United Utilities Group PLC
26 November 2014

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

Continuing operations	Six months ended	
	30 September 2014	30 September 2013 (Restated[1])
Revenue	£859.4m	£845.7m
Underlying operating profit[2]	£343.1m	£339.8m
Operating profit	£340.5m	£338.3m
Interim dividend per ordinary share (pence)	12.56p	12.01p
Regulatory capital expenditure[3]	£419m	£407m
RCV gearing[4]	57%	59%

[1] The comparatives have been restated to reflect the requirements of accounting standard IFRS 11 'Joint Arrangements'
[2] Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on page 14
[3] Regulatory capex represents fixed asset additions and infrastructure renewals expenditure using regulatory accounting guidelines; there is no equivalent GAAP measure
[4] Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water's RCV adjusted for actual capex (outturn prices)

- **Operational improvements delivering benefits for customers**
  - significant improvements in AMP5 on Ofwat's SIM measure recognised in draft determination
  - upper quartile performance on Ofwat and Environment Agency KPI assessments
  - good asset serviceability performance recognised in draft determination
  - reinvesting c£280m of outperformance for the benefit of all stakeholders

- **Continued effective delivery of capital investment programme**
  - strong capital delivery performance; Time: Cost: Quality index (TCQi) remains over 95%
  - continued high levels of capital investment, expect to invest c£850m in 2014/15

- **Good financials**
  - underlying operating profit up £3m to £343m, after c£13m one-off special customer discount
  - RCV gearing at 57%, within Ofwat's 2010-15 assumed range
  - interim dividend of 12.56 pence per share, in line with policy

- **Further growth in Business Retail**
  - most successful new entrant in Scotland
  - continuing to offer and develop a range of value-added services

Steve Mogford, Chief Executive Officer, said:

"We are approaching the end of the 2010-15 regulatory period and we are pleased with the progress we have made over the last few years. We are now a leading operational performer in our sector, having delivered or exceeded our outperformance targets, and are one of the most improved water companies for customer satisfaction.

"This strong performance has given us the capacity to reinvest around £280 million, for the benefit of all our stakeholders. In addition, our customers are set to benefit from below inflation growth in average household bills for the decade to 2020.

"The next regulatory period will place more emphasis on operational performance. Our significant improvements and the foundations we have built provide a solid platform for the future."

For further information on the day, please contact:

Gaynor Kenyon – Corporate Affairs Director	+44 (0) 7753 622282
Darren Jameson – Head of Investor Relations	+44 (0) 7733 127707
Peter Hewer / Martin Pengelley – Tulchan Communications	+44 (0) 20 7353 4200

A presentation to investors and analysts starts at 9.00 am on Wednesday 26 November 2014, 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 7031 0088, access code 949393. A recording of the call will be available for seven days following Wednesday 26 November 2014 on +44 (0) 20 7031 4064, access code 949393.

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

KEY OPERATIONAL PROGRESS

Improving operational performance and delivering benefits for customers and the environment remain top priorities for United Utilities (UU). Alongside this, we remain confident of delivering and outperforming our regulatory contract. We have made significant progress since the start of the 2010-15 regulatory period, as outlined below:

- **Significant improvements in customer service** – since 2010, every year we have continued to improve the customer experience, as demonstrated through Ofwat's customer service measure, the service incentive mechanism (SIM). Over the three years to 2013/14, we have moved up from last position to ninth place, out of the 18 water companies, on Ofwat's combined SIM measure and achieved an above average score in 2013/14. This good performance has been recognised in Ofwat's draft determination, in August 2014, with no penalty relating to SIM, averting the risk of a possible c£80 million revenue penalty had our performance not improved. We have again had zero complaints warranting investigation in the first half of 2014/15 and customer complaints have continued to fall. Ofwat is amending its SIM methodology for the 2015-20 period, with more emphasis on qualitative performance, and Ofwat and the water companies are currently piloting the new approach.

- **Strong operational performance** – we delivered another strong performance across a broad front, as measured in Ofwat's latest (2013/14) key performance indicators report. Of the fifteen assessments, UU was rated 'Green' for thirteen and 'Amber' for two, with no areas assessed as 'Red' on the traffic light reporting matrix. The balance of ratings represented an upper quartile performance, in respect of the ten water and sewerage companies. The Environment Agency's latest assessment also indicates that UU is an upper quartile company and we achieved the lowest number of serious pollution incidents, by length of sewer, in England. This strong overall performance has helped provide benefits for customers, for example in terms of better customer service and very high levels of reliability and availability of water supply and wastewater services, alongside a range of environmental benefits. In addition, we are developing a new operating model for our wholesale business. This employs technology and new work processes aimed to deliver improved customer satisfaction and operational efficiency and will support our drive to meet Ofwat's upper quartile efficiency challenge.

- **Effective capital delivery drives customer and environmental benefits** – we continue to drive more effective and efficient delivery of our capital programme. This is reflected in a significant improvement in our Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to over 95% in 2013/14 and through the first half of 2014/15. We again met our water and wastewater asset serviceability standards in 2013/14 and this helped ensure that UU received no asset serviceability penalty in Ofwat's draft determination, one of only four water and wastewater companies to achieve this. We have now invested around £3.3 billion since April 2010, as we have sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

- **Leakage target** – we have met or outperformed our regulatory leakage target in each of the last eight years and we are on track to meet the target this year.

- **Regulatory outperformance** – we have set clear targets for the 2010-15 period and expect to deliver or outperform these targets. As outlined previously, we are reinvesting around £280 million of outperformance, over 2010-15, for the benefit of all our stakeholders.

- **Corporate responsibility** – we retained a 'World Class' rating in the Dow Jones Sustainability Index for the seventh consecutive year, achieving industry leading performance status in the multi-utility/water sector in the most recent assessment. We also have the highest 'Platinum Big Tick' ranking in Business in the Community's Corporate Responsibility Index and hold membership of the FTSE 350 Carbon Disclosure Leadership Index. We are one of only four FTSE 100 companies to hold all three accolades.

- **Extending our presence in the retail water market for business customers** – we have been building our capability to help ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market. After attaining a Scottish water supply licence in 2012, we quickly grew to become the most successful new entrant and the second largest water retailer in Scotland. We have continued our expansion in 2014/15 and have now won over 200 customers, covering over 2,600 sites and representing future annual revenue of c£14 million. We also have a significant pipeline of opportunities and are continuing to offer and develop our range of value-added services.

FINANCIAL OVERVIEW

The group has delivered another good set of financial results for the six months ended 30 September 2014.

- **Revenue** – up by £14 million, or 1.6%, to £859 million. This increase is lower than the allowed regulated price rise for 2014/15 of 3.8% nominal (1.2% real price increase, plus 2.6% RPI inflation), mainly reflecting the previously announced special customer discount which has been applied to this year's bills. This follows on from real price decreases of 4.3% in 2010/11 and 0.2% in 2011/12, and allowed real price increases of 0.6% in 2012/13 and 1.0% in 2013/14.

