United Utilities Group PLC
23 September 2015

UNITED UTILITIES TRADING UPDATE

Current trading is in line with the group's expectations for the six months ending 30 September 2015.

The 2015-20 regulatory price review means our customers are benefiting from lower prices, which came into effect on 1 April 2015, alongside continued substantial investment in our assets.

Operational performance

United Utilities has delivered significant improvements in customer service over recent years and in 2014/15 we achieved top quartile operational performance, as measured through Ofwat key performance indicators and the Environment Agency's assessment. Furthermore, our 'systems thinking' approach, which integrates the use of our assets, leverages data intelligence and employs technology and new work processes, is supporting our drive for continuous improvement.

Water quality incident

Customer satisfaction is a key area of focus and so we were very disappointed that a significant water quality incident occurred this summer in parts of the Lancashire region, and we are continuing to investigate the cause. Public health is a fundamental priority and we issued a 'boil water' notice to over 300,000 properties, representing approximately 10% of our customer base. We deployed extensive additional resources, including enhanced UV treatment, to restore the water quality to the high standards expected as quickly as possible, and full service was restored in early September. We recognise the inconvenience this placed on many of our customers and are very grateful for their patience and understanding. We are in the process of paying compensation, as outlined in the financials section.

Capital delivery

We have made a good start to the 2015-20 regulatory period and our 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. In line with the company's plans to accelerate the five-year programme, regulatory capital investment for 2015/16, including infrastructure renewals expenditure, is expected to be around £800 million.

Financials

Group revenue is expected to be similar to the first half of last year, as the impact of lower regulated revenue for 2015/16 is offset by slightly higher non-regulated sales.

Underlying operating profit for the first half of 2015/16 is in line with management expectations, albeit lower than the first half of 2014/15. This reflects the new regulated price controls, an expected increase in depreciation and other costs, partly offset by a reduction in bad debts and regulatory fees. It is anticipated that infrastructure renewals expenditure (IRE) in the first half of 2015/16 will be similar to the first half of last year. In line with our planned phasing, we expect an increase in IRE in the second half of 2015/16, compared with the first half of the year.

Reported operating profit in the first half of the year will be impacted by customer compensation and one-off costs, totalling around £25 million, relating to the aforementioned water quality incident. In addition, restructuring costs of around £5 million, including costs relating to business retail market reform, have been incurred in the first half of the year. These one-off items will be excluded from the underlying profit measures.

The underlying net finance expense for the first half of 2015/16 is anticipated to be around £20 million lower than the first half of last year, reflecting the impact of lower RPI inflation on our index-linked debt and a lower rate of interest locked-in on our non index-linked debt.

As the company continues to invest in its asset base, group net debt at 30 September 2015 is expected to be slightly higher than the position at 31 March 2015. This principally reflects regulatory capital expenditure, payment of the 2014/15 final dividend and payments in relation to interest and tax, largely offset by operational cash flows. Gearing remains comfortably within our target range of 55% to 65% net debt to regulatory capital value, supporting a solid A3 credit rating for United Utilities Water. The group has financing headroom into 2017.

United Utilities will announce its half year results on 25 November 2015.

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