United Utilities Group PLC
23 November 2011

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

- Good underlying financial performance
- Underlying operating profit of £324m, down 1% reflecting higher infrastructure renewals expenditure
- Stronger focus on operational performance delivering benefits for customers and shareholders
- Customer service improvements: 20% reduction in customer complaints and improved SIM scores
- Improving trend on relative efficiency: moved up to first quartile for water service
- Sustained improvements in bad debts, despite challenging economic climate
- Continued good progress on capex programme: on course to invest up to £700m in the full year
- On track to meet regulatory outperformance targets
- Interim dividend of 10.67 pence per share, an increase of 6.7%

Steve Mogford, Chief Executive Officer, said:

“This is a good set of results in a tough economic climate.

“Our stronger focus on operational performance is delivering further service improvements for customers and we have reduced customer complaints by 20 per cent in the first half of this year. We were one of only four water and sewerage companies to meet its regulatory leakage target in 2010/11 and our water supply and demand balance remains robust, with our reservoirs at healthy levels.

“We have improved our efficiency and have moved into the first quartile on relative efficiency for the water service and remain on course to meet our regulatory outperformance targets. Alongside this, we have continued to make high levels of capital investment in our assets to maintain and improve the resilience of our network.

“In line with our dividend policy of targeting growth of two per cent above RPI inflation, we have increased the interim dividend by 6.7 per cent to 10.67 pence per share.”

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A presentation to investors and analysts starts at 9.00 am on Wednesday 23 November 2011, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025, access code 906549. A recording of the call will be available for seven days following 23 November 2011 on +44 (0) 20 7031 4064, access code 906549.

This results announcement and the associated presentation will be available on the day at: http://www.unitedutilities.com

BUSINESS REVIEW

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the six months ended 30 September 2011. Revenue was up by £30 million to £793 million, principally as a result of the impact of the regulated price increase for 2011/12 of 4.5% nominal (0.2% real price decrease plus 4.7% RPI inflation). However, reflecting continued progress on the capital investment programme, infrastructure renewals expenditure was up £18 million. This expenditure, alongside increases in depreciation and property rates and other inflationary cost pressures, resulted in underlying operating profit decreasing marginally by 1% to £324 million. United Utilities (UU) remains on track to deliver its regulatory outperformance targets.

Regulatory capital investment in the half year, including £66 million of infrastructure renewals expenditure, was £275 million. This represents good progress in the early part of the 2010-15 period, as management has sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

Underlying profit before taxation was lower by 5%, at £185 million. This reflected a slightly lower underlying operating profit and a small increase in the underlying net finance expense, mainly relating to indexation of the principal in respect of the group's index-linked debt.

Underlying profit after taxation was marginally lower than the corresponding period last year, reflecting the movement in underlying net finance expense. Reported profit after taxation benefited from a £50 million deferred taxation credit, which follows the UK government's changes to reduce the mainstream corporation taxation rate. A similar credit of £47 million was recognised in the first half of last year.

UU has a robust capital structure and gearing (measured as group net debt to regulatory capital value) as at 30 September 2011 was 60% and comfortably within Ofwat's assumed range of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water PLC (UUW) has a long-term credit rating of A3 from Moody's Investors Service with a stable outlook.

Following the agreement of a further £200 million index-linked loan facility with the European Investment Bank (EIB) earlier this month, the group now benefits from headroom to cover its projected financing needs into 2014. This provides good flexibility in terms of when and how further debt finance is raised to help fund the regulated capital expenditure programme. Reflecting this robust financing position, UU accelerated approximately £100 million of previously agreed pension deficit payments in September 2011, providing a higher return for the group than could have been achieved through short-term deposits.

UU has secured around £300 million of financing outperformance over the 2010-15 period (based on an average RPI inflation rate of 2.5% per annum), is targeting total operating expenditure outperformance of at least £50 million and expects broadly to meet its capital expenditure allowance.

In line with its policy, the board has declared an interim dividend of 10.67 pence per ordinary share, an increase of 6.7% compared with the interim dividend relating to 2010/11. The intention is to continue with this policy of targeting dividend growth of RPI+2% per annum through to 2015.

OPERATIONAL PERFORMANCE

UU aims to deliver long-term shareholder value by providing:

- The best service to customers
- At the lowest sustainable cost
- In a responsible manner

Operational performance is a top priority for UU and the company aims to deliver improvements in this area and outperform its regulatory contract. The business recently revised its range of key performance indicators (KPIs) to enhance the visibility of its performance and help drive improvements.

Supporting this drive to improve operational performance, a revised management structure has been put in place with a strong focus on accountability and delivery. The company has moved, from its previous functional structure, to an organisational structure that is aligned to the delivery of efficient processes. Managers are now responsible for end to end delivery of capital projects and operational performance within their respective regions, providing a more integrated approach. A 'whole company' scorecard has also been introduced and short-term incentives are now more directly aligned with operational performance. Long-term incentives are aligned with shareholders' and customers' interests, being based 50% on total shareholder return and 50% on regulatory outperformance.

Best service to customers

Actions:

Customer initiatives - UU recently established a customer experience programme to help deliver improved customer service. The business now offers additional contact options for customers, such as an online account management facility, to provide more choices as to when and how they can contact the company. Staff availability has recently been extended, coupled with a simplified automated telephone routing system and an online call back facility. A priority is to improve customer data management to ensure this provides a single view of the customer to help improve the efficiency and quality of service. Supporting this customer experience programme, the business has increased staff training, better aligned staff incentive mechanisms, put new service level arrangements in place, substantially reduced work queues and backlogs, and proactively contacts customers to keep them informed of progress in respect of their enquiries. The company is now focusing on identifying potential customer queries in advance, through more proactive exception billing reporting and contacting the customer before the bill is sent to discuss the matter. Operationally, the business is targeting same day completion of jobs to improve the customer experience and reduce the need for unnecessary calls.

These initiatives are improving customer service and UU has seen a 20% reduction in the total number of complaints in the first half of 2011/12 compared with the second half of 2010/11, alongside a further substantial reduction in contacts with and customer complaints assessed by the Consumer Council for Water (CCW). The company has also improved its performance on Ofwat's service incentive mechanism (SIM), with a 42% improvement on the quantitative measure in the first half of 2011/12, compared with the first half of 2010/11, and has moved up two places on the qualitative measure. Although this still places UU in the fourth quartile, it does represent good progress. Improving customer service further remains a significant area of continued management focus.

Safe, clean drinking water – UU has an action plan to maintain safe, clean drinking water through improving the robustness of its water treatment processes, refurbishing service reservoir assets, ongoing mains cleaning and optimising water treatment to reduce discoloured water events. UU continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance of 99.96%.

Water supply and demand balance – To help ensure a continuous water supply to its customers, UU's action plan includes innovation and investment in remote monitoring to better manage and control the company's water supply system. UU also has investment projects to optimise water pressures and improve network resilience. In addition, the company is improving its response to burst mains to help keep the water flowing, supported by 'wet' repairs to water mains where the supply remains on through the repair process. The company has completed the West East Link, a significant capital project designed to improve further the water supply and demand balance in its region and enhance network resilience to climate change.

Wastewater – The company has a range of actions to help support the serviceability of its wastewater assets. To help reduce sewer flooding, these actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. The plan also includes an improved approach to risk assessment to identify and reduce the risk profile of the company's wastewater treatment works.