- **Underlying operating profit** – increased by £3 million to £343 million, as the rise in revenue was partly offset by the expected increase in depreciation and other cost pressures, including bad debt.

- **Capex** – total regulatory capital investment in the half year, including £75 million of infrastructure renewals expenditure, was £419 million, an increase of £12 million compared with the first half of last year, reflecting continued good progress on the capital investment programme.

- **Underlying profit before taxation** – up by £7 million to £221 million. This was £4 million higher than the increase in underlying operating profit as net finance expense decreased slightly, mainly due to the impact of lower RPI inflation on the group's index-linked debt.

- **Underlying profit after taxation** – up by £8 million to £176 million, benefiting from the increase in underlying profit before tax and the 2% fall in the mainstream rate of corporation tax, compared with the previous year.

- **Capital structure** – the group has a robust capital structure with gearing of 57% (measured as group net debt to regulatory capital value) as at 30 September 2014. This is 1% lower than the March 2014 position. This reflects the uplift in regulatory capital value, as the company continues to invest heavily in its asset base, partly offset by the expected increase in net debt. This gearing level is comfortably within Ofwat's 2010-15 assumed range, of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has a long-term credit rating of A3 from Moody's with a stable outlook.

- **Financing headroom** – the group benefits from headroom to cover its projected financing needs into 2016, to support the delivery of our capital investment programme. This headroom provides good flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and fund the regulated capital investment programme.

- **Dividend** – in line with its policy, the board has declared an interim dividend of 12.56 pence per ordinary share.

PRICE REVIEW 2014 – BUSINESS PLAN

As part of the 2014 price review process, on 29 August 2014, Ofwat published its draft determination (DD) for UUW covering the period 1 April 2015 to 31 March 2020. Following further detailed discussions with Ofwat, the Customer Challenge Group and other stakeholders, UUW submitted, in early October 2014, its representations in response to the DD. In particular, this response addressed the wholesale total expenditure differences between UUW's business plan and Ofwat's DD. UUW challenged its efficiency plans and set, where practical, more stretching targets beyond those contained in the original business plan. The revised plan would result in average household bills falling by 4.1% in real terms over the 2015-20 period. This would mean customers benefiting from below inflation growth in average household bills for the decade to 2020. We now await the publication of Ofwat's final determination on 12 December 2014.

BOARD CHANGE

Stephen Carter was appointed as a non-executive director on 1 September 2014 and is a member of the Audit, Nomination and Corporate Responsibility Committees. Stephen is the Group Chief Executive at Informa plc.

OUTLOOK

We are encouraged by our operational and customer service performance improvements and believe we can improve further. Our improved capital delivery performance, with continued substantial investment in our assets, will deliver further benefits for our customers and the environment. We expect to deliver both our 2010-15 regulatory outperformance targets and our dividend policy of targeting 2% per annum growth above the rate of RPI inflation through to 2015. We have made significant and sustained performance improvements during this regulatory period and, combined with our new wholesale operating model, this provides a solid foundation for the future.

DISCONTINUATION OF INTERIM MANAGEMENT STATEMENTS

Following an amendment to the EU's Transparency Directive in November 2013, the requirement for the publication of Interim Management Statements (IMSs) was removed. Subsequently, the FCA published a consultation paper proposing to remove the IMS requirement for UK companies by Autumn 2014. This proposal was approved on 7 November 2014.

After careful consideration, the Board of United Utilities Group PLC has taken the decision to discontinue IMSs and therefore the group will not issue an IMS in early 2015. However, the group intends to continue publishing pre-close trading statements in March and September each year, in addition to its full year and half year results.

OPERATIONAL PERFORMANCE

United Utilities aims to deliver long-term shareholder value by providing:
- The best service to customers
- At the lowest sustainable cost
- In a responsible manner

Best service to customers

Improving customer service will continue to be a significant area of management focus and we see opportunities to deliver further benefits for our customers.

Customer service – our continuing strong focus on dealing effectively with customer enquiries has helped us deliver further improvements in our performance, as measured by Ofwat's service incentive mechanism (SIM) and outlined in the KPIs section below. This is also reflected in a reduction in the number of customer complaints received, which has contributed to improvements in opex efficiency. The number of customer complaints made to the Consumer Council for Water (CCW) in the first half of 2014/15 has reduced further, compared with the first half of 2013/14. We are pleased to report that the total number of escalated complaints investigated by the CCW was again zero in the first six months of this financial year.

Our significant improvements over the last three years have been recognised by Ofwat in the draft determination in August, resulting in the company avoiding a revenue penalty. Over this period, we have continued to develop our systems and processes to deliver the experience our customers seek when they need to contact us, including multi-channel contact centre technology. We have placed a strong emphasis on striving for first time resolution of customer enquiries, keeping customers informed of progress until resolution. This has been underpinned by investment in our people in terms of better training and improved systems. We have also enhanced our customer feedback process to help us respond to customers' evolving needs and continually improve.

Leading North West service provider – we were pleased to have been consistently ranked third out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken quarterly. We are behind only Marks & Spencer and John Lewis, and ahead of seven other major organisations covering utilities, telecoms, media and banking services.

Robust water supply – our customers continue to benefit from our robust water supply and demand balance, along with high levels of water supply reliability. We continue to supply a high level of water quality, with mean zonal compliance in excess of 99.9%.

Mitigating sewer flooding – we have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes, including incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys. Our plan for the 2015-20 period includes a target of reducing sewer flooding incidents by at least 40%, in line with customers' affordability preferences. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

Asset serviceability – we have a range of actions to help support the serviceability of our assets. We are improving the robustness of our water treatment processes, refurbishing service reservoir assets, continuing with our comprehensive mains cleaning programme and optimising water treatment to reduce discoloured water events. Our good asset serviceability performance over the last few years was recognised by Ofwat in the draft determination in August 2014, with UU being one of only four water and sewerage companies not to receive a penalty.

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). We are currently assessed as 'improving' for our wastewater non-infrastructure assets and 'stable' for our water infrastructure, water non-infrastructure and wastewater infrastructure assets. The aim is to continue to hold at least a 'stable' rating for all four asset classes, which aligns with Ofwat's target.

- **Service incentive mechanism (SIM)** – UU continued its progress on Ofwat's combined (qualitative and quantitative) SIM assessment for 2013/14, moving up to 9th place out of the 18 water companies. This compares with joint 13th position for 2012/13 (although Ofwat previously measured out of 21 water companies). At the start of this regulatory period, UU was an outlier in last position. Ofwat is amending its SIM methodology for the 2015-20 period, with more emphasis on qualitative performance, and Ofwat and the water companies are currently piloting the new process. Our continued progress is encouraging, although we recognise that there is still more to do.

Lowest sustainable cost

Power and chemicals – our asset optimisation programme continues to provide 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 assets to generate renewable energy. We had already substantially locked in the cost of our power requirements through to 2015, via hedging, securing outperformance across the 2010-15 period.

Proactive network management – we are implementing a more proactive approach to asset and network management, with the aim of improving our modelling and forecasting to enable us to address more asset and network problems before they affect customers, thereby reducing the level of reactive work and improving efficiency.

