

## **UNITED UTILITIES TRADING UPDATE**

United Utilities remains on track to deliver a good underlying financial performance for the year ending 31 March 2012. The company's operational and efficiency initiatives continue to progress well and it remains on course to meet its regulatory outperformance targets.

United Utilities is continuing to implement a wide range of business improvement initiatives, which are delivering benefits for customers. This is being recognised through an improvement in Ofwat's service incentive mechanism (SIM) assessment and this positive trend is continuing through the second half of 2011/12. United Utilities expects to meet its 2011/12 regulatory leakage target, reflecting strong year round operational focus, and the company's reservoir stocks remain in excess of 90%.

Revenue for the full year is expected to increase by between 3% and 4%. This increase is slightly below the allowed regulated price rise, principally reflecting the ongoing impact of customers switching to meters and lower commercial volumes in the second half of the year.

Total regulatory capital expenditure for the year is expected to be up to £700 million, consistent with the company's planned investment profile for the 2010-15 period, an increase compared with £608 million invested in the prior year. Reflecting good progress on the capital investment programme, providing benefits for customers and the environment, and the anticipated impact of the transfer of private sewers, infrastructure renewals expenditure and depreciation are expected to be higher in the second half of 2011/12, compared with the first half. As indicated previously, underlying operating profit is therefore anticipated to be lower in the second half of 2011/12, compared with the first six months of the financial year.

The underlying net finance expense for 2011/12 is expected to be similar to the prior year. This reflects lower RPI inflation in respect of the group's index-linked debt with a three month lag, primarily offset by additional finance expense relating to the £400 million index-linked loan facilities provided by the European Investment Bank, which were drawn down in various tranches over the last 12 months.

In the second half of 2011/12, United Utilities received a one-off cash tax inflow of £35 million following agreement with the UK tax authorities of prior years' tax matters.

As outlined previously, a £50 million deferred tax credit was recognised in the first half of the year as a result of the staged reduction in the rate of corporation tax. In the UK Government's budget on 21 March 2012 it was announced that, with effect from April 2012, the rate of corporation tax will reduce by a further 1% to 24%. Subject to this change being substantively enacted before the financial year end, United Utilities expects to recognise a further deferred tax credit of approximately £50 million in the second half of 2011/12. Excluding these credits, the total effective tax rate for 2011/12 is expected to be broadly in line with the mainstream rate of corporation tax of 26%.

Group net debt at the year end is expected to be slightly higher than the position at 30 September 2011. This principally reflects expenditure on the regulatory capital investment programme, payment of the 2011/12 interim dividend and payments in relation to interest, partly offset by operational cash flows. Gearing remains stable, reflecting growth in the regulatory capital value, supporting a solid A3 credit rating for United Utilities Water PLC.

United Utilities' robust financial position, with financing headroom into 2014, has enabled it to make an early repayment of a £150 million loan from the European Investment Bank, which was due for redemption in June 2012. This transaction provides a small net interest saving and the group has now substantially repaid all of its term debt due in the current 2010-15 regulatory period.

The company is encouraged by its recent progress and will continue with its strong operational and customer focus, with the aim of delivering further service improvements for customers combined with greater efficiency. The capital investment programme is progressing well and the company's regulatory asset base continues to grow, providing a firm foundation for the future.

United Utilities will announce its full year results on 24 May 2012.

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