Private sewers – The ownership of and responsibility for private sewers was transferred to the English and Welsh water and sewerage companies from 1 October 2011, providing additional benefits for customers and the opportunity for additional growth in the regulatory capital value. UU had been preparing for this for some time to help ensure a smooth transfer and the level of customer contacts and the increase in work volumes, thus far, has been broadly in line with expectations. UU outlined its 2011-15 operating and capital expenditure cost estimates in relation to private sewers in its 2010/11 full year results published on 26 May 2011, which were total operating expenditure of £55 million and total capital expenditure of £125 million (of which £90 million relates to infrastructure renewals expenditure). There is no change to the initial cost estimates at this early stage, but UU will continue to assess and review these cost estimates in light of the levels of workload and activity experienced.

Key performance indicators:

- **Serviceability** – Long-term stewardship of assets is critical and Ofwat measures this through its serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). Three asset classes (water infrastructure, water non-infrastructure and wastewater non-infrastructure) continue to be rated "stable". UU has been assessed by the regulator as "marginal" in respect of wastewater infrastructure and the company has an action plan in place to return this asset class back to a "stable" rating. The aim is to hold a "stable" rating for all four asset classes, which is aligned with Ofwat's target.

- **Service incentive mechanism (SIM)** – Ofwat has recently introduced this new measure, which replaces the overall performance assessment (OPA) measure. UU improved its quantitative score for 2010/11 by 44%, compared with the indicative position for 2009/10. Further improvements have been achieved in the first half of 2011/12, with a score for the half year of 181 points. This represents a 42% improvement on the first half of 2010/11 and 19% on the second half of that year. On the qualitative measure, UU has improved its quarter two score for 2011/12 to 3.99 points, from 3.79 points for the 2010/11 financial year, which has moved the company up two places into 19th position (out of 21 water companies). UU is 9th out of the ten water and sewerage companies. Although UU remains in the fourth quartile, this early progress is encouraging. The aim is to move to the first quartile in the medium-term.

Lowest sustainable cost

Actions:

Staff and pensions – The group placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further. An inflation funding mechanism has been introduced, which has facilitated a move to a lower risk investment strategy with the proportion of pension assets invested in equities now reduced to 20%. The contributions made by UU are flexed in line with inflation, with a rolling five-year smoothing arrangement to help mitigate fluctuations in RPI. Overall, the de-risking measures taken should result in less volatility in pension funding levels. More details on the inflation funding mechanism are provided in the pensions section, on page 13.

Asset optimisation – The company's asset optimisation programme is progressing well, providing the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power (CHP) assets to improve energy efficiency. The implementation phase is underway at over half of the 30 sites covered by the programme and a large number of schemes came on line in summer 2011, with further projects being scoped. The optimisation programme is targeting approximately £9 million of annual savings by 2013.

Proactive approach – The business is introducing a more proactive approach to asset and network management, with the aim of improving its modelling and forecasting to enable it to address more asset and network problems before they occur, thereby reducing the level of reactive work and improving efficiency.

Power hedging – UU has increased its power hedging and has now substantially locked in its power requirements through to 2014/15, securing outperformance. Power unit costs for 2011/12 are approximately 20% lower compared with 2009/10. Although power unit costs beyond 2011/12 have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

Debt collection – The business is adopting a more proactive approach to debt collection. It has a detailed action plan in place, which includes enhancing systems to improve customer segmentation analysis and to obtain better data on customers who have changed address, coupled with a more proactive debt follow up strategy. To support this, a proportion of its debt collection function which was previously off-shored was brought back in-house in the last financial year and this is delivering benefits. In addition, the company is planning to use more local authority collection agreements. Bad debts as a proportion of regulated revenue improved from 2.5% in 2009/10 to 2.1% in 2010/11 and this improvement has been sustained so far in 2011/12, despite the challenging economic environment.

Lean principles – Supporting the company's efficiency drive is its lean principles approach to doing business. Systems and processes continue to be streamlined and the business is rationalising its infrastructure and has in-sourced its IT provision to provide greater control of its IT assets and applications.

Leakage management – The performance of the business in meeting its regulatory leakage target for 2010/11 was exemplary, given the extreme winter weather. UU was one of only four water and sewerage companies to meet its regulatory leakage target last year. This reflected strong year round operational focus on leakage, an approach which the company has continued in 2011/12 and this has created a buffer to help compensate for the inevitable adverse impact of winter weather. The company has also launched its 'Get Winter Wise' campaign, which provides advice to customers on how to reduce the risk of frozen and burst pipes as a result of cold weather.

Capital delivery – The business has utilised previous experience to improve the terms and conditions of its supplier contracts and has a robust commercial capital delivery framework in place for the 2010-15 period. Contractor performance is aligned with the company's business plan through appropriate incentive arrangements. In addition, the business has introduced a more disciplined approach to spend

and outputs through a Time: Cost: Quality index (TCQi). This enhances the capital investment governance process and provides a sharper focus on the delivery of commitments, with a direct link to the executive remuneration scheme. The TCQi performance score has improved from around 50% last year to over 70% currently and the company's long-term goal is to achieve over 90%. UU remains on track to deliver up to £700 million of capital investment in 2011/12. Good progress in the delivery of outputs has been achieved in the early part of the new regulatory period, reflecting a smoother and more efficient investment profile than that experienced in the 2005-10 period.

Sludge processing – A new £100 million sludge processing centre is being developed at the company's Davyhulme wastewater treatment works in Manchester. Sludge will arrive from seven feeder treatment works and will be processed using advanced thermal hydrolysis technology. The new facility will provide a range of benefits including energy self-sufficiency for the whole site, greater sludge disposal flexibility, with a wider choice of land disposal due to the advanced stage of the treated product, and improved sludge condition to enhance the efficiency of incineration. There will also be the option to pump the treated sludge to UU's Shell Green sludge processing centre in Widnes. Early progress has been good and the project is scheduled to be completed in early 2013.

Key performance indicators:

- **Relative efficiency** – UU has made improvements on both the water service and the wastewater service in 2010/11 (based on UU's internal assessment of Ofwat's econometric models). The company has improved its relative efficiency banding to band A for water and is now in the first quartile for this service in 2nd position. The business has also moved up one place for wastewater into 9th position and remains in band C on this service. Overall, this places UU in a mid-ranking position and the aim is to be first quartile on both services in the medium-term.

- **Leakage** – UU met its economic level of leakage rolling target for the fifth consecutive year in 2010/11, despite extreme winter weather conditions. The aim is to meet its regulatory leakage target, as set by Ofwat, each year.

<u>Responsible manner</u>

Actions:

Corporate responsibility – Sustainability is fundamental to the manner in which UU undertakes its business and the group has for many years included corporate responsibility (CR) factors as a strategic consideration in its decision making. This has contributed to UU retaining the highest platinum plus ranking in Business in the Community's (BITC) CR index, alongside only five other FTSE 100 companies, as well as again being rated 'World Class' in the Dow Jones Sustainability Index. UU's CR policy sets out its commitment to environmental, social and economic improvements and this is communicated in a way that enables all employees to recognise how their roles and responsibilities contribute to maintaining and improving sustainability performance.

Sustainable catchment management programme – UU owns approximately 57,000 hectares of land in the North West which it holds to protect the quality of water entering its reservoirs. The company has developed a sustainable catchment management programme which will help to enhance biodiversity and protect and improve water quality.

Renewable energy – UU has a detailed carbon and renewable energy plan, which both contributes to sustainability and reduces costs. In 2010/11 the company generated 111 GWh of renewable electricity, principally from sludge processing. This represents approximately 14% of the group's total electricity consumption.

Environmental performance – This is a high priority for the company and UU has more than halved the number of major pollution incidents over the last few years. Wastewater treatment works compliance remains high at over 98%, a slight improvement compared with the previous year. UU is working more closely with the Environment Agency (EA), through its agreed protocol, to help minimise the occurrence

and environmental impact of pollution incidents. This includes the sharing of resources, knowledge and expertise. The company is also enhancing its telemetry and flow monitoring equipment to provide early identification of incidents to enable prompt action to be taken to minimise the potential impact. Recognising that environmental performance is wide-ranging, the company is measuring itself against an EA composite measure as detailed in the key performance indicators below.