Debt collection – we highlighted in May 2014 that debt collection was likely to become more challenging for UU, particularly as our region suffers from high levels of income deprivation which is the principal driver of our higher than average cost to serve. In the draft determination, Ofwat recognised the impact of deprivation on our retail costs by making an adjustment of £19 million per annum. In the first half of this year, bad debt expense has increased by £5 million, from 2.2% to 2.7% of regulated revenue, as a result of three main factors:

- the cumulative impact of economic factors on customers' ability to pay, including the tightening of real disposable incomes in the North West;
- an increase in the number of customers re-commencing payment through our help-to-pay initiatives has resulted in additional revenue recognition and associated bad debt, under IFRS accounting; and
- a recent review of bad debt provisions for business customers in preparation for systems upgrades, ahead of full market opening.

Looking ahead, bad debts will continue to be challenging for us, with the tightening of real disposable incomes, the impact of recent welfare reforms likely to intensify, and the possibility of further provision reviews as we enhance our systems. Whilst our debt management processes have been externally benchmarked as efficient and effective, we will continue to refine and enhance them in order to manage the particularly difficult debt collection environment in the North West.

Pensions – UU placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further. Further details on the group's pension provision are provided in the pensions section on page 13.

Capital delivery and regulatory commitments – the business is strongly focused on delivering its commitments efficiently and on time and has a robust commercial capital delivery framework in place. Regulatory capital investment in the first half of the year, including £75 million of infrastructure renewals expenditure, was £419 million, an increase of £12 million compared with the first half of last year. Including transitional spend of around £40 million, we would expect to invest around £850 million in 2014/15. Following our rapid increase in our internal Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to approximately 90% in 2012/13, we further improved our score and have continued to achieve over 95%.

Key performance indicators:

- **Financing outperformance** – UU has secured over £300 million of financing outperformance across the 2010-15 period, when compared with Ofwat's allowed cost of debt of 3.6% real, based on an average RPI inflation rate of 2.5% per annum. As outlined previously, we expect to reinvest around £40 million of our financing outperformance in private sewers costs which were not reflected in price limits for the current period.

- **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. We are ahead of schedule and expect to deliver cumulative operating expenditure outperformance of over £50 million across the 2010-15 period.

- **Capital expenditure outperformance** – UU is continuing to deliver significant efficiencies in the area of capital expenditure and, as outlined previously, we expect to reinvest around £200 million of capital expenditure outperformance for the benefit of our customers and the environment.

Responsible manner

Acting responsibly is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors in its strategic decision making. Our environmental and sustainability performance across a broad front has received external recognition. UU retained its 'World Class' rating in the Dow Jones Sustainability Index for the seventh consecutive year, achieving industry leading performance status in the multi-utility/water sector in the most recent assessment. UU also has the highest ranking, 'Platinum Big Tick', in Business in the Community's Corporate Responsibility Index and holds membership of the FTSE 350 Carbon Disclosure Leadership Index. We are one of only four FTSE 100 companies (and the only water company) to hold all three accolades.

Leakage – our strong, year round, operational focus on leakage and the implementation of a range of initiatives, such as active pressure management, enabled us to again beat our leakage target in 2013/14 and we are on track to meet our 2014/15 target. Our leakage performance, alongside the network resilience improvements we are making, are helping us to maintain a robust water supply and demand balance, and deliver high levels of reliability for our customers.

Environmental performance – this is a high priority for UU and we are pleased to be an upper quartile company in the Environment Agency's 2013/14 performance metrics, as described in the KPIs section below.

Carbon footprint – we are committed to reducing our carbon footprint and increasing our generation of renewable energy. In 2013/14, our carbon footprint totalled 449,042 tonnes of carbon dioxide equivalent, a reduction of 11% compared with the previous year. We set a target of achieving at least a 21% reduction in carbon emissions by 2015, measured from a 2005/06 baseline, and we were encouraged with our performance in 2013/14 which was 23% below the baseline. In addition, we achieved our highest ever renewable energy production in 2013/14 of 133 GWh, which represented c17% of our total electricity consumption, up from c13% in the previous year. Our carbon reduction initiatives continue to progress well and performance in the first half of 2014/15 has been encouraging, as we begin to implement plans to further increase renewable energy production over the next few years.

Employees – we continue to be successful in attracting and retaining people and have continued to expand our apprentice and graduate programmes, having recruited a further 24 graduates and 32 apprentices in 2013/14 and have added a similar number in 2014/15. As part of our health and safety improvement programme, we implemented a number of initiatives last year which helped reduce the employee accident frequency rate to 0.137 accidents per 100,000 hours for 2013/14, compared with a rate of 0.188 in the previous year. Our performance in the first half of 2014/15 has improved, compared with the corresponding period last year, although we recognise we still have more to do. Health and safety will continue to be a significant area of focus, as we strive for continuous improvement.

Communities – we continue to support partnerships, both financially and in terms of employee time through volunteering, with other organisations across the North West that share our objectives. We recently set up Catchment Wise, our new approach to tackling water quality issues in lakes, rivers and coastal waters across the North West, and our 'Beachcare' employee volunteering scheme helps to keep our region's beaches tidy. Last year we contributed approximately £2 million to support local communities, through schemes such as providing debt advisory services and our Community Fund, offering grants to local groups impacted by our capital investment programme.

Key performance indicators:

- **Leakage** – UU met its economic level of leakage rolling target for the eighth consecutive year in 2013/14, with a performance of 452 megalitres per day versus the regulatory target of 463 megalitres per day. The aim is to meet our regulatory leakage target each year.

- **Environmental performance** – On the Environment Agency's latest assessment (2013/14 report), which covers a broad range of operational metrics, UU is an upper quartile company. Based on our performance across the range of metrics, this indicates we were in joint 2nd position among the ten water and sewerage companies and aligns with our medium-term goal of being a first quartile company on a consistent basis.

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

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the six months ended 30 September 2014. Revenue increased by £14 million to £859 million. This increase principally reflects the allowed regulated price rise, partly offset by the previously announced special customer discount which is being applied to this year's bills. £13 million of the special customer discount, totalling around £20 million, has been applied in the first half of the year.

Operating profit

Underlying operating profit was up £3 million to £343 million, as the increase in revenue was largely offset by an expected rise in depreciation and other cost pressures, including bad debt. Reported operating profit increased by £2 million, to £341 million.

Investment income and finance expense

The underlying net finance expense of £124 million was £3 million lower than the first half of last year, primarily reflecting the impact of lower RPI inflation on the group's index-linked debt. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £38 million, compared with a net charge of £45 million in the first half of last year. The group had approximately £3.0 billion of index-linked debt as at 30 September 2014. The lower RPI inflation charge contributed to the group's average underlying interest rate of 4.5% being lower than the rate of 4.8% for the corresponding period last year.

