

United Utilities Group PLC
1 March 2016

UNITED UTILITIES AND SEVERN TRENT COMBINE NON-HOUSEHOLD RETAIL BUSINESSES

United Utilities (“UU”) is pleased to announce that it has entered into a joint venture agreement with Severn Trent, whereby UU and Severn Trent will combine their non-household water and wastewater retail businesses, principally comprising billing and customer service activities, into one business (the “JV”), centrally located in Stoke-on-Trent.

UU and Severn Trent have strong track records in operating and growing successful non-household retail services in Scotland. With the non-household retail market in England opening for competition in 2017, this JV will combine the complementary skills of both companies, including sales, customer service, business strategy and credit management, to deliver an attractive proposition for large and small business customers across England and Scotland. Bringing our businesses together will create a JV with the synergies to provide an efficient and cost-effective operation focussed on improved customer service and growth.

Based on the accounts of UU and Severn Trent and before allowing for any financing or synergy effects, the JV would have had sales¹ of £940.2m, gross assets² of £200.0m and profit before tax³ of £9.7m for the year ended 31 March 2015.

The Chief Executive of the JV will be Sue Amies-King (currently Business Retail Director at UU) and the Chief Financial Officer will be Stuart Howell (currently Head of Finance and Business Planning, Business Services at Severn Trent).

Severn Trent will pay £3.5 million on completion of the transaction in order to create a 50/50 JV and will share the cost of systems development necessary for the provision of non-household retail services. After completion, UU and Severn Trent will account for the JV, through share of profits of joint ventures, using equity accounting.

The agreement is subject to clearance from the Competition and Markets Authority, which UU and Severn Trent expect to obtain in the Spring.

Steve Mogford, UU CEO, said: “We have been an early mover in building a strong non-household retail capability and have already established a sizeable presence in Scotland. This early progress, supported by our new customer relationship management system, means that we are well positioned for full market opening in England. The JV will combine the complementary skills and capabilities of UU and Severn Trent to improve our competitive offering for customers, increase efficiency and enhance value for shareholders.”

Liv Garfield, Severn Trent CEO, said: “I am delighted to be working with UU in creating this JV. The introduction of competition into the non-household retail market presents us with an exciting opportunity to combine our expertise for the benefit of customers and shareholders. The JV will provide non-household customers with an excellent retail choice as, together, we deliver a market leading offer and great service for customers across England and Scotland.”

Analyst and investor call

There will be a call for analysts and investors hosted by Steve Mogford, CEO of UU, and Liv Garfield, CEO of Severn Trent, at 9.00am this morning.

Dial in details are as follows:

Dial in number: +44 (0)20 3427 1916

Conference ID: 6220547

There will be a replay facility available on +44 (0)20 3427 0598

The passcode is 6220547

United Utilities contacts:

Gaynor Kenyon, Corporate Affairs Director	+44 (0) 7753 622282
Darren Jameson, Head of Investor Relations	+44 (0) 7733 127707
David Rogers, Investor Relations Manager	+44 (0) 1925 237019
Peter Hewer / Martin Pengelley, Tulchan Communications	+44 (0) 20 7353 4200

Notes

¹ Sales revenue includes the retail margin earned by the JV as well as the wholesale charge for the supply of water. Revenue is sourced from regulatory accounts and annual accounts of the contributing operations of Severn Trent (Severn Trent Water Ltd and Severn Trent Select Ltd) dated 31/3/15 and of the contributing operations of UU (United Utilities Water Limited and United Utilities Water Sales Limited) dated 31/3/15 and has been adjusted to exclude certain non-material miscellaneous and other income.

² Gross Assets derived from Ofwat's Final Determination financial model and is based on working capital balances plus fixed assets as reported in accounts of the contributing businesses as set out in note 1.

³ Profit Before Tax derived from Ofwat's Final Determination financial model and based on gross margin allowance for 2015-16 less operating costs and depreciation as reported in the relevant accounts of the contributing businesses as set out in note 1. Financing costs derived from working capital assumptions in Ofwat's Final Determination financial model and the weighted average nominal interest rate from the relevant accounts of the contributing businesses as set out in note 1.

Notes to editors

The economic regulator for the water industry, Ofwat, is opening up fully the water and wastewater non-household retail market in England to competition from April 2017. The retail market principally comprises billing and customer service activities. The non-household market comprises business and other non-domestic users. Large non-household customers are already able to switch their retail supplier for water services. All other activities, including retail services to the household market and all wholesale activities in the supply of water and wastewater services are unaffected by this announcement.