United Utilities Group PLC
22 November 2017

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Customer focus delivers further improvements

- A leading company for customer satisfaction
- Doubling the number of customers receiving help with affordability over AMP6

Investing for customers, the environment and driving operational performance

- Accelerated investment delivering improved operational performance
- Sector leading on environmental performance for another year
- Systems Thinking driving efficiency and resilience; leading position heading into PR19
- Good performance on ODIs

Financial performance in line with expectations

- Underlying operating profit of £344.0m (reported operating profit of £341.8m)
- Interim dividend in line with AMP6 growth policy
- Sector leading, low risk pension position through effective hedging

Key financials

	Six months ended	
Continuing operations	30 September 2017	30 September 2016
Revenue	£876.0m	£853.0m
Underlying operating profit[1]	£344.0m	£312.5m
Reported operating profit	£341.8m	£303.6m
Underlying profit after tax[1]	£160.1m	£151.5m
Reported profit after tax	£197.4m	£202.6m
Interim dividend per ordinary share (pence)	13.24p	12.95p
Net regulatory capital spend	£394.4m	£383.5m
RCV gearing[2]	61%	62%

[1] 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 pages 13 and 14
[2] Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water's shadow RCV (outturn prices)

Steve Mogford, Chief Executive Officer, said:

"This has been a strong first half performance in which we have delivered further value for customers and shareholders.

"We continue to put customers first, achieving significant further improvements in customer satisfaction, and positioning us as a leader in our sector. This is a significant achievement in a region seeing some of the highest levels of deprivation in the country. Average bills are set to reduce in real terms over the ten year period to 2020 and we expect to double the number of customers we help through our award winning affordability schemes over AMP6.

"Our innovative Systems Thinking approach to running the business is delivering increasingly efficient and resilient services. By investing earlier than our original plans for this regulatory period we are accelerating the delivery of value to customers and shareholders, and positioning the business as sector leading as we approach the next regulatory cycle.

"As we turn our attention to the next price review for the period 2020 to 2025, we are engaging with customers across our region to understand their needs and preferences and to formulate plans that best satisfy those needs. Affordability will be key, balanced against resilience to climate change and population growth in our region."

For further information on the day, please contact:

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A presentation to investors and analysts starts at 9.00am on Wednesday 22 November 2017, 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:
UK toll: +44 (0) 333 300 0804 / UK toll free: +44 (0) 800 358 9473
Participant PIN 25837389#
For international dial in numbers:
http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf

A recording of the call will be available from Thursday 23 November 2017 at the following link: https://www.unitedutilities.com/corporate/investors/financial-news/latest-financial-news/

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

KEY OPERATIONAL PROGRESS

We have sustained our industry leading customer service, operational performance and environmental performance, meeting the needs of stakeholders and building momentum to take into the next regulatory review and beyond.

- **Sustained improvement in customer satisfaction –** sustained improvement in customer satisfaction with year on year improvement reinforcing our position as the leading listed company against Ofwat's qualitative service incentive mechanism (SIM). In the first half of 2017/18 we have achieved a further 22 per cent reduction in complaints against the same period last year and a 48 per cent reduction in stage two complaints. Our digital transformation continues to allow us to interact effectively with customers using their preferred channel. We have around 750,000 customers registered for our improved online account management capability, enabling them to interact with us digitally for many of their transactions.

- **Effective acceleration and delivery of investment plan –** acceleration of our 2015-20 investment programme continues to deliver customer service, operational and environmental benefits, enhance resilience, and optimise performance under our ODIs. Our acceleration of investment has been achieved with continued highly effective and efficient capital delivery across our large and diverse capital programme, meeting our upper quartile efficiency targets for AMP6. This is reflected in our internal time, cost and quality index measure, or TCQi, which continues to track above 90 per cent so far this year.

- **Sector leading operational and environmental performance –** in July, we achieved Industry Leading Company status for the second year as measured through the Environment Agency's (EA) annual assessment, and were one of only two companies to retain this status. Our performance against the Drinking Water Inspectorate's (DWI) metrics continues to improve, with our best ever performance for 2016, comparing favourably with our peers. This is particularly pleasing given the historical issues we have faced due to the legacy nature of our asset base.

- **Innovation through Systems Thinking –** exploiting innovation and our Systems Thinking approach is continuing to transform the way we run our business, and is on track to deliver £100 million of savings in our business plan. We are progressively moving greater capability into our Integrated Control Centre, facilitating a more proactive and predictive approach to monitoring our assets and networks. This central control reduces the level of reactive work, thereby improving performance and efficiency, and helps minimise the customer impact of any incidents.