Reported investment income and finance expense of £138 million was significantly higher than the £7 million expense in the first half of 2013/14. This £131 million increase principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £100 million gain in the first half of last year to a £20 million loss in first half of 2014/15. The £20 million fair value loss is largely due to losses on the regulatory swap portfolio, resulting from a decrease in medium-term sterling interest rates during the period, partly offset by a gain from the unwinding of the derivatives hedging interest rates to 2015. The group uses these swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by the regulator at each price review. The group fixed the majority of its non index-linked debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%.

Profit before tax

Underlying profit before tax was £221 million, £7 million higher than the first half of last year, due to the increase of just over £3 million in underlying operating profit and the decrease in underlying net finance expense of just over £3 million. This underlying measure adjusts for the impact of one-off items, principally from restructuring within the business, and other items such as fair value movements in respect of debt and derivative instruments. Reported profit before tax decreased by £129 million to £205 million, primarily due to the aforementioned fair value movements.

Taxation

In the first half of 2014/15, we paid corporation tax of £37 million, which represents an effective cash tax rate of 18%, 3% lower than the mainstream rate of corporation tax of 21%. For the first half of 2013/14, we paid corporation tax of £25 million. The key reconciling items to the mainstream rate were allowable tax deductions on net capital investment and timing differences in relation to fair value movements on treasury derivatives.

The current tax charge was £24 million in the first half year, compared with a charge of £47 million in the corresponding period last year. The overall current tax position for the first half of last year was a net credit of £75 million, as a one-off credit of £122 million was recognised relating to matters agreed with HMRC in respect of prior years.

In the first half of 2014/15, the group recognised a deferred tax charge of £18 million, compared with a charge of £23 million in first half of the previous year. In addition, in the first half of last year, the group recognised a deferred tax credit of £159 million relating to the 3% staged reduction in the mainstream rate of corporation tax, substantively enacted on 2 July 2013, to reduce the rate to 20% by 2015/16. In the same period, the group also recognised a deferred tax credit of £3 million relating to prior years' matters.

The total tax charge of £42 million, for the six months ended 30 September 2014, represents a rate of 20%, broadly in line with the mainstream rate of corporation tax. This compares with an overall rate of 21% for the first half of last year, after adjusting for the tax credits discussed above. This small reduction in total tax rate is mainly due to the decrease in the mainstream rate of corporation tax across the two periods.

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £145 million per annum, in the form of business rates, employer's national insurance contributions, green taxes and other regulatory service fees such as water abstraction charges.

Profit after tax

Underlying profit after tax of £176 million was £8 million higher than the first half of last year, principally reflecting the increase in underlying profit before tax and a 2% reduction in the UK Government's rate of corporation tax. Reported profit after tax was £163 million, compared with £547 million for the first half of last year, impacted by the £120 million movement in fair value on debt and derivative instruments and the £255 million net increase in tax between the two periods.

Earnings per share

Underlying earnings per share increased from 24.7 pence to 25.8 pence. This underlying measure is derived from underlying profit after tax. This includes the adjustments for the deferred tax credits in the first half of 2013/14, associated with the reductions in the corporation tax rate and an adjustment for the tax credit arising from agreement of prior years' tax matters. Basic earnings per share decreased from 80.2 pence to 23.9 pence, for the same reasons that reduced profit after tax.

Dividend per share

The board has declared an interim dividend of 12.56 pence per ordinary share in respect of the six months ended 30 September 2014. This is an increase of 4.6%, compared with the dividend relating to the first half of last year, in line with group's dividend policy of targeting a growth rate of RPI+2% per annum through to 2015. The inflationary increase of 2.6% is based on the RPI element included within the allowed regulated price increase for the 2014/15 financial year (i.e. the movement in RPI between November 2012 and November 2013).

The interim dividend is expected to be paid on 2 February 2015 to shareholders on the register at the close of business on 19 December 2014. The ex-dividend date is 18 December 2014.

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2014 was £369 million, compared with £379 million in the first half of last year. This difference mainly reflects an increase in tax paid between the two periods. The group's net capital expenditure was £338 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS.

Net debt including derivatives at 30 September 2014 was £5,684 million, compared with £5,516 million at 31 March 2014. This modest increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and tax, alongside an increase in the principal of our index-linked debt, 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 adjusted for actual capital expenditure) was 57% at 30 September 2014, a reduction of 1% compared with the position at 31 March 2014, remaining within Ofwat's 55% to 65% assumed gearing range for the 2010-15 period. The group's pension deficit was £115 million at 30 September 2014, on an IFRS basis, compared with a deficit of £177 million at 31 March 2014. Taking account of the group's pension deficit, and treating it as debt, gearing would be 58%.

UUW has long-term credit ratings of A3/BBB+ and United Utilities PLC has 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. Both agencies have the group's ratings on stable outlook.

Cash and short-term deposits at 30 September 2014 amounted to £111 million. In December 2013, UUW agreed a new £500 million term loan facility with the European Investment Bank (EIB). As at 30 September 2014, UUW had drawn down £250 million on this facility as a floating rate amortising term loan with semi-annual repayments, a final maturity in 18 years and an initial capital repayment holiday of two and a half years. The remaining £250 million is expected to be drawn down in tranches within the next year. The group has also renewed £50 million of committed bank facilities since 31 March 2014. The group has headroom to cover its projected financing needs into 2016.

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme (EMTN). On 19 November 2014, the EMTN programme was updated adding a new financing subsidiary of UUW, United Utilities Water Finance PLC (UUWF), to issue new listed debt on behalf of UUW following UUW's re-registration as a private limited company. The EMTN programme provides for the periodic issuance by United Utilities PLC and UUWF (guaranteed by UUW) of debt instruments on terms and conditions determined at the time the instruments are issued. The EMTN 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.

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 30 September 2014, approximately 52% of the group's net debt was in index-linked form, representing around 30% of UUW's regulatory capital value, with an average real interest rate of 1.7%. 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, which is close to 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 fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis. This is supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination.

In line with this, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the 2010-15 regulatory period around the time of the 2009 price review. In addition, we have already fixed around three quarters of our floating rate exposure over the 2015-20 period, with the intention of progressively fixing underlying interest rates on substantially all of the group's projected nominal debt, for this five-year period, during the next six months.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. The group's €7 billion euro medium-term note programme provides further support.

In line with the board's treasury policy, UU aims to maintain a robust liquidity position. Available headroom at 30 September 2014 was £719 million based on cash, short-term deposits, medium-term committed bank facilities, along with the undrawn portion of the EIB term loan facility, net of short-term debt.

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 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 2014, the group had an IAS 19 net retirement benefit, or pension, deficit of £115 million, compared with a net pension deficit of £177 million at 31 March 2014. This £62 million favourable movement mainly reflects a decrease in inflation expectations, partly offset by a reduction in corporate credit spreads. In contrast, the scheme specific funding basis does not suffer from volatility due to credit spread movements as it uses a prudent, fixed credit spread assumption and a fixed inflation assumption via the inflation funding mechanism. Therefore, the recent credit spread and inflation movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

The triennial actuarial valuations of the group's defined benefit pension schemes were carried out as at 31 March 2013 and the overall funding position has improved since March 2010. Following the de-risking measures we have implemented over recent years, our pension funding position remains well placed and in line with our expectations. There has been no material change to the scheduled cash contributions as assessed at the previous valuations in 2010. The group has already completed early all scheduled deficit repair payments through to March 2015.

