

United Utilities Group PLC
27 July 2012

UNITED UTILITIES GROUP PLC 2012 ANNUAL GENERAL MEETING AND INTERIM MANAGEMENT STATEMENT

United Utilities issues an interim management statement, for the period 1 April 2012 to 26 July 2012, ahead of its annual general meeting to be held today at The Midland Hotel, Peter Street, Manchester. Commenting on the group's performance for the year ended 31 March 2012, Chairman, Dr John McAdam, will say:

“During the last 12 months we have made good progress towards achieving our vision of becoming a leading North West service provider and one of the best UK water and wastewater companies. We have reported another good set of results in a tough economic climate and have delivered significant improvements in customer satisfaction. We are also confident that we can improve further. Alongside this, we increased capital investment in our assets by 12 per cent to £680 million for the year, providing benefits for our customers, the regional economy and the wider environment.

“In line with our policy, the board has proposed a final dividend of 21.34 pence per share. Taken together with the interim dividend of 10.67 pence, paid in February, the total dividend for the 2011/12 year is 32.01 pence per share, an increase of 6.7 per cent over the prior year. Looking ahead, we plan to continue with our policy of targeting real dividend growth of RPI inflation plus two per cent per annum through to at least 2015.”

Trading update

Current trading is in line with the group's expectations of delivering a good underlying financial performance for 2012/13. The company's business improvement initiatives continue to progress well and this, coupled with performance to date, has reinforced management's confidence in delivering its regulatory outperformance targets over the 2010-15 regulatory period.

Revenue is higher, reflecting the regulated price increase for 2012/13. However, as expected, this increase is slightly below the allowed regulated price rise, principally reflecting the ongoing impact of customers switching to meters and continued lower commercial volumes. The increase in revenue is largely offset by higher depreciation, as outlined previously, and higher levels of infrastructure renewals expenditure and other operating costs which are both impacted by the transfer of private sewers. Infrastructure renewals expenditure has increased in line with the company's planned investment profile, as United Utilities invests to maintain and improve the resilience of its network. The increase in other operating costs also reflects higher property rates, as expected. Regulatory capital investment has continued at high levels and is expected to be around £700 million (including infrastructure renewals expenditure) in 2012/13.

Improving operational performance and customer service are top priorities for United Utilities. The business met its regulatory leakage target for the sixth consecutive year in 2011/12, reflecting strong year round operational focus. Water resources in the region are at healthy levels, with reservoirs currently over 90% full, which is ahead of typical levels for this time of year.

United Utilities has made significant progress on Ofwat's service incentive mechanism (SIM) in 2011/12. All water companies have now published their 2011/12 quantitative SIM scores. Based on these publications, United Utilities has moved up five places and is ranked 16th out of the 21 water companies. When taken together with the qualitative SIM measure, published earlier in the year, United Utilities is also ranked 16th on the 2011/12 combined SIM assessment, or 7th when compared with the ten water and sewerage companies. Whilst we are pleased that this represents the largest overall SIM score improvement in the industry, we recognise that we have more to do and can see further opportunities for improvement.

The company continues to make progress and the number of customer complaints to the Consumer Council for Water (CCW) has fallen by more than a quarter in the three months to 30 June 2012, compared with the same period last year. In addition, there have been no customer complaints requiring investigation by the CCW in the first three months of the 2012/13 financial year.

Financial position

The group's financial position remains robust and its regulatory capital asset base continues to grow, reflecting continued high levels of capital investment and RPI inflation. United Utilities has headroom to cover its projected financing needs into 2014, consistent with its policy of maintaining a healthy level of headroom on a rolling basis, and has substantially repaid all term debt due in the 2010-15 regulatory period.

In light of this robust financing position, the group agreed with the pension trustee to accelerate approximately £50 million of previously agreed pension deficit repair payments and this was paid in June 2012. This accelerated payment, coupled with the £100 million payment made in September 2011, substantially completes early the schedule of previously agreed pension deficit repair payments covering the 2010-15 regulatory period. This provides a higher investment return for the group than could have been achieved through short term deposits.

As expected, group net debt is currently slightly higher, compared with the position at 31 March 2012, reflecting continued high levels of capital investment and the accelerated pension payment. This is before payment of the proposed 2011/12 final dividend, which is scheduled for 3 August 2012 and totals approximately £146 million. Gearing remains stable, reflecting growth in the regulatory capital value, supporting a solid A3 credit rating for United Utilities Water PLC.

The UK Government on 3 July 2012 substantively enacted the change to reduce the mainstream rate of corporation taxation from 24% to 23% from 1 April 2013. This is expected to result in a deferred taxation credit of approximately £50 million, which will be recognised in the financial statements for the first half of 2012/13.

Political and regulatory developments

As part of the ongoing consultation process, Ofwat published its statement of principles for the 2014 price review on 15 May 2012 and a consultation on retail price controls earlier this month. As expected, the UK Government published a draft Water Bill on 10 July 2012 for pre-legislative scrutiny. The draft bill is principally intended to give effect to the legislative changes required to deliver the programme set out in Government's White Paper, "Water For Life", published last December. United Utilities continues to have active involvement in these developments.

Board changes

David Jones will stand down at today's annual general meeting, after over seven years as a non-executive director. Sara Weller, who joined the Board in March 2012, will take over David's position as chair of the Remuneration Committee. Nick Salmon, who is senior independent director, will be appointed as a member of the Audit and Risk Committee and replace David on this committee. Both appointments will become effective at the conclusion of today's annual general meeting.

Outlook

The group expects to deliver a good underlying financial performance for 2012/13. United Utilities is encouraged by its recent progress and will continue with its strong focus on operational performance and customer service. Management is confident of delivering its 2010-15 regulatory outperformance targets, with substantial financing outperformance already secured. The board intends to continue with its dividend policy of targeting an annual growth rate of 2% above RPI inflation through to at least 2015, supported by a robust capital structure.

In line with its usual practice, United Utilities intends to issue a pre-close trading update on 20 September 2012.

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