Key performance indicators:

- **Environmental performance** – The EA computes a composite measure which incorporates a broad range of areas including pollution. UU improved to a mid-ranking position for 2009/10 improving from its position in 2008/09, when it was ranked tenth out of ten water and sewerage companies. The company has reduced further the number of major pollution incidents and this has contributed to an improved performance score for 2010/11 and UU retains a mid-ranking position. UU aims to move from this average relative position to the first quartile in the medium-term.

- **Corporate responsibility** – UU has a strong focus on corporate responsibility and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group aims to retain this 'World Class' rating each year.

OUTPERFORMANCE OF REGULATORY CONTRACT

- **Financing outperformance** – UU has secured around £300 million of financing outperformance over the 2010-15 period, based on an average RPI inflation rate of 2.5% per annum. Should average RPI inflation outturn at 3.5% p.a. across the five-year period, this would increase financing outperformance to around £400 million, net of the impact of the pensions inflation funding mechanism. The aim is to raise future financing, as required, at interest rates that will deliver further outperformance when compared with Ofwat's allowed cost of debt of 3.6% real. UU agreed a £200 million index-linked loan with the European Investment Bank (EIB), drawn down between March and May 2011, at an average real interest rate of 1.2%, which secures financing outperformance of around £20 million through to 2015. Subsequently, a further £200 million index-linked loan facility was agreed with the EIB earlier this month and, although pricing is still to be finalised, it is expected that this will deliver additional outperformance.

- **Operating expenditure outperformance** – The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. UU made good progress in 2010/11 and achieved operating expenditure outperformance of around £10 million and is targeting a further £10 million of outperformance for 2011/12.

- **Capital expenditure outperformance** – UU is delivering significant efficiencies in the area of capital expenditure and expects broadly to meet Ofwat's revised allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices.

POLITICAL AND REGULATORY DEVELOPMENTS

UU is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to regularly engage with the key parties. The company has emphasised that benchmark competition has already delivered significant environmental and customer service benefits and can be improved further by adjusting the incentive regime. UU has sought to focus the debate onto areas such as how the sector can help address climate change, sustainability, affordability and water efficiency.

- **Climate change and sustainability** – Two key challenges facing the water sector are climate change and sustainability, both of which are expected to feature in the forthcoming Water White Paper. In addressing these twin challenges, UU supports exploring the role of water trading in ensuring that water is allocated where it is valued most and that innovation and investment to enable reductions in abstraction or provide additional storage are encouraged. It would be beneficial to establish appropriate levels of security of water supply and resilience of assets and networks in the event of major outages.

- **Affordability** – Ofwat estimates that the average annual household bill is around £100 lower than it would have otherwise been without the significant improvements in efficiency since privatisation. Despite this, UU recognises the challenge of keeping bills affordable for all customers and believes that maintaining investor confidence is critical for the industry to continue to raise finance and invest efficiently. Adopting a proportionate approach to implementing new environmental regulation would also help keep bills affordable. In addition, UU believes that any expansion of retail competition should be consistent with the government's position on affordability.

- **Water efficiency** – UU believes that water companies are in a unique position to help facilitate the use of scarce water resources by customers. Recent measures adopted by the company include distributing shower regulators and devices to reduce flush volumes in toilets and rolling out education programmes. UU believes that more can be done to promote water efficiency and the company supports the refinement of the regulatory framework to provide companies with incentives to encourage the wise use of water. UU also supports the promotion of education and innovation in the area of water efficiency.

OUTLOOK

UU has a robust capital structure and a sustainable dividend policy, targeting 2% per annum growth above the rate of RPI inflation through to at least 2015. The company is focused on delivering further operational and customer service improvements and is making good progress. The action plans being implemented are delivering efficiencies and UU remains on track to meet its regulatory outperformance targets, with substantial financing outperformance already secured. In the area of regulatory and political developments, UU will continue to work with all key parties to help achieve the optimal outcome for all its stakeholders. The group expects to deliver a good underlying financial performance over the remainder of 2011/12.

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the six months ended 30 September 2011. Revenue increased by £30 million to £793 million, principally reflecting a 4.5% nominal (0.2% real price decrease plus 4.7% RPI inflation) regulated price increase.

Operating profit

Underlying operating profit decreased slightly by 1% to £324 million, primarily as a consequence of the increase in revenue being offset by increases in infrastructure renewals expenditure, depreciation and property rates, alongside other inflationary cost pressures. Reported operating profit rose by 4% to £323 million, as the first half of last year was impacted by one-off restructuring costs of approximately £16 million which reduced operating profit in the comparative prior period.

Investment income and finance expense

Investment income and finance expense of £198 million was £9 million higher than the first half of 2010/11, principally due to higher inflationary uplift on our index-linked debt during the period. The indexation of the principal on index-linked debt amounted to a net charge in the income statement of £57 million, compared with a net charge of £50 million in the first half of last year. This reflected a small increase relating to the £200 million index-linked loan facility with the EIB, to help fund the regulated capital investment programme, which was drawn down between March and May 2011 at an average real interest rate of 1.2%, the lowest rate the company has achieved to date, and marginally higher RPI inflation in respect of the group's index-linked debt with an eight month lag. The indexation charge does not represent a cash flow during the half year and is more than matched by an inflationary uplift to the regulatory capital value. The group had approximately £2.4 billion of index-linked debt as at 30 September 2011.

Investment income and finance expense included £56 million of net fair value losses on debt and derivative instruments, compared with £53 million of net fair value losses in the first half of 2010/11. The £56 million fair value loss in the period is largely due to losses on the regulatory swap portfolio resulting from a significant decrease in sterling interest rates during the period. The group uses these swaps to effectively fix interest rates on a substantial proportion of its debt to better match the fixed financing cash flows allowed by the regulator at each price review. The group has continued to benefit from fixing the majority of its remaining debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%. Partially offsetting these losses, there has been a net fair value gain during the period due to widening credit spreads in the market, affecting the fair value of our fair value option debt and derivative assets.

The underlying net finance expense of £139 million was £7 million higher than the first six months of last year, principally due to higher inflationary uplift on our index-linked debt during the period. The group's average annualised underlying interest rate was broadly flat at 5.8%.

Profit before taxation

Underlying profit before taxation was £185 million, 5% lower than the first half of last year, principally reflecting an increase in infrastructure renewals expenditure in line with the planned investment profile, a small increase in the underlying net finance expense and a higher depreciation charge as a result of growth in the commissioned asset base, which broadly offset the allowed regulated price increase. This underlying measure adjusts for the impact of one-off items, principally from restructuring and reorganisation within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation increased marginally by 2% to £124 million.

Taxation

The current taxation charge was £34 million in the half year and the current taxation effective rate was 27%, compared with 25% in the corresponding period last year.

The group has recognised a deferred taxation credit of £50 million in first half of 2011/12 which primarily relates to the change substantively enacted by the UK government to reduce the mainstream rate of corporation taxation from 26% to 25% from 1 April 2012. This compares with a net deferred taxation credit of £41 million in the first half of last year, which included a £47 million credit following the change enacted on 27 July 2010 to reduce the mainstream rate of corporation taxation from 28% to 27% from 1 April 2011.

An overall taxation credit of £16 million has been recognised for the six months ended 30 September 2011. Excluding the impact of the reduction in the corporation taxation rate, the total taxation charge would be £33 million or 27% compared with a £36 million charge or 30% in the first half of last year. The reduction is principally due to the decrease in the mainstream rate of corporation tax from 28% to 26%.