Further detail is provided in note 8 ("Retirement benefit obligations") of these condensed consolidated financial statements.

Underlying profit

In considering the underlying results for the period, the directors have adjusted for the items outlined in the table below to provide a more representative view of business performance. Reported operating profit and profit before tax from continuing operations are reconciled to underlying operating profit, underlying profit before tax and underlying profit after tax (non-GAAP measures) as follows:

Continuing operations

Operating profit	**Six months ended 30 September 2014 £m**	**Restated[1] Six months ended 30 September 2013 £m**
Operating profit per published results	**340.5**	**338.3**
One-off items[2]	2.6	1.5
Underlying operating profit	**343.1**	**339.8**

Net finance expense	**£m**	**£m**
Finance expense	(138.9)	(7.8)
Investment income	0.6	1.0
Net finance expense per published results	**(138.3)**	**(6.8)**
Net fair value losses/(gains) on debt and derivative instruments	19.9	(100.0)
Adjustment for interest on swaps and debt under fair value option	1.5	4.5
Adjustment for net pension interest expense/ (income)	3.6	(0.5)
Adjustment for capitalised borrowing costs	(11.1)	(11.5)
Adjustment for release of tax interest accrual	-	(13.3)
Underlying net finance expense	**(124.4)**	**(127.6)**

Profit before tax	**£m**	**£m**
Share of profits of joint ventures	**2.5**	**2.1**
Profit before tax per published results	**204.7**	**333.6**
One-off items[2]	2.6	1.5
Net fair value losses/(gains) on debt and derivative instruments	19.9	(100.0)
Adjustment for interest on swaps and debt under fair value option	1.5	4.5
Adjustment for net pension interest expense/(income)	3.6	(0.5)
Adjustment for capitalised borrowing costs	(11.1)	(11.5)
Adjustment for release of tax interest accrual	-	(13.3)
Underlying profit before tax	**221.2**	**214.3**

Profit after tax	**£m**	**£m**
Underlying profit before tax	**221.2**	**214.3**
Reported tax (charge)/credit	(41.9)	213.2
Deferred tax credit – change in tax rate	-	(158.6)
Agreement of prior years' UK tax matters	-	(125.0)
Tax in respect of adjustments to underlying profit before tax	(3.5)	24.4
Underlying profit after tax	**175.8**	**168.3**

Earnings per share	**£m**	**£m**
Profit after tax per published results (a)	162.8	546.8
Underlying profit after tax (b)	175.8	168.3
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	23.9p	80.2p
Underlying earnings per share, in pence (b/c)	**25.8p**	**24.7p**

[1] From 1 April 2014, in accordance with accounting standard IFRS11, the results from the group's joint ventures (JVs) are subject to equity accounting when, previously, they were proportionally consolidated. The group's share of its JVs' profit after tax is now shown on one "Share of profits of joint ventures" line, below operating profit. The first half of 2013/14 has been restated to reflect this.

[2] Relates to restructuring costs within the business.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is managed through the individual responsibility of each business area, supported by our Corporate Risk Framework, which aims for continuous improvement. With an overarching mandate and commitment by the board, the framework consists of four key areas:

- Governance;
- Approach;
- Process; and
- Guidance.

The application of the framework involves the regular assessment of the internal and external risk environment by the business. We focus on the factors that could limit or prevent the achievement of our company objectives and involves the prioritised implementation of controls to mitigate exposure and build resilience and sustainability.

The most significant risks and the group's risk profile summary are reported to the executive and the board twice a year. This supports the determination of the nature and extent of those risks we are willing to take in pursuing our objectives in line with good corporate governance practice. In addition the audit committee regularly reviews the framework's effectiveness, and the group's compliance with it, reporting its findings to the board.

The group's anticipated principal risks and uncertainties over the second half of the financial year and beyond remain as stated in its 2014 Annual Report and Financial Statements, on pages 48-51, namely (1) the regulatory environment; (2) competition in the market; (3) the economy; (4) failure to comply with applicable law or regulations; and (5) operational and hazardous events. In addition, there are political risks and uncertainties, in light of the forthcoming UK General Election expected in May 2015, particularly with regard to the public focus on the cost of utility bills to household customers. It is unclear whether this will ultimately impact Government policy, legislation or regulatory outcomes affecting the sector.

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 2014 £m	Restated* Six months ended 30 September 2013 £m	Restated* Year ended 31 March 2014 £m
Continuing operations			
Revenue	**859.4**	845.7	1,688.8
Employee benefits expense:			
- excluding restructuring costs	**(67.0)**	(65.0)	(129.4)
- restructuring costs	**(2.6)**	(1.5)	(4.4)
Total employee benefits expense	**(69.6)**	(66.5)	(133.8)
Other operating costs	**(203.4)**	(201.8)	(425.5)
Other income	**1.3**	1.0	2.7
Depreciation and amortisation expense	**(172.7)**	(162.1)	(336.9)
Infrastructure renewals expenditure	**(74.5)**	(78.0)	(165.1)
Total operating expenses	**(518.9)**	(507.4)	(1,058.6)
Operating profit	**340.5**	338.3	630.2
Investment income (note 3)	**0.6**	1.0	6.8
Finance expense (note 4)	**(138.9)**	(7.8)	(98.7)
Investment income and finance expense	**(138.3)**	(6.8)	(91.9)
Share of profits of joint ventures	**2.5**	2.1	5.0
Profit before taxation	**204.7**	333.6	543.3
Current taxation charge	**(24.4)**	(47.3)	(75.3)
Current taxation credit - prior years' adjustments	**-**	122.0	141.0
Deferred taxation charge	**(17.5)**	(23.1)	(40.5)
Deferred taxation credit - prior years' adjustments	**-**	3.0	13.3
Deferred taxation credit - change in taxation rate	**-**	158.6	156.8
Taxation (note 5)	**(41.9)**	213.2	195.3
Profit after taxation from continuing operations	**162.8**	546.8	738.6
Discontinued operations			
Profit after taxation from discontinued operations	**-**	0.5	0.8
Profit after taxation	**162.8**	547.3	739.4
Earnings per share from continuing and discontinued operations (note 6)			
Basic	**23.9p**	80.3p	108.4p
Diluted	**23.8p**	80.1p	108.2p
Earnings per share from continuing operations (note 6)			
Basic	**23.9p**	80.2p	108.3p
Diluted	**23.8p**	80.1p	108.1p
Dividend per ordinary share (note 7)	**12.56p**	12.01p	36.04p

