

UNITED UTILITIES TRADING UPDATE

Current trading is in line with the group's expectations for the six months ending 30 September 2014. Customer service continues to improve, underpinned by good operational and environmental performance. The company remains confident of delivering its 2010-15 regulatory outperformance targets.

Operational performance

United Utilities has delivered significant improvements in customer service over the last few years and we continue to make progress, supported by a further reduction in customer complaints. Our asset serviceability performance has been good, with all four major asset classes rated either 'stable' or 'improving'. This good performance has been recognised in Ofwat's draft determinations in August, with no penalties relating to the service incentive mechanism (SIM) or asset serviceability. This is underpinned by top quartile operational performance, as measured through Ofwat's key performance indicators and the Environment Agency's assessment.

Capital delivery

Our capital delivery performance in this regulatory period has been good and planned investment is continuing at high levels, as we invest to maintain and improve services for customers and deliver further environmental benefits. This capital programme also makes a significant contribution to the regional economy, providing new investment and supporting employment. Regulatory capital investment for 2014/15, including infrastructure renewals expenditure, is expected to be similar to the high level of investment we made in 2013/14.

Financials

Underlying operating profit for the first half of 2014/15 is anticipated to be similar to the first half of 2013/14. This principally reflects an allowed regulated price rise offset by the impact of the previously announced special customer discount and the expected increase in depreciation and other cost pressures, including bad debt. The underlying net finance expense for the first half of 2014/15 is anticipated to be slightly lower than the first half of last year, primarily reflecting the impact of lower RPI inflation on our index-linked debt.

As the company continues to invest in its asset base, group net debt at 30 September 2014 is expected to be slightly higher than the position at 31 March 2014. This principally reflects regulatory capital expenditure, payment of the 2013/14 final dividend and payments in relation to interest and taxation, largely offset by operational cash flows. Gearing remains well within Ofwat's 2010-15 assumed range of 55% to 65% net debt to regulatory capital value. This supports a solid A3 credit rating for United Utilities Water (UW). The group has financing headroom into 2016.

Accounting change

From 1 April 2014, a change under IFRS11 impacts the accounting treatment of the group's investment in Tallinn Water (moving from proportional consolidation to equity accounting). As a result, the prior year financial statements will be re-presented to reflect this, reducing underlying operating profit for the first half of 2013/14 by around £4 million, but with minimal impact on underlying profit before tax.

Price review 2014

As part of the 2014 price review process, on 29 August 2014, Ofwat published its draft determinations for U UW covering the period 1 April 2015 to 31 March 2020. U UW is engaged in detailed dialogue with Ofwat, alongside its on-going discussions with other stakeholders, with particular focus on the wholesale total expenditure differences between U UW's business plan and Ofwat's draft determinations. U UW is scheduled to submit its response to the regulator by 3 October 2014. Ofwat is expected to publish final determinations on 12 December 2014.

United Utilities will announce its half year results on 26 November 2014.

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