- **Strong environmental, social & governance (ESG) credentials –** we have retained our World Class rating in the Dow Jones Sustainability Index for the tenth consecutive year, a very good achievement in light of the ever evolving standards. In addition, we were winners of the 'Water Team of the Year' award at the Utilities & Telecoms Awards 2017 recognising best practice in debt management. We are very proud of our record and for the recognition we received for our efforts in this important area.

- **Delivering shareholder value through regulatory outperformance –** the low cost of debt we have already locked in places us in a strong position to deliver on our target of minimising our cost of debt compared to Ofwat's industry allowed cost for the 2015-20 period. We are making good progress, implementing initiatives to deliver over £600 million of efficiencies to meet our totex allowance. Our progress in the first half of 2017/18 gives us confidence in delivering our target of a cumulative net ODI outcome over the 2015-20 period of between a £30 million reward and a £50 million penalty. If there are no surprises during the winter, we hope to reduce the downside risk further when we provide an update at our full year results next May.

- **Prepared for PR19 –** alongside our engagement with Ofwat, we continue to conduct extensive engagement with customers as we develop and shape our business plan submission. Our current leading operational performance and customer satisfaction places us in a good position heading into the next regulatory review.

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the six months ended 30 September 2017.

- **Revenue –** revenue was up £23 million, at £876 million, reflecting our allowed regulatory revenue changes and income from property sales partly offset by the accounting impact of our Water Plus JV, which completed on 1 June 2016. Our income from property sales was £13 million higher in the first half of 2017/18 compared with the same period last year but is expected to be broadly similar to last year for the full year.

- **Operating profit –** underlying operating profit was up £32 million, at £344 million. This reflects the £23 million increase in revenue and a £16 million decrease in total costs offset by a £7 million increase in depreciation. Reported operating profit was up £38 million, at £342 million, impacted by the same movements as underlying operating profit as well as slightly reduced profit in the first half of last year due to one off costs associated with storms and the setting up of our Water Plus JV.

- **Capex –** total net regulatory capital investment in the first half of the year, including £70 million of infrastructure renewals expenditure, was £394 million, in line with company plans. We remain on track to deliver a total of around £800 million of regulatory capex for the full year. This includes the first £20 million of the additional £100 million of investment that we announced in May to improve resilience for customers, which was not originally included in the PR14 regulatory settlement. Our five-year regulatory capex programme is c£3.6 billion including this additional investment in resilience.

- **Profit before tax –** underlying profit before tax was up £5 million, at £194 million, as the increase in underlying operating profit, alongside a £3 million increase in our share of joint venture profits, was largely offset by a £29 million increase in the underlying net finance expense. The increase in the underlying net finance expense was mainly due to the impact of higher RPI inflation on our index-linked debt. Reported profit before tax was £242 million, reflecting fair value movements and other adjusting items as outlined in the underlying profit measures tables on pages 13 and 14.

- **Profit after tax –** underlying profit after tax was up by £9 million, at £160 million. Reported profit after tax was higher at £197 million, mainly reflecting fair value movements.

- **Capital structure –** the group has a robust capital structure with gearing of 61 per cent as at 30 September 2017 (measured as group net debt to 'shadow' regulatory capital value, or RCV). Our shadow RCV adjusts for actual spend and was £11.0 billion as at 30 September 2017. This gearing level is comfortably within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has long-term credit ratings of A3 from Moody's, and was upgraded one notch in the period to A- from Standard & Poor's, both on stable outlook.

- **Financing headroom –** the group benefits from headroom to cover its projected needs into 2019, enhanced by the recent raising of new finance. At 30 September 2017, the group had headroom of £331 million consisting of cash and committed funding. This headroom provides good flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

- **Dividend –** the Board has proposed an interim dividend of 13.24 pence per ordinary share, an increase of 2.2 per cent, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

KEY PERFORMANCE INDICATORS

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.

We have a number of KPIs within each of these strategic themes to help measure and drive performance.

Best service to customers

- **Service incentive mechanism (SIM) –** having been the most improved company on SIM during the 2010-15 regulatory period, our target is to move towards the upper quartile in the medium-term.

  Qualitative: Ofwat has undertaken two surveys in the first half of the year. In the first survey we scored 4.36 points, compared to 4.33 points in the first survey of 2016/17 (higher score is better). In the second survey we scored 4.44 points, which is above the industry average of 4.38 points, with customers rating us highly for billing and wastewater services.

  Quantitative: the quantitative assessment measures customer contacts, and performance is assessed on both an absolute and relative basis. Whilst relative performance can only be assessed in full following the end of each financial year, when the other companies publish their respective results, on absolute performance for the first half of 2017/18, we achieved a score of 34 points, improving on the first half of 2016/17 when our score was 40 points (lower score is better).

- **Outcome delivery incentives (ODIs) –** we have 19 wholesale financial ODIs and, as outlined previously, the risk is skewed to the downside, with ten attracting a penalty only.