The taxation benefit of £18 million relating to pension contributions for deficit funding has been recorded in the statement of comprehensive income, rather than the income statement, as the actuarial movements giving rise to the deficit were previously recorded there.

The group made cash taxation payments during the half year of £29 million. In the first half of the previous year, the group's net taxation payment was £27 million.

Profit after taxation

Reported profit after taxation from continuing operations was £141 million compared with £133 million in the corresponding period last year. Underlying profit after taxation was £136 million. This is based on the underlying profit before taxation figure less an underlying taxation charge of £49 million, which includes an adjustment for the deferred taxation credit in relation to the change in the mainstream rate of corporation taxation.

Earnings per share

Basic earnings per share increased from 19.5 pence to 20.7 pence, principally reflecting the aforementioned taxation credits and an increase in profit before taxation in the current period. Underlying earnings per share reduced slightly from 20.4 pence to 19.9 pence. This underlying measure is derived from underlying profit before taxation less underlying taxation. This includes the adjustments for the deferred taxation credits in both the first half of 2011/12 and 2010/11, associated with the reduction in the corporation taxation rate.

Dividend per share

The board has declared an interim dividend of 10.67 pence per ordinary share in respect of the six months ended 30 September 2011. This is an increase of 6.7%, compared with the interim dividend relating to the previous year, in line with group's dividend policy of targeting a real growth rate of RPI+2% per annum through to at least 2015. The inflationary increase of 4.7% is based on the RPI element included within the allowed regulated price increase for the 2011/12 financial year (i.e. the movement in RPI between November 2009 and November 2010).

The interim dividend is expected to be paid on 1 February 2012 to shareholders on the register at the close of business on 16 December 2011. The ex-dividend date is 14 December 2011.

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2011 was £218 million, compared with £331 million in the first half of last year. This is predominantly due to the accelerated pension deficit repair payment. The group's net capital expenditure was £224 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives at 30 September 2011 was £5,010 million, compared with £4,778 million at 31 March 2011. This expected increase reflects expenditure on the regulatory capital investment programmes and payments of dividends, interest and taxation, alongside the accelerated pension deficit repair payment, partly offset by operating cash flows.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value) marginally increased to 60% at 30 September 2011, compared with 59% at 31 March 2011, and remains comfortably within Ofwat's 55% to 65% assumed gearing range. This reflects indexation of the principal of the group's index-linked debt and the accelerated pension deficit repair payment, with growth in the regulatory capital value resulting in just a slight increase in gearing. The group now has a small pensions surplus of £28 million, on an accounting basis, compared with a deficit of £195 million at 31 March 2011. Taking account of this small surplus, and treating it as cash, gearing remains at 60%.

At the half year end, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies.

Cash and short-term deposits at 30 September 2011 amounted to £325 million. Between March and May 2011 UUW drew down a £200 million index-linked loan facility with the EIB. The group also renewed £100 million of bank facilities in the first half of 2011/12. In addition, in November 2011, UUW agreed a further £200 million index-linked loan facility with the EIB. UU now has headroom to cover its projected financing needs into 2014.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are issued. The programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities.

Long-term borrowings are structured or hedged to match assets and earnings, which are largely in sterling, indexed to UK retail price inflation and subject to regulatory price reviews every five years.

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings. At 30 September 2011, approximately 48% of the group's net debt was in index-linked form, representing around 29% of UUW's regulatory capital value, with an average real interest rate of 1.8%. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is in excess of 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixed

interest costs for a substantial proportion of the group's debt for the duration of the 2010-15 regulatory period at around the time of the price review.

Following the 2009 price review, the group has assessed its interest rate hedging policy with a view to further reducing regulatory risk. To help address the uncertainty as to how Ofwat may approach the setting of interest rate costs at the next price review in 2014, UU has revised its interest rate management strategy and has now extended its fixed interest rate hedge out to a ten year maturity on a reducing balance basis. The intention is to extend the interest rate hedge each year to eventually achieve a ten year rolling average interest rate on the group's nominal debt. UU believes that this revised interest rate hedging policy, which provides for a longer fixing of interest rates, will put the company in a good position to respond to whatever approach Ofwat adopts to the industry cost of debt in future.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits. The group has a €2 billion euro-commercial paper programme and further liquidity is provided by committed but undrawn credit facilities.

In line with the board's treasury policy, UU aims to maintain a healthy headroom position. Available headroom at 30 September 2011 was £509 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2014.

UU believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. UU's cash is held in the form of short-term (generally no longer than three months) money market deposits with either prime commercial banks or with triple A rated money market funds.

UU operates a bilateral, rather than a syndicated, approach to its core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

Pensions

As at 30 September 2011, the group had a net retirement benefit, or pension, surplus of £28 million, compared with a net pension deficit of £195 million at 31 March 2011. This £223 million positive movement principally reflects payment of the £100 million accelerated deficit repair contribution, investment returns exceeding expectations as a result of the effect of falling interest rates on the interest rate hedge put in place, and payments under the inflation funding mechanism. From an accounting perspective, IAS 19 treats the inflation funding mechanism as a schedule of contributions rather than a pension scheme asset. This means that the liabilities position can change to reflect a change in market expectations of long-term inflation, without a commensurate movement in assets. The change in inflation has decreased the present value of the liabilities during the six months to 30 September 2011. This accounting treatment means that there is likely to be a degree of volatility in future pension valuations.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and in the second half of 2009/10 amended the terms of its defined benefit pension schemes, the details of which were included in the 2010 annual report and financial statements. UU has also reduced its future pension obligations as a result of the sale of non-regulated activities.

The group stated previously that it would continue to evaluate its pensions investment strategy to de-risk further its pension provision and has introduced an inflation funding mechanism, which facilitates a move to a lower risk investment strategy. UU has agreed with the trustee of its main pension scheme to use a lower investment return assumption and a fixed inflation assumption of 2.75% in carrying out a valuation of the scheme. In periods when inflation is higher than 2.75%, UU will make additional contributions

(smoothed over a five year period to help mitigate RPI fluctuations). The company is comfortable in making these additional contributions, as its regulatory capital value is linked to RPI inflation and therefore this provides a natural hedge against this risk. The inflation funding mechanism has allowed UU to reduce the allocation of its pension assets to 20% in equities, from 34% at 31 March 2011. The group has also increased its interest rate hedge to around 65% of pension scheme liabilities. Overall, the mechanism provides for less volatility in pension scheme funding levels. Although any additional payments under this mechanism would reduce financing outperformance, there would be a positive benefit to the pensions surplus or deficit position.