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

Consolidated statement of comprehensive income

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Profit after taxation	**162.8**	547.3	739.4
Other comprehensive income			
Remeasurement gains/(losses) on defined benefit pension schemes (note 8)	**59.1**	(207.5)	(200.8)
Taxation on items taken directly to equity (note 5)	**(11.7)**	42.1	40.9
Foreign exchange adjustments	**(1.8)**	(0.6)	(1.2)
Total comprehensive income	**208.4**	381.3	578.3

Consolidated statement of financial position

	30 September 2014 £m	Restated* 30 September 2013 £m	Restated* 31 March 2014 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**9,509.3**	9,132.7	9,318.5
Other intangible assets	**119.4**	105.5	110.2
Interests in joint ventures	**31.3**	33.1	35.6
Investments	**7.5**	6.7	6.9
Trade and other receivables	**4.5**	2.3	2.4
Derivative financial instruments	**508.2**	525.7	456.0
	10,180.2	9,806.0	9,929.6
Current assets			
Inventories	**40.7**	39.4	39.8
Trade and other receivables	**352.6**	353.7	330.4
Current income taxation assets	**-**	30.9	-
Cash and short-term deposits	**110.6**	45.4	115.8
Derivative financial instruments	**53.1**	54.5	56.9
	557.0	523.9	542.9
Total assets	**10,737.2**	10,329.9	10,472.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(461.1)**	(434.0)	(451.0)
Borrowings	**(6,158.1)**	(5,833.3)	(5,929.2)
Retirement benefit obligations (note 8)	**(115.2)**	(183.9)	(177.4)
Deferred taxation liabilities	**(1,080.3)**	(1,040.3)	(1,050.4)
Provisions	**-**	(3.4)	-
Derivative financial instruments	**(67.0)**	(125.0)	(52.3)
	(7,881.7)	(7,619.9)	(7,660.3)
Current liabilities			
Trade and other payables	**(434.8)**	(476.5)	(382.1)
Borrowings	**(91.3)**	(129.9)	(112.3)
Current income taxation liabilities	**(23.0)**	-	(34.8)
Provisions	**(8.3)**	(3.5)	(16.3)
Derivative financial instruments	**(39.6)**	(1.5)	(50.8)
	(597.0)	(611.4)	(596.3)
Total liabilities	**(8,478.7)**	(8,231.3)	(8,256.6)
Total net assets	**2,258.5**	2,098.6	2,215.9
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Revaluation reserve	**158.8**	158.8	158.8
Cumulative exchange reserve	**(7.4)**	(5.0)	(5.6)
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**1,274.7**	1,112.4	1,230.3
Shareholders' equity	**2,258.5**	2,098.6	2,215.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

Consolidated statement of changes in equity

Six months ended 30 September 2014

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2014	499.8	2.9	158.8	(5.6)	329.7	1,230.3	2,215.9
Profit after taxation	-	-	-	-	-	162.8	162.8
Other comprehensive income							
Remeasurement gains on defined benefit pension schemes (note 8)	-	-	-	-	-	59.1	59.1
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	(11.7)	(11.7)
Foreign exchange adjustments	-	-	-	(1.8)	-	-	(1.8)
Total comprehensive (expense)/income	-	-	-	(1.8)	-	210.2	208.4
Transactions with owners							
Dividends (note 7)	-	-	-	-	-	(163.8)	(163.8)
Equity-settled share-based payments	-	-	-	-	-	1.5	1.5
Exercise of share options - purchase of shares	-	-	-	-	-	(3.5)	(3.5)
At 30 September 2014	**499.8**	**2.9**	**158.8**	**(7.4)**	**329.7**	**1,274.7**	**2,258.5**

Six months ended 30 September 2013

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	-	-	-	-	-	547.3	547.3
Other comprehensive income							
Remeasurement losses on defined benefit pension schemes (note 8)	-	-	-	-	-	(207.5)	(207.5)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	42.1	42.1
Foreign exchange adjustments	-	-	-	(0.6)	-	-	(0.6)
Total comprehensive (expense)/income	-	-	-	(0.6)	-	381.9	381.3
Transactions with owners							
Dividends (note 7)	-	-	-	-	-	(156.0)	(156.0)
Equity-settled share-based payments	-	-	-	-	-	2.2	2.2
Exercise of share options - purchase of shares	-	-	-	-	-	(0.8)	(0.8)
At 30 September 2013	**499.8**	**2.9**	**158.8**	**(5.0)**	**329.7**	**1,112.4**	**2,098.6**

Year ended 31 March 2014

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	-	-	-	-	-	739.4	739.4
Other comprehensive income							
Remeasurement losses on defined benefit pension schemes (note 8)	-	-	-	-	-	(200.8)	(200.8)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	40.9	40.9
Foreign exchange adjustments	-	-	-	(1.2)	-	-	(1.2)
Total comprehensive (expense)/income	-	-	-	(1.2)	-	579.5	578.3
Transactions with owners							
Dividends (note 7)	-	-	-	-	-	(237.9)	(237.9)
Equity-settled share-based payments	-	-	-	-	-	4.4	4.4
Exercise of share options - purchase of shares	-	-	-	-	-	(0.8)	(0.8)
At 31 March 2014	**499.8**	**2.9**	**158.8**	**(5.6)**	**329.7**	**1,230.3**	**2,215.9**

Consolidated statement of cash flows

	Six months ended 30 September 2014 £m	Restated* Six months ended 30 September 2013 £m	Restated* Year ended 31 March 2014 £m
Operating activities			
Cash generated from continuing operations	**471.6**	471.1	931.9
Interest paid	**(68.0)**	(67.8)	(168.7)
Interest received and similar income	**0.6**	0.7	2.7
Tax paid	**(36.8)**	(25.3)	(64.2)
Tax received	**1.3**	-	95.5
Net cash generated from operating activities (continuing operations)	**368.7**	378.7	797.2
Net cash used in operating activities (discontinued operations)	**-**	(0.8)	(0.8)
Investing activities			
Purchase of property, plant and equipment	**(323.9)**	(319.9)	(661.7)
Purchase of other intangible assets	**(22.9)**	(21.7)	(39.4)
Proceeds from sale of property, plant and equipment	**1.0**	1.4	2.8
Grants and contributions received	**8.0**	6.5	16.4
Purchase of investments	**(0.6)**	(1.4)	(1.9)
Proceeds from sale of investments	**-**	-	0.1
Proceeds from joint ventures	**4.9**	5.1	5.1
Net cash used in investing activities (continuing operations)	**(333.5)**	(330.0)	(678.6)
Financing activities			
Proceeds from borrowings	**160.4**	45.4	372.0
Repayment of borrowings	**(6.4)**	(67.6)	(344.8)
Exercise of share options – purchase of shares	**(3.5)**	(0.8)	(0.8)
Dividends paid to equity holders of the company (note 7)	**(163.8)**	(156.0)	(237.9)
Net cash used in financing activities (continuing operations)	**(13.3)**	(179.0)	(211.5)
Net increase/(decrease) in cash and cash equivalents (continuing operations)	**21.9**	(130.3)	(92.9)
Net decrease in cash and cash equivalents (discontinued operations)	**-**	(0.8)	(0.8)
Cash and cash equivalents at beginning of the period	**78.9**	172.6	172.6
Cash and cash equivalents at end of the period	**100.8**	41.5	78.9

* The comparatives have been restated to reflect the requirements of IFRS 11 'Joint Arrangements'. See note 1 for details.

