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United Utilities Group PLC
22 March 2016

UNITED UTILITIES TRADING UPDATE

Current trading is in line with the group's expectations for the year ending 31 March 2016.

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

<u>Customer satisfaction</u>

Our customer focus continues to deliver underlying improvement in customers' satisfaction with our services, building on the significant improvements delivered in previous years. Whilst the water quality incident last summer understandably led to a reduction in customer satisfaction around the time of the incident, our underlying performance shows improvement. We were particularly pleased to learn that customers continue to rate us highly on wastewater services, notwithstanding the unprecedented flooding experienced in the North West during December last year. Overall, our service incentive mechanism (SIM) scores have improved slightly compared with last year.

<u>Operational performance</u>

Our outcome delivery incentives (ODIs) represent a set of tough performance targets, particularly in wastewater. We have accelerated investment in this first year of the new regulatory period to deliver early operational benefit and mitigate potential penalties under our ODIs. In light of this, regulatory capital investment for 2015/16, including infrastructure renewals expenditure (IRE), is expected to be around £800 million.

Early investment along with a strong management focus is leading to further improvement in our underlying operational performance, particularly in our wastewater business. As a result, we are on track to mitigate the majority of the downside risk of our ODIs for this year although, in line with the guidance we provided at the half year results in November, we do not expect to achieve a reward for the 2015/16 financial year.

We are continuing to invest in our 'systems thinking' approach, which integrates the use of our assets, leverages data intelligence and employs new work processes and technology. We will be rolling out additional new capability later this year, supporting our drive for further improvement.

<u>Financials</u>

Group revenue is expected to be marginally higher than last year, as the impact of lower allowed regulated revenue for 2015/16 is more than offset by higher than assumed volumes and an increase in sales in our non-regulated business.

Underlying operating profit for 2015/16 is in line with management expectations, albeit lower than 2014/15. This reflects the new regulated price controls, an expected increase in IRE, depreciation, employee and other operating costs, partly offset by a reduction in bad debts and regulatory fees. In line with our planned acceleration, IRE is expected to be around £20 million higher than last year.

Reported operating profit will be impacted by additional costs and asset impairments incurred in relation to the unprecedented flooding incidents which occurred during December 2015, although we expect these charges to be largely offset by insurance proceeds. Overall, we do not expect these extreme weather events to have a material impact on our ODIs. In addition, as outlined previously, we incurred costs of around £25 million relating to the water quality incident last summer, which were recognised in the first half of the 2015/16 financial year. Costs relating to business retail market reform are expected to be around £10 million for the full year, of which £5 million was recognised in the first half. To provide a more representative view of business performance, these adjusting items will be excluded from the underlying profit measures.

The underlying net finance expense for 2015/16 is anticipated to be around £20 million lower than 2014/15, reflecting the impact of lower RPI inflation on our index-linked debt and a lower rate of interest locked-in on our nominal debt.

As the company continues to invest in its asset base, we expect a modest increase in group net debt at 31 March 2016 compared with the position at 30 September 2015. This principally reflects capital expenditure, payment of the 2015/16 interim 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.

Joint venture

United Utilities announced on 1 March 2016 that it had entered into a joint venture agreement with Severn Trent to combine the two companies' non-household water and wastewater retail businesses, principally comprising billing and customer service activities, into one business, to be centrally located in Stoke-on-Trent.

With the non-household retail market in England opening for competition in 2017, this joint venture 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 the businesses together will create a joint venture with the synergies to provide an efficient and cost-effective operation focussed on improved customer service and growth.

The joint venture is subject to clearance from the Competition and Markets Authority, which is expected later this Spring.

Full year results

United Utilities will announce its 2015/16 full year results on 26 May 2016.

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