Further detail is provided in note 9 ("Retirement benefit surplus/(obligations)") of these condensed consolidated financial statements.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

Underlying profit

In considering the underlying results for the period, the directors have excluded fair value movements on debt and derivative instruments and one-off items. Reported operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit, underlying profit before taxation and underlying profit after taxation (non-GAAP measures) as follows:

Continuing operations

Operating profit	**Six months ended 30 September 2011**	**Six months ended 30 September 2010**
	£m	**£m**
Operating profit per published results	**322.6**	**311.5**
One-off items[1]	1.6	16.2
Underlying operating profit	**324.2**	**327.7**

Net finance expense		
	£m	**£m**
Finance expense	(199.9)	(190.5)
Investment income	1.7	1.2
Net finance expense per published results	**(198.2)**	**(189.3)**
Net fair value losses on debt and derivative instruments	55.9	53.2
Adjustment for interest on swaps and debt under fair value option	3.8	2.0
Adjustment for net pension interest expense	3.2	2.6
Adjustment for capitalised borrowing costs	(4.0)	(0.8)
Underlying net finance expense[2]	**(139.3)**	**(132.3)**

Profit before taxation		
	£m	**£m**
Profit before taxation per published results	**124.4**	**122.2**
One-off items[1]	1.6	16.2
Net fair value losses on debt and derivative instruments	55.9	53.2
Adjustment for interest on swaps and debt under fair value option	3.8	2.0
Adjustment for net pension interest expense	3.2	2.6
Adjustment for capitalised borrowing costs	(4.0)	(0.8)
Underlying profit before taxation[2]	**184.9**	**195.4**

Profit after taxation		
	£m	**£m**
Underlying profit before taxation	**184.9**	**195.4**
Reported taxation	16.4	10.9
Deferred taxation credit – change in taxation rate	(49.7)	(47.1)
Taxation relating to underlying profit before taxation adjustments	(15.7)	(20.5)
Underlying profit after taxation[2]	**135.9**	**138.7**

[1] Principally relates to restructuring and other reorganisation costs within the business
[2] Re-presented to include capitalised borrowing costs of £0.8m in the comparative period

PRINCIPAL RISKS AND UNCERTAINTIES

The group maintains an internal control framework that assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals. Managers are required to employ both proactive and reactive mitigation measures in a prioritised manner to reduce exposures and ensure ongoing resilience should a risk materialise. The executive management team regularly reviews significant risks so that the board can determine the nature and extent of those risks it is willing to take in achieving its strategic objectives. The audit committee regularly reviews the framework's effectiveness and the group's compliance with it.

The group's anticipated principal risks and uncertainties over the second half of the financial year and beyond remain as stated in its 2011 Annual Report and Financial Statements. The principal risks and uncertainties are set out in full on pages 18-22 of the 2011 Annual Report and Financial Statements, namely (a) government market reform agenda; (b) capital investment programmes; (c) service incentive mechanism; (d) serviceability assessment; (e) the adoption of private sewers; (f) pension scheme obligations; (g) failure to comply with applicable law or regulations; (h) events, service interruptions, systems failures, water shortages or contamination of water supplies; and (i) material litigation (excluding the NOSS Consortium arbitration in Thailand, which was settled in June 2011 within existing provisions).

There has been no change to the nature of related party transactions in the first six months of the financial year which has materially affected the financial position or performance of UU.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This financial report contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this financial report and the company undertakes no obligation to update these forward-looking statements. Nothing in this financial report should be construed as a profit forecast.

Certain regulatory performance data contained in this financial report is subject to regulatory audit.

Consolidated income statement

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Continuing operations			
Revenue	**792.7**	762.4	1,513.3
Employee benefits expense:			
- excluding restructuring costs	**(66.0)**	(67.9)	(142.8)
- restructuring costs	**(1.6)**	(3.4)	(3.1)
Total employee benefits expense	**(67.6)**	(71.3)	(145.9)
Other reorganisation costs	**-**	(12.8)	(13.1)
Other operating costs	**(192.2)**	(177.8)	(355.4)
Other income	**2.7**	0.7	2.2
Depreciation and amortisation expense	**(146.6)**	(141.7)	(290.5)
Infrastructure renewals expenditure	**(66.4)**	(48.0)	(130.4)
Total operating expenses	**(470.1)**	(450.9)	(933.1)
Operating profit	**322.6**	311.5	580.2
Investment income (note 3)	**1.7**	1.2	2.8
Finance expense (note 4)	**(199.9)**	(190.5)	(255.9)
Investment income and finance expense	**(198.2)**	(189.3)	(253.1)
Profit before taxation	**124.4**	122.2	327.1
Current taxation charge	**(34.0)**	(30.2)	(34.6)
Deferred taxation credit/(charge)	**0.7**	(6.0)	(37.0)
Deferred taxation credit – change in taxation rate	**49.7**	47.1	99.0
Taxation (note 5)	**16.4**	10.9	27.4
Profit after taxation from continuing operations	**140.8**	133.1	354.5
Discontinued operations			
Profit after taxation from discontinued operations (note 6)	**0.9**	20.3	103.7
Profit after taxation	**141.7**	153.4	458.2
Earnings per share from continuing and discontinued operations (note 7)			
Basic	**20.8p**	22.5p	67.2p
Diluted	**20.8p**	22.5p	67.2p
Earnings per share from continuing operations (note 7)			
Basic	**20.7p**	19.5p	52.0p
Diluted	**20.7p**	19.5p	52.0p
Dividend per ordinary share (note 8)	**10.67p**	10.00p	30.00p

Consolidated statement of comprehensive income

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Profit after taxation	**141.7**	153.4	458.2
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension schemes (note 9)	**98.8**	(70.7)	(44.7)
Revaluation of investments	**-**	1.1	1.1
Reclassification from other reserves arising on disposal of financial asset investment (note 6)	**-**	-	(6.6)
Net fair value losses on cash flow hedges	**-**	(0.2)	(0.2)
Reclassification from other reserves arising on disposal of subsidiaries (note 6)	**-**	-	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 6)	**-**	-	(26.1)
Taxation on items taken directly to equity (note 5)	**(24.7)**	19.2	11.7
Foreign exchange adjustments	**(1.1)**	(3.1)	0.7
Total comprehensive income	**214.7**	99.7	395.9

Consolidated statement of financial position

	30 September 2011 £m	30 September 2010 £m	31 March 2011 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**8,380.9**	8,113.0	8,274.9
Goodwill	**5.0**	-	5.0
Other intangible assets	**90.5**	97.9	93.9
Investments	**3.4**	2.1	2.3
Trade and other receivables	**4.5**	-	-
Retirement benefit surplus (note 9)	**27.9**	-	-
Derivative financial instruments	**646.4**	565.1	363.3
	9,158.6	8,778.1	8,739.4
Current assets			
Inventories	**46.8**	50.3	47.6
Trade and other receivables	**342.6**	333.4	296.8
Cash and short-term deposits	**325.2**	135.6	255.2
Derivative financial instruments	**3.8**	2.2	2.0
Assets classified as held for sale	**-**	524.1	-
	718.4	1,045.6	601.6
Total assets	**9,877.0**	9,823.7	9,341.0
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(281.9)**	(203.5)	(249.8)
Borrowings	**(5,513.2)**	(5,323.5)	(5,203.6)
Retirement benefit obligations (note 9)	**-**	(300.6)	(195.0)
Deferred taxation liabilities	**(1,284.8)**	(1,303.2)	(1,293.1)
Provisions	**(6.8)**	(8.6)	(9.3)
Derivative financial instruments	**(152.6)**	(151.5)	(84.6)
	(7,239.3)	(7,290.9)	(7,035.4)
Current liabilities			
Trade and other payables	**(490.9)**	(470.2)	(433.0)
Borrowings	**(319.9)**	(89.9)	(109.7)
Current income taxation liabilities	**(58.2)**	(93.8)	(70.5)
Provisions	**(12.1)**	(30.0)	(14.5)
Derivative financial instruments	**-**	(2.4)	(0.4)
Liabilities classified as held for sale	**-**	(397.0)	-
	(881.1)	(1,083.3)	(628.1)
Total liabilities	**(8,120.4)**	(8,374.2)	(7,663.5)
Total net assets	**1,756.6**	1,449.5	1,677.5
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.3**	1.1	1.3
Retained earnings	**770.2**	436.2	691.0
Other non-distributable reserves	**484.3**	512.4	485.4
Shareholders' equity	**1,756.6**	1,449.5	1,677.5

