United Utilities Group PLC
27 September 2016

UNITED UTILITIES TRADING UPDATE

Current trading is in line with the group's expectations for the six months ending 30 September 2016.

Operational performance and customer satisfaction

United Utilities continues to deliver improvements in operational performance and customer service. In July, we attained 'industry leading company' status, as measured through the Environment Agency's annual assessment, and earlier this month, we retained our Dow Jones Sustainability Index 'World Class' rating for the ninth consecutive year. We are also encouraged by Ofwat's 2016/17 first wave service incentive mechanism (SIM) qualitative score, which shows further improvement in customer satisfaction compared with last year.

We were pleased to deliver a small net reward for 2015/16 on our outcome delivery incentives (ODIs), which represent a tough set of performance targets. Acceleration of our investment programme continues this year to deliver early customer service and operational benefits, enhance asset resilience and optimise performance under our ODIs, and we have seen continued strong performance in the areas of private sewers and pollution incidents. The modernisation programme at our largest wastewater treatment works, Davyhulme, is also progressing well.

Total regulatory capital investment for 2016/17, including infrastructure renewals expenditure, is expected to be around £800 million, similar to last year. This continued high level of investment will help us to maintain and improve services for customers, deliver further environmental benefits and provide a significant contribution to the regional economy.

Furthermore, we continue to invest in our 'systems thinking' approach, which integrates the use of our assets, leverages data intelligence and employs new work processes and technology to support operational performance enhancement. We will be rolling out additional new capability this year, supporting our drive for further improvement.

Financials

Group revenue is expected to be slightly lower than the first half of last year, reflecting the accounting impact of our Water Plus business retail joint venture, which completed on 1 June 2016, partly offset by our allowed regulatory revenue changes.

Underlying operating profit for the first half of 2016/17 is expected to be marginally higher than the first half of 2015/16. It is anticipated that infrastructure renewals expenditure (IRE) in the first half of 2016/17 will be slightly lower than the first half of last year. In line with our planned capital investment phasing, we expect an increase in IRE in the second half of 2016/17, compared with the first half of the year.

The underlying net finance expense for the first half of 2016/17 is anticipated to be around £20 million higher than the first half of last year, mainly reflecting the impact of higher RPI inflation on our index-linked debt and slightly higher net debt.

As the company continues to invest in its asset base, group net debt at 30 September 2016 is expected to be slightly higher than the position at 31 March 2016. This principally reflects regulatory capital expenditure, payment of the 2015/16 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 2018.

United Utilities will announce its half year results on 23 November 2016.

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