United Utilities Group PLC
27 September 2021

**UNITED UTILITIES TRADING UPDATE**

United Utilities announces the following trading update ahead of its half year results on 24 November 2021.

Current trading is in line with the group's expectations for the six months ending 30 September 2021.

## Supporting customers

We continue to deliver high levels of customer satisfaction and provide services to more than 7 million customers in the North West. Our customer facing teams work incredibly hard to help those struggling financially, with around 200,000 customers currently benefitting from our affordability schemes we are supporting more customers than ever before.

We have continued to build on our long track record of innovating to improve service and enhance the customer experience, reflected in our C-MeX and D-MeX scores for which we have earned a reward against both measures for 2020/21.

## Leading environmental performance

In the Environment Agency's latest annual assessment of environmental performance, we achieved the top 4 star ranking and were assessed as "green" across all six areas that the Agency assessed. This is the fourth time in the last 6 years we have earned this top rating.

## Securing a low carbon future

In July we became the first UK water company to have science-based targets, including supply chain (scope 3) targets, approved by the Science Based Targets initiative (SBTi). The SBTi is widely accepted as providing the gold standard approval for carbon emission reduction targets. Our new scope 3 emissions targets, with measures including both supplier engagement and an absolute reduction, further develop our carbon strategy and demonstrate our ambition to net zero from 2030.

## Financial performance

Our AMP7 guidance on regulatory performance remains unchanged from that given at our full year results in May 2021.

Group revenue for the first half of 2021/22 is expected to be higher than the first half of last year, mainly reflecting higher consumption only partially offset by the known regulatory revenue reduction. Household consumption remains high as many customers continue to work from home and consumption from businesses has started to return to pre-Covid levels as restrictions are lifted. Overall, the net increase in revenue in the first half of the year is expected to be around 4 per cent.

Underlying operating profit for the first half of 2021/22 is expected to be higher than the first half of last year. This largely reflects higher revenue and targeted efficiencies partly offset by higher underlying operating costs, largely as a result of inflationary increases in our core costs.

At the full year to March 2021, we simplified our approach to alternative performance measures (APMs) such that we no longer, as a matter of course, adjust our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and routine prior years' tax matters.

We expect the underlying net finance expense for the first half of 2021/22 to be around £25 million higher than the first half of last year. Higher inflation applied to the group's index-linked debt is expected to increase the underlying net finance expense for the first half by around £55 million and is partly offset by a £30 million reduction as a result of the change in APMs.

The introduction of capital allowances super deductions announced in the Chancellor's Budget is expected to reduce the group's current tax charge significantly in 2021/22 and result in an underlying tax rate of around 5 per cent for the first half of the year.

The legislation to increase the headline rate of corporation tax to 25 per cent from 1 April 2023 was enacted in May 2021. As a result, we expect to incur a deferred tax charge through the income statement of around £380 million in the first half of 2021/22. To provide a more representative view of business performance, this deferred tax charge will be excluded from the underlying profit measures.

We expect a small increase in group net debt at 30 September 2021 compared with the position as at 31 March 2021. This largely reflects the group's ongoing investment in its asset base along with acceleration of capital expenditure to deliver service improvements sooner.

Our responsible approach to financial risk management continues to deliver benefits, including a strong balance sheet, a stable IFRS pension surplus and gearing within our target range supporting a solid A3 credit rating for United Utilities Water with Moody's.

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