Cash generated from continuing operations

	Six months ended 30 September 2014 £m	Restated* Six months ended 30 September 2013 £m	Restated* Year ended 31 March 2014 £m
Operating profit	**340.5**	338.3	630.2
Adjustments for:			
Depreciation of property, plant and equipment	**159.1**	150.6	312.1
Amortisation of other intangible assets	**13.6**	11.5	24.8
Loss on disposal of property, plant and equipment	**1.5**	1.8	6.4
Amortisation of deferred grants and contributions	**(3.8)**	(3.5)	(7.4)
Equity-settled share-based payments charge	**1.5**	2.2	4.4
Other non-cash movements	**(1.1)**	(1.0)	(2.0)
Changes in working capital:			
Increase in inventories	**(0.9)**	(1.7)	(2.1)
Increase in trade and other receivables	**(24.3)**	(34.4)	(7.4)
Increase/(decrease) in trade and other payables	**0.2**	20.6	(24.2)
(Decrease)/increase in provisions	**(8.0)**	(5.3)	4.1
Pension contributions paid less pension expense charged to operating profit	**(6.7)**	(8.0)	(7.0)
Cash generated from continuing operations	**471.6**	471.1	931.9

* The comparatives have been restated to reflect the requirements of IFRS 11 ‘Joint Arrangements’. See note 1 for details.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2014 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The accounting policies, presentation and methods of computation have been prepared on a basis consistent with the United Utilities Group PLC audited financial statements for the year ended 31 March 2014, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The adoption of the following standards and interpretations, at 1 April 2014, has had no material impact on the group's financial statements.

IFRS 11: 'Joint Arrangements'
The standard replaces IAS 31 'Interests in Joint Ventures' and removes the option previously taken by the group to proportionately consolidate its joint ventures. From 1 April 2014, joint ventures are accounted for using the equity method. The application of the standard is retrospective, and hence requires the restatement of the comparative periods ended 30 September 2013 and 31 March 2014. The impacts on the consolidated income statement, the consolidated statement of financial position and the consolidated statement of cash flows are detailed below.

Impact on the consolidated income statement

	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Decrease in revenue	(7.6)	(15.7)
Decrease in total operating expenses	4.2	9.0
Decrease in operating profit	(3.4)	(6.7)
(Increase)/decrease in investment income and finance expense	(0.1)	0.3
Increase in share of profits of joint ventures	2.1	5.0
Decrease in profit before taxation	(1.4)	(1.4)
Increase in taxation credit	1.4	1.4
Net impact on profit after taxation	-	-

Impact on the consolidated statement of financial position

	30 September 2013 £m	31 March 2014 £m
Increase in interests in joint ventures	33.1	35.6
Decrease in other non-current assets	(52.4)	(52.0)
Decrease in current assets	(14.7)	(19.2)
Decrease in non-current liabilities	28.0	28.4
Decrease in current liabilities	6.0	7.2
Net impact on net assets	-	-

Impact on the consolidated statement of cash flows

	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Decrease in net cash generated from operating activities	(4.4)	(8.1)
Decrease in net cash used in investing activities	6.6	6.5
Net increase/(decrease) in cash and cash equivalents	2.2	(1.6)

1. Basis of preparation and accounting policies (continued)

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 2014.

The comparative figures for the year ended 31 March 2014 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's 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 a reasonable expectation that the group has adequate resources available to it to continue its operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the financial statements. 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 as well as consideration of the group's capital adequacy. In addition, the directors also considered, amongst other matters, the primary legal duty of United Utilities Water Limited's economic regulator, to ensure that the companies can finance their functions.

2. Segmental reporting

The board of directors of United Utilities Group PLC (the board) is 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, regulatory capital expenditure and RCV gearing at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

3. Investment income

	Six months ended 30 September 2014 £m	Restated Six months ended 30 September 2013 £m	Restated Year ended 31 March 2014 £m
Continuing operations			
Interest receivable	**0.6**	0.5	1.0
Interest receivable on taxation settlement	**-**	-	4.5
Net pension interest income (note 8)	**-**	0.5	1.3
	0.6	1.0	6.8

4. Finance expense

	Six months ended 30 September 2014 £m	Restated Six months ended 30 September 2013 £m	Restated Year ended 31 March 2014 £m
Continuing operations			
Interest payable	**(115.4)**	(107.8)	(227.9)
Net fair value (losses)/gains on debt and derivative instruments	**(19.9)**	100.0	129.2
	(135.3)	(7.8)	(98.7)
Net pension interest expense (note 8)	**(3.6)**	-	-
	(138.9)	(7.8)	(98.7)

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the current regulatory pricing period. In addition, the group 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.

4. Finance expense (continued)

The underlying net finance expense for the continuing group of £124.4 million (30 September 2013 restated: £127.6 million, 31 March 2014 restated: £251.5 million) is derived as shown in the table below.

	Six months ended 30 September 2014 £m	**Restated Six months ended 30 September 2013 £m**	**Restated Year ended 31 March 2014 £m**
Continuing operations			
Finance expense	**(138.9)**	(7.8)	(98.7)
Investment income	**0.6**	1.0	6.8
Net fair value losses/(gains) on debt and derivative instruments	**19.9**	(100.0)	(129.2)
Interest on swaps and debt under fair value option	**1.5**	4.5	8.1
Adjustment for net pension interest expense/(income) (note 8)	**3.6**	(0.5)	(1.3)
Adjustment for capitalised borrowing costs	**(11.1)**	(11.5)	(19.4)
Adjustment for release of tax interest accrual	**-**	(13.3)	(13.3)
Adjustment for interest receivable on tax settlement	**-**	-	(4.5)
Underlying net finance expense	**(124.4)**	(127.6)	(251.5)

5. Taxation

	Six months ended 30 September 2014 £m	**Restated Six months ended 30 September 2013 £m**	**Restated Year ended 31 March 2014 £m**
Continuing operations			
Current taxation			
UK corporation taxation	**24.4**	47.3	75.3
Adjustments in respect of prior years	**-**	(122.0)	(141.0)
Total current taxation charge/(credit) for the period	**24.4**	(74.7)	(65.7)
Deferred taxation			
Current period	**17.5**	23.1	40.5
Adjustments in respect of prior years	**-**	(3.0)	(13.3)
	17.5	20.1	27.2
Change in taxation rate	**-**	(158.6)	(156.8)
Total deferred taxation charge/(credit) for the period	**17.5**	(138.5)	(129.6)
Total taxation charge/(credit) for the period	**41.9**	(213.2)	(195.3)

The current taxation charge is £24.4 million for the period ended 30 September 2014 representing a current taxation effective rate of 12 per cent compared with 14 per cent in the corresponding period last year and 14 per cent for the year ended 31 March 2014. The reduction in the effective rate is principally due to movements in allowable tax deductions on net capital investment, partially offset by fair value movements on treasury derivatives, with these timing differences resulting in a corresponding current period deferred tax effective rate increase. In the periods ended 30 September 2013 and 31 March 2014, there is a current taxation credit of £122.0 million and £141.0 million respectively, and an associated deferred tax credit of £3.0 million and £13.3 million respectively, relating to agreed matters in relation to prior years.

