United Utilities Group PLC
25 September 2019

UNITED UTILITIES TRADING UPDATE

United Utilities announces the following trading update ahead of its interim results on 20 November 2019.

Current trading is in line with the group's expectations for the six months ending 30 September 2019.

A high performing company in AMP6

Our strategy of accelerating investment into the early years of AMP6 together with our deeply embedded innovation culture is delivering enhanced levels of service and resilience for customers along with sustainable improvements in efficiency. Our strong performance means that we are well placed to deliver against our targets for the current regulatory period with no material change to prior guidance on our overall level of regulatory outperformance.

We have committed to sharing with customers the benefit of our anticipated outperformance through a total of £350 million of additional investment. This includes the £100 million of additional investment that we announced in May 2019, targeting areas where we have the opportunity to deliver improved performance earlier in AMP7, and we are progressing well with this programme of spend.

A fast-track company for AMP7

The fast-track status awarded to our company business plan has provided early clarity which we have used to refine and move forward with our AMP7 implementation plans. This, together with our high level of performance in AMP6 and the outperformance reinvestment we have already committed to, gives us confidence heading into the next regulatory period.

We continue to engage constructively with Ofwat and await the final determinations to be published on 11 December 2019.

Financials

Group revenue is expected to be higher than the first half of last year, largely reflecting our allowed regulatory revenue changes.

Underlying operating profit for the first half of 2019/20 is expected to be higher than the first half of 2018/19, largely reflecting the higher revenue and lower infrastructure renewals expenditure (IRE).

We expect a small share of losses of joint ventures.

The RPI inflation that is applied to the group's index-linked debt is higher for the first half of the year and we therefore expect the underlying net finance expense for the first half of 2019/20 to be just over £10 million higher than the first half of last year.

We expect group net debt to increase by around £250 million at 30 September 2019 compared with the position as at 31 March 2019. This largely reflects the prepayment of around £100 million in April 2019 of the agreed deficit recovery contributions in relation to the group's defined benefit pension schemes, the impact of IFRS16 which results in the recognition of a £55 million lease liability included in net debt, and the group's ongoing investment in its asset base.

Our responsible approach to financial risk management continues to deliver benefits including a strong balance sheet, pension schemes that are now fully funded on a self-sufficiency basis and gearing comfortably within our target range of 55 per cent to 65 per cent net debt to RCV, supporting a solid A3 credit rating for United Utilities Water with Moody's.

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