Consolidated statement of changes in equity

Six months ended 30 September 2011

	Share capital	Share premium account	Retained earnings	Other non-distributable reserves: Cumulative exchange reserve	Merger reserve	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2011	499.8	1.3	691.0	(3.1)	329.7	158.8	1,677.5
Profit after taxation	-	-	141.7	-	-	-	141.7
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 9)	-	-	98.8	-	-	-	98.8
Taxation on items taken directly to equity (note 5)	-	-	(24.7)	-	-	-	(24.7)
Foreign exchange adjustments	-	-	-	(1.1)	-	-	(1.1)
Total comprehensive income/(expense) for the period	-	-	215.8	(1.1)	-	-	214.7
Transactions with owners							
Dividends (note 8)	-	-	(136.3)	-	-	-	(136.3)
New share capital issued	-	1.0	-	-	-	-	1.0
Equity-settled share-based payments	-	-	0.6	-	-	-	0.6
Exercise of share options	-	-	(0.9)	-	-	-	(0.9)
At 30 September 2011	**499.8**	**2.3**	**770.2**	**(4.2)**	**329.7**	**158.8**	**1,756.6**

Six months ended 30 September 2010

	Share capital	Share premium account	Retained earnings	Other non-distributable reserves: Treasury shares	Cumulative exchange reserve	Merger reserve	Other reserves	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	499.8	0.9	492.7	(0.1)	22.3	329.7	3.8	158.8	1,507.9
Profit after taxation	-	-	153.4	-	-	-	-	-	153.4
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 9)	-	-	(70.7)	-	-	-	-	-	(70.7)
Revaluation of investments	-	-	-	-	-	-	1.1	-	1.1
Net fair value losses on cash flow hedges	-	-	-	-	-	-	(0.2)	-	(0.2)
Taxation on items taken directly to equity (note 5)	-	-	19.1	-	-	-	0.1	-	19.2
Foreign exchange adjustments	-	-	-	-	(3.1)	-	-	-	(3.1)
Total comprehensive income/(expense) for the period	-	-	101.8	-	(3.1)	-	1.0	-	99.7
Transactions with owners									
Dividends (note 8)	-	-	(157.6)	-	-	-	-	-	(157.6)
New share capital issued	-	0.2	-	-	-	-	-	-	0.2
Equity-settled share-based payments	-	-	(0.7)	-	-	-	-	-	(0.7)
At 30 September 2010	499.8	1.1	436.2	(0.1)	19.2	329.7	4.8	158.8	1,449.5

Consolidated statement of changes in equity (continued)

Year ended 31 March 2011

	Share capital	Share premium account	Retained earnings	Other non-distributable reserves: Treasury shares	Cumulative exchange reserve	Merger reserve	Other reserves	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2010	499.8	0.9	492.7	(0.1)	22.3	329.7	3.8	158.8	1,507.9
Profit after taxation	-	-	458.2	-	-	-	-	-	458.2
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 9)	-	-	(44.7)	-	-	-	-	-	(44.7)
Revaluation of investments	-	-	-	-	-	-	1.1	-	1.1
Reclassification from other reserves arising on disposal of financial asset investment (note 6)	-	-	-	-	-	-	(6.6)	-	(6.6)
Net fair value losses on cash flow hedges	-	-	-	-	-	-	(0.2)	-	(0.2)
Reclassification from other reserves arising on disposal of subsidiaries (note 6)	-	-	-	-	-	-	1.8	-	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries (note 6)	-	-	-	-	(26.1)	-	-	-	(26.1)
Taxation on items taken directly to equity (note 5)	-	-	11.6	-	-	-	0.1	-	11.7
Foreign exchange adjustments	-	-	-	-	0.7	-	-	-	0.7
Total comprehensive income/(expense) for the year	-	-	425.1	-	(25.4)	-	(3.8)	-	395.9
Transactions with owners									
Dividends (note 8)	-	-	(225.8)	-	-	-	-	-	(225.8)
New share capital issued	-	0.4	-	-	-	-	-	-	0.4
Shares disposed of from employee share trust	-	-	(0.1)	0.1	-	-	-	-	-
Equity-settled share-based payments	-	-	(0.1)	-	-	-	-	-	(0.1)
Exercise of share options	-	-	(0.8)	-	-	-	-	-	(0.8)
At 31 March 2011	499.8	1.3	691.0	-	(3.1)	329.7	-	158.8	1,677.5

Consolidated statement of cash flows

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Operating activities			
Cash generated from continuing operations	**312.6**	419.9	784.6
Interest paid	**(67.0)**	(63.9)	(165.8)
Interest received and similar income	**1.6**	1.2	3.1
Tax paid	**(29.0)**	(26.7)	(46.5)
Net cash generated from operating activities (continuing operations)	**218.2**	330.5	575.4
Net cash (used in)/generated from operating activities (discontinued operations)	**-**	(11.9)	13.7
Investing activities			
Proceeds from disposal of discontinued operations	**-**	34.4	268.4
Transaction costs, deferred consideration and cash disposed	**-**	(17.3)	(97.9)
Proceeds from disposal of discontinued operations net of deferred consideration, cash disposed and transaction costs	**-**	17.1	170.5
Purchase of property, plant and equipment	**(216.5)**	(239.0)	(475.4)
Purchase of increased shareholding in joint venture	**-**	-	(5.0)
Purchase of other intangible assets	**(8.1)**	(8.4)	(20.2)
Proceeds from sale of property, plant and equipment	**0.6**	-	9.8
Purchase of investments	**(1.1)**	-	-
Net cash used in investing activities (continuing operations)	**(225.1)**	(230.3)	(320.3)
Net cash used in investing activities (discontinued operations)	**-**	(11.8)	(52.7)
Financing activities			
Proceeds from issue of ordinary shares	**1.0**	0.2	0.4
Proceeds from borrowings	**222.2**	29.3	94.1
Repayment of borrowings	**(5.8)**	(59.4)	(88.0)
Exercise of share options - purchase of shares	**(0.9)**	-	-
Dividends paid to equity holders of the company	**(136.3)**	(157.6)	(225.8)
Net cash generated from/(used in) financing activities (continuing operations)	**80.2**	(187.5)	(219.3)
Net cash used in financing activities (discontinued operations)	**-**	(1.2)	(4.8)
Effects of exchange rate changes (continuing operations)	**0.2**	-	-
Effects of exchange rate changes (discontinued operations)	**-**	(0.7)	(1.3)
Net increase/(decrease) in cash and cash equivalents (continuing operations)	**73.5**	(87.3)	35.8
Net decrease in cash and cash equivalents (discontinued operations)	**-**	(25.6)	(45.1)
Cash and cash equivalents at beginning of the period	**244.4**	253.7	253.7
Cash and cash equivalents at end of the period	**317.9**	140.8	244.4

Cash generated from continuing operations

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Operating profit	**322.6**	311.5	580.2
Adjustments for:			
Depreciation of property, plant and equipment	**135.2**	126.5	258.3
Amortisation of other intangible assets	**11.4**	15.2	32.2
Loss on disposal of property, plant and equipment	**1.5**	0.6	2.7
Loss on disposal of other intangible assets	**-**	-	2.8
Equity-settled share-based payments charge/(credit)	**0.6**	(0.7)	(0.1)
Other non-cash movements	**(0.4)**	-	-
Changes in working capital:			
Decrease/(increase) in inventories	**0.8**	(0.6)	2.1
Increase in trade and other receivables	**(50.3)**	(52.4)	(20.1)
(Decrease)/increase in provisions and payables	**(108.8)**	19.8	(73.5)
Cash generated from continuing operations	**312.6**	419.9	784.6

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The accounting policies, presentation and methods of computation are consistent with those set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2011, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The adoption of the following amendments to standards that are mandatory for the period commencing 1 April 2011, has not had a material impact on the group's financial statements.