The deferred tax credits for the periods ended 30 September 2013 and 31 March 2014 include a credit of £158.6 million and £156.8 million respectively to reflect the staged reductions in the mainstream rate of corporation tax from 23 per cent in the year ended 31 March 2014 to 20 per cent effective from 1 April 2015.

5. Taxation (continued)

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 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Current taxation			
Relating to other pension movements	**(0.7)**	(1.9)	(1.9)
Deferred taxation			
On remeasurement gains/(losses) on defined benefit pension schemes	**11.8**	(41.5)	(40.2)
Relating to other pension movements	**0.6**	1.7	1.7
Change in taxation rate	**-**	(0.4)	(0.5)
	12.4	(40.2)	(39.0)
Total taxation charge/(credit) on items taken directly to equity	**11.7**	(42.1)	(40.9)

6. 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 2014	**681.9**	**683.3**
Six months ended 30 September 2013	681.9	682.9
Year ended 31 March 2014	681.9	683.2

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 2014	Six months ended 30 September 2013	Year ended 31 March 2014
From continuing and discontinued operations			
Basic	**23.9p**	80.3p	108.4p
Diluted	**23.8p**	80.1p	108.2p
From continuing operations			
Basic	**23.9p**	80.2p	108.3p
Diluted	**23.8p**	80.1p	108.1p

7. Dividends

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Dividends relating to the period comprise:			
Interim dividend	**85.6**	81.9	81.9
Final dividend	**-**	-	163.9
	85.6	81.9	245.8

7. Dividends (continued)

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	81.9
Final dividend	**163.8**	156.0	156.0
	163.8	156.0	237.9

The interim dividends for the six months ended 30 September 2014 and 30 September 2013 and the final dividend for the year ended 31 March 2014 have not been included as liabilities in the consolidated half yearly financial statements at 30 September 2014, 30 September 2013 and the consolidated financial statements at 31 March 2014 respectively.

The interim dividend of 12.56 pence per ordinary share (2013: interim dividend of 12.01 pence per ordinary share; final dividend of 24.03 pence per ordinary share) is expected to be paid on 2 February 2015 to shareholders on the register at the close of business on 19 December 2014. The ex-dividend date for the interim dividend is 18 December 2014.

8. Retirement benefit obligations

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

	Six months ended 30 September 2014 %pa	Six months ended 30 September 2013 %pa	Year ended 31 March 2014 %pa
Discount rate	**3.8**	4.4	4.3
Pensionable salary growth and pension increases	**3.1**	3.3	3.3
Price inflation	**3.1**	3.3	3.3

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

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Continuing operations			
Current service cost	**(9.0)**	(9.2)	(17.2)
Curtailments/settlements arising on reorganisation	**(0.9)**	(1.1)	(1.7)
Administrative expenses	**(1.1)**	(1.2)	(2.2)
Pension expense charged to operating profit	**(11.0)**	(11.5)	(21.1)
Net pension interest (expense) (note 4)/income (note 3)	**(3.6)**	0.5	1.3
Net pension expense charged before taxation	**(14.6)**	(11.0)	(19.8)

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

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
At the start of the period	**(177.4)**	15.1	15.1
Expense recognised in the income statement	**(14.6)**	(11.0)	(19.8)
Contributions paid	**17.7**	19.5	28.1
Remeasurement gains/(losses) gross of taxation	**59.1**	(207.5)	(200.8)
At the end of the period	**(115.2)**	(183.9)	(177.4)

8. Retirement benefit obligations (continued)

The closing obligations at each reporting date are analysed as follows:

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Present value of defined benefit obligations	**(2,727.0)**	(2,499.6)	(2,554.4)
Fair value of schemes' assets	**2,611.8**	2,315.7	2,377.0
Net retirement benefit obligations	**(115.2)**	(183.9)	(177.4)

In the six month period ended 30 September 2014 the discount rate fell by 0.5% resulting in an increase to liabilities, which was largely matched by an increase in assets under the scheme hedging arrangements. During the same period, price inflation fell by 0.2% resulting in a reduction to liabilities. As the offsetting hedge for price inflation is treated as a variable schedule of contributions under the inflation funding mechanism, there is no corresponding reduction to assets. The net effect therefore is a reduction in the overall net retirement benefit obligations as reported under IAS 19 'Employee Benefits'. Further details on the approach to managing pension scheme risk are set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2014.

9. 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 and other investments:

	Six months ended 30 September 2014 £m	Six months ended 30 September 2013 £m	Year ended 31 March 2014 £m
Sales of services			
Joint ventures	**0.4**	0.7	1.5
Other investments	**0.1**	-	0.1
	0.5	0.7	1.6
Purchases of goods and services			
Joint ventures	**0.4**	0.4	0.8
	0.4	0.4	0.8

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

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

	30 September 2014 £m	Restated 30 September 2013 £m	Restated 31 March 2014 £m
Amounts owed by related parties			
Joint ventures	**2.7**	2.3	2.6
Other investments	**0.1**	-	0.1
	2.8	2.3	2.7
Amounts owed to related parties			
Joint ventures	**0.1**	-	-
	0.1	-	-

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £4.6 million (30 September 2013: £5.2 million; 31 March 2014: £5.2 million) in support of its joint ventures.

No provision has been made for doubtful receivables in respect of the amounts owed by related parties (30 September 2013: £nil; 31 March 2014: £nil).

10. Contingent liabilities

The group has entered into performance guarantees as at 30 September 2014 where a financial limit has been specified of £9.2 million (30 September 2013: £47.3 million; 31 March 2014: £47.1 million).

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

From 1 April 2014 to 30 September 2014 market interest rates have decreased, increasing the fair value of the group's borrowings and derivative assets.

The group's borrowings have a carrying amount of £6,249.4 million (31 March 2014 restated: £6,041.5 million). The fair value of these borrowings is £6,725.5 million (31 March 2014 restated: £6,308.6 million). The group's derivatives measured at fair value are a net asset of £454.7 million (31 March 2014: £409.8 million).

12. 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 month period ended 30 September 2014.

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 DTR of the UK FCA.

Responsibilities 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;
- 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 that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the 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
Dr Catherine Bell
Stephen A Carter (appointed 1 September 2014)
Mark Clare
Russ Houlden
Brian May
Sara Weller

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

………………………..	……………………….
Steve Mogford	Russ Houlden
25 November 2014	25 November 2014
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 2014 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 Conduct Authority ("the UK FCA"). 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 FCA.

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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Luke
for and on behalf of KPMG LLP
Chartered Accountants
St James' Square
Manchester
M2 6DS
25 November 2014