'*Improvements to IFRSs (2010)*'
This is a collection of amendments to 7 standards as part of the International Accounting Standards Board's (IASB) programme of annual improvements. The improvements were issued in May 2010, are effective for periods commencing on or after 1 July 2010 or 1 January 2011 and were endorsed by the EU on 18 February 2011.

The group has updated the valuation of its defined benefit pension schemes in the half yearly financial statements due to continued volatility in the financial markets.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2011.

The comparative figures for the year ended 31 March 2011 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's previous auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern
The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

2. Segmental reporting

As previously reported, United Utilities has reshaped its portfolio over the last few years, from a group with a wide-ranging set of activities and interests, such as telecommunications, business process outsourcing, gas and electricity distribution and metering and international utility operations, into a focused regulated UK water and wastewater business. The group completed its non-regulated disposal programme in November 2010 and the residual non-regulated activities now represent less than 2% of operating profit.

The board of directors of United Utilities Group PLC (the board) are provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit, operating profit, assets and liabilities at a consolidated level.

In light of this, the group has a single segment for financial reporting purposes and the segmental information presented in previous periods is no longer required to be disclosed separately within this note.

2. Segmental reporting (continued)

Statutory operating profit is reconciled to underlying operating profit as follows:

Continuing operations	**Six months ended 30 September 2011 £m**	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Operating profit	**322.6**	311.5	580.2
Restructuring and other reorganisation costs	**1.6**	16.2	16.2
Underlying operating profit	**324.2**	327.7	596.4

3. Investment income

Continuing operations	**Six months ended 30 September 2011 £m**	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Interest receivable	**1.7**	1.2	2.8

4. Finance expense

Continuing operations	**Six months ended 30 September 2011 £m**	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Interest payable	**(140.8)**	(134.7)	(271.3)
Net fair value (losses)/gains on debt and derivative instruments	**(55.9)**	(53.2)	19.2
	(196.7)	(187.9)	(252.1)
Expected return on pension schemes' assets	**48.4**	51.6	102.2
Interest cost on pension schemes' obligations	**(51.6)**	(54.2)	(106.0)
Net pension interest expense (note 9)	**(3.2)**	(2.6)	(3.8)
	(199.9)	(190.5)	(255.9)

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period and has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable. The economic underlying net finance expense for the continuing group of £139.3 million (30 September 2010: £132.3 million, 31 March 2011: £267.2 million) is derived as shown in the table below.

Continuing operations	**Six months ended 30 September 2011 £m**	**Re-presented* Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Finance expense	**(199.9)**	(190.5)	(255.9)
Net fair value losses/(gains) on debt and derivative instruments	**55.9**	53.2	(19.2)
Interest on swaps and debt under fair value option	**3.8**	2.0	5.7
Investment income (note 3)	**1.7**	1.2	2.8
Adjustment for capitalised borrowing costs	**(4.0)**	(0.8)	(4.4)
Adjustment for net pension interest expense (note 9)	**3.2**	2.6	3.8
Underlying net finance expense	**(139.3)**	(132.3)	(267.2)

* The comparatives for the six months ended 30 September 2010 have been re-presented to include an adjustment for capitalised borrowing costs within the calculation.

5. Taxation

Continuing operations	**Six months ended 30 September 2011 £m**	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Current taxation			
UK corporation taxation	**32.7**	28.3	61.8
Foreign taxation	**1.3**	1.9	1.9
Adjustments in respect of prior years	**-**	-	(29.1)
	34.0	30.2	34.6
Deferred taxation			
Current period	**(0.7)**	6.0	25.7
Adjustments in respect of prior years	**-**	-	11.3
	(0.7)	6.0	37.0
Change in taxation rate	**(49.7)**	(47.1)	(99.0)
	(50.4)	(41.1)	(62.0)
Total taxation credit for the period	**(16.4)**	(10.9)	(27.4)

The deferred taxation credit for the period ended 30 September 2011 includes a credit of £49.7 million to reflect the change enacted on 5 July 2011 to reduce the mainstream corporation tax rate from 26 per cent to 25 per cent effective from 1 April 2012.

The deferred taxation credit for the six months ended 30 September 2010 includes £47.1 million reflecting the changes enacted on 27 July 2010 to reduce the mainstream rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. The deferred taxation credit for the year ended 31 March 2011 includes £99.0 million which also reflects the reduction enacted on 29 March 2011 to reduce the mainstream corporation tax rate from 27 per cent to 26 per cent effective from 1 April 2011.

There will be a further phased reduction in the mainstream rate to 23 per cent by 1 April 2014. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £100.0 million.

Taxation on items taken directly to equity

The taxation charge/(credit) relating to items taken directly to equity is as follows:

Continuing operations	**Six months ended 30 September 2011 £m**	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Current taxation			
Relating to other pension movements	**(17.5)**	-	-
	(17.5)	-	-
Deferred taxation			
On actuarial gains/(losses) on defined benefit pension schemes	**24.7**	(19.1)	(11.6)
Relating to other pension movements	**17.5**	-	-
On net fair value losses on cash flow hedges	**-**	(0.1)	(0.1)
	42.2	(19.2)	(11.7)
Total taxation on items taken directly to equity	**24.7**	(19.2)	(11.7)

6. Discontinued operations

During the prior year, the group completed its non-regulated disposal programme, which, including the 2009/10 investment disposals, achieved a total enterprise value of £579.2 million. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the relevant disposal groups were therefore classified as discontinued operations in the consolidated income statement and consolidated statement of cash flows.

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Revenue	-	311.1	353.4
Total operating income/(expenses)	1.4	(270.5)	(317.6)
Operating profit	1.4	40.6	35.8
Investment income and finance expense	-	(6.6)	(7.0)
Evaluation and disposal costs relating to discontinued operations	-	(5.0)	(5.0)
Profit before taxation	1.4	29.0	23.8
Taxation	(0.2)	(9.0)	(9.2)
Profit after taxation	1.2	20.0	14.6
(Loss)/profit on disposal of discontinued operations after taxation	(0.3)	0.3	89.1
Total profit after taxation from discontinued operations	0.9	20.3	103.7

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Total proceeds	-	34.4	268.4*
Net assets disposed of	(0.3)	(31.7)	(164.3)
Transaction and other costs of disposal	-	(2.4)	(45.9)
Reclassification from other reserves arising on disposal of financial asset investment	-	-	6.6
Reclassification from other reserves arising on disposal of subsidiaries	-	-	(1.8)
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	-	-	26.1
(Loss)/profit on disposal of discontinued operations after taxation	(0.3)	0.3	89.1

* Total fair value of proceeds comprised cash of £268.4 million. The enterprise value of £447.1 million incorporates cash consideration received added to the market value of the net debt disposed of which at the date of disposal totalled £178.7 million. Combined with the cash consideration received from the disposal of investments in 2009/10 of £132.1 million, the non-regulated disposal programme achieved a total enterprise value of £579.2 million.

7. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after taxation by the following weighted average number of shares in issue:

	Basic million	Diluted million
Six months ended 30 September 2011	**681.7**	**682.1**
Six months ended 30 September 2010	681.5	682.0
Year ended 31 March 2011	681.6	681.9

The difference between the weighted average number of shares used in the basic and diluted earnings per share calculations arises due to the group's operation of share-based payment compensation arrangements. The difference represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'.

The basic and diluted earnings per share for the current and prior periods are as follows:

	Six months ended 30 September 2011	Six months ended 30 September 2010	Year ended 31 March 2011
From continuing and discontinued operations			
Basic	**20.8p**	22.5p	67.2p
Diluted	**20.8p**	22.5p	67.2p
From continuing operations			
Basic	**20.7p**	19.5p	52.0p
Diluted	**20.7p**	19.5p	52.0p

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Profit after taxation – continuing and discontinued operations	**141.7**	153.4	458.2
Adjustment for profit after taxation from discontinued operations	**(0.9)**	(20.3)	(103.7)
Profit after taxation – continuing operations	**140.8**	133.1	354.5

8. Dividends

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Dividends relating to the period comprise:			
Interim dividend	**72.7**	68.2	68.2
Final dividend	**-**	-	136.3
	72.7	68.2	204.5

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m	Year ended 31 March 2011 £m
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	68.2
Final dividend	**136.3**	157.6	157.6
	136.3	157.6	225.8

8. Dividends (continued)

The proposed interim dividends for the six months ended 30 September 2011 and 30 September 2010 and the final dividend for the year ended 31 March 2011 have not been included as liabilities in the consolidated financial statements at 30 September 2011, 30 September 2010 and 31 March 2011 respectively.

The interim dividend of 10.67 pence per ordinary share (2011: interim dividend of 10.00 pence per ordinary share; final dividend of 20.00 pence per ordinary share) is expected to be paid on 1 February 2012 to shareholders on the register at the close of business on 16 December 2011. The ex-dividend date for the final dividend is 14 December 2011.

9. Retirement benefit surplus/(obligations)

The main financial assumptions used by the company's actuary to calculate the defined benefit obligations of the United Utilities Pension Scheme (UUPS) and the United Utilities Group PLC section of the Electricity Supply Pension Scheme (ESPS) were as follows:

	Six months ended 30 September 2011 %pa	**Six months ended 30 September 2010 %pa**	**Year ended 31 March 2011 %pa**
Discount rate	**5.20**	5.20	5.50
Expected return on assets – UUPS	**5.65**	6.20	5.65
Expected return on assets – ESPS	**6.10**	6.30	6.10
Pensionable salary growth	**3.10**	3.10	3.35
Pension increases	**3.10**	3.10	3.35
Price inflation	**3.10**	3.10	3.35

The net pension expense before taxation for continuing operations in the income statement in respect of the defined benefit schemes is summarised as follows:

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Continuing operations			
Current service cost	**(6.7)**	(6.1)	(11.9)
Curtailments/settlements arising on reorganisation*	**-**	(4.9)	(3.4)
Past service cost	**(1.6)**	(1.0)	-
Pension expense charged to operating profit	**(8.3)**	(12.0)	(15.3)
Expected return on schemes' assets	**48.4**	51.6	102.2
Interest on schemes' obligations	**(51.6)**	(54.2)	(106.0)
Net pension interest expense charged to finance expense (note 4)	**(3.2)**	(2.6)	(3.8)
Net pension expense charged before taxation	**(11.5)**	(14.6)	(19.1)

* No curtailments arising on reorganisation are included within restructuring costs within total employee benefits expense (30 September 2010: £4.9 million; 31 March 2011: £2.7 million) or within other reorganisation costs (30 September 2010: £nil; 31 March 2011: £0.7 million).

9. Retirement benefit surplus/(obligations) (continued)

The net pension (expense)/income (charged)/credited before taxation for discontinued operations in the income statement in respect of defined benefit pension schemes is summarised as follows:

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Discontinued operations			
Current service cost	**-**	(3.5)	(3.5)
Curtailments/settlements arising on reorganisation	**-**	3.0	3.0
Pension expense charged to operating profit	**-**	(0.5)	(0.5)
Expected return on schemes' assets	**-**	6.9	6.9
Interest on schemes' obligations	**-**	(6.6)	(6.6)
Net pension interest income credited to investment income and finance expense	**-**	0.3	0.3
Curtailment/settlement arising on disposal and (charged)/credited to profit on disposal of discontinued operations	**(0.4)**	(0.9)	7.3
Net pension (expense)/income (charged)/credited before taxation	**(0.4)**	(1.1)	7.1

The reconciliation of the opening and closing net pension surplus/(obligations) included in the statement of financial position is as follows:

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
At the start of the period	**(195.0)**	(271.3)	(271.3)
Expense recognised in the income statement - continuing operations	**(11.5)**	(14.6)	(19.1)
(Expense)/income recognised in the income statement - discontinued operations	**(0.4)**	(1.1)	7.1
Contributions paid	**136.0**	47.9	133.0
Actuarial gains/(losses) gross of taxation	**98.8**	(70.7)	(44.7)
Reclassified to liabilities held for sale	**-**	9.2	-
At the end of the period	**27.9**	(300.6)	(195.0)

The closing surplus/(obligations) at each reporting date are analysed as follows:

	30 September 2011 £m	**30 September 2010 £m**	**31 March 2011 £m**
Present value of defined benefit obligations	**(1,950.7)**	**(1,917.5)**	**(1,912.9)**
Fair value of schemes' assets	**1,978.6**	**1,616.9**	**1,717.9**
Net retirement benefit surplus/(obligations)	**27.9**	**(300.6)**	**(195.0)**

10. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The following trading transactions were carried out with the group's joint ventures:

	Six months ended 30 September 2011 £m	**Six months ended 30 September 2010 £m**	**Year ended 31 March 2011 £m**
Group			
Sales of services	**0.3**	38.5	44.2
Purchases of goods and services	**0.2**	8.1	9.5

Included within the comparatives in the table above are amounts relating to entities disposed of during the year ended 31 March 2011.

Amounts owed by and to the group's joint ventures are as follows:

	30 September 2011 £m	**30 September 2010 £m**	**31 March 2011 £m**
Group			
Amounts owed by related parties	**1.4**	16.8	2.7
Amounts owed to related parties	**-**	3.8	-

Sales of services to related parties were on the group's normal trading terms.

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.5 million (30 September 2010: £180.2 million; 31 March 2011: £5.9 million) to its joint ventures.

A £0.1 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (30 September 2010: £0.7 million; 31 March 2011: £0.3 million). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (30 September 2010: £0.4 million; 31 March 2011: £nil).

11. Contingent liabilities

The group has entered into performance guarantees as at 30 September 2011 where a financial limit has been specified of £87.4 million (30 September 2010: £279.4 million; 31 March 2011: £104.5 million).

12. Changes in circumstances significantly affecting the fair value of financial assets and financial liabilities

From 1 April 2011 to 30 September 2011 market interest rates have fallen significantly, which has been partially offset by an increase in credit spread in relation to the group's borrowings.

The group's borrowings have a carrying amount of £5,833.1 million (31 March 2011: £5,313.3 million). The fair value of these borrowings is £5,426.0 million (31 March 2011: £5,065.0 million). There has been a net increase in funds from new borrowings during the period of £216.4 million. The group's derivatives measured at fair value are a net asset of £497.6 million (31 March 2011: £280.3 million).

13. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the financial statements for the six months ended 30 September 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU; and
- the interim management report includes a fair review of the information required by:

    - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events during the first six months of the current financial year and their impact on the condensed set of financial statements; and a description of principal risks and uncertainties for the remaining six months of the year; and
    - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of United Utilities Group PLC at the date of this announcement are listed below:

Dr John McAdam
Steve Mogford
Russ Houlden
Dr Catherine Bell CB
Paul Heiden
David Jones CBE
Nick Salmon

This responsibility statement was approved by the board and signed on its behalf by:

………………………..	……………………….
Steve Mogford	Russ Houlden
22 November 2011	22 November 2011
Chief Executive Officer	Chief Financial Officer

INDEPENDENT REVIEW REPORT TO UNITED UTILITIES GROUP PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Luke
for and on behalf of KPMG Audit Plc
Chartered Accountants
St James' Square
Manchester
M2 6DS
22 November 2011