  We were pleased to deliver a cumulative net reward of £9.2 million for the first two years of the current regulatory period, exceeding our initial expectations. Whilst a number of our ODI measures are susceptible to one-off events and, on the whole, our ODI targets get tougher each year, our progress in the first half of 2017/18 gives us confidence in delivering our target of a cumulative net ODI outcome over the 2015-20 period of between a £30 million reward and a £50 million penalty. If there are no surprises during the winter, we hope to reduce the downside risk further when we provide an update at our full year results next May.

Lowest sustainable cost

- **Financing outperformance –** the low cost of debt we have already locked-in places us in a strong position to deliver our target of minimising our cost of debt compared with Ofwat's industry allowed cost for the 2015-20 period.

- **Total expenditure (totex) performance –** although our totex allowance for the 2015-20 period is challenging, we are implementing a range of initiatives and are confident of meeting our target of delivering our promises to customers within the cumulative 2015-20 wholesale totex final determination allowance. Progress in the first half of the five-year regulatory period has been good and we remain on track to meet the target for the full five-year period.

- **Household retail cost to serve –** overall, it will be very challenging to meet the regulatory assumptions for household retail costs. This is primarily due to Ofwat's price review methodology at PR14 which made no allowance for inflation in the household retail business and, in our view, made insufficient allowance for dual service (water and wastewater) companies. The regulatory assumptions for household retail costs become progressively tougher as we move through the 2015-20 period. Our target is to minimise our costs compared with Ofwat's revenue allowance. We are continuing with our strong focus on this target and will provide an update for 2017/18 at our full year results next May.

Responsible manner

- **Leakage –** although leakage is included within our outcome delivery incentives, we intend to continue publishing our leakage position separately, as we consider it to be an important measure from a responsible business perspective. We delivered an excellent performance in 2016/17, meeting our regulatory leakage target of 463 megalitres per day, and remain on track to meet it again in 2017/18.

- **Environmental performance –** on the Environment Agency's latest annual assessment, published in July 2017, we were awarded Industry Leading Company status across the range of operational metrics for the second successive year. This indicates we were in joint first position amongst the nine water and sewerage companies assessed, and aligns with our medium-term goal of being an upper quartile company on a consistent basis.

- **Corporate responsibility –** United Utilities 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. In 2017/18, United Utilities has retained its World Class rating for the tenth consecutive year.

FINANCIAL PERFORMANCE

United Utilities delivered a good set of financial results for the six months ended 30 September 2017.

Revenue

Revenue was up £23 million, at £876 million, reflecting our allowed regulatory revenue changes partly offset by the impact of our Water Plus JV, which completed on 1 June 2016.

With regard to Ofwat's revenue correction mechanism, relating to the 2014/15 financial year, we have c£9 million to return to customers. As we have previously indicated, we propose to return the £9.5 million to customers through revenue reductions of c£3 million in 2017/18, c£3 million in 2018/19 and c£3 million in 2019/20, to help aid a smoother bill profile.

Separately, consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we will also be reducing 2017/18 revenue by £7 million and 2018/19 revenue by £4 million. This is due to actual volumes being higher than our assumptions in both 2015/16 and 2016/17 respectively.

Operating profit

Underlying operating profit at £344 million was £32 million higher than the first half of last year. This reflects our allowed regulatory revenue changes, a small reduction in infrastructure renewals expenditure, and a small reduction in the remaining cost base, partly offset by a small increase in depreciation and the accounting impact of our Water Plus JV. The JV completed on 1 June 2016 and, from that date, its contribution is no longer included within operating profit and is, instead, included within the share of profits of joint ventures line in the income statement.

Reported operating profit increased by £38 million, to £342 million, reflecting the increase in underlying operating profit, along with a reduction in adjusted items. Adjusted items for the first half of 2017/18 included £1 million of restructuring costs and £1 million of costs relating to market reform. Adjusted items in the first half of last year amounted to £9 million, including £5 million of restructuring costs and £3 million of market reform costs.

Investment income and finance expense

The underlying net finance expense of £155 million for the first half of 2017/18 was £29 million higher than the first half of last year, mainly due to the impact of higher RPI inflation on the group's index-linked debt, particularly on the portion of index-linked debt with a three-month lag.

Interest on non index-linked debt of £48 million was £7 million lower than the first half of last year, due to the lower rates locked in on our interest rate swaps. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £83 million, compared with a net charge of £45 million in the first half of last year. As at 30 September 2017, the group had approximately £3.7 billion of index-linked debt at an average real rate of 1.3 per cent.

The higher RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 4.8 per cent being higher than the rate of 4.1 per cent for the six months ended 30 September 2016. The average underlying interest rate represents the underlying net finance expense divided by average debt.

Reported net finance expense of £105 million was lower than the £168 million expense in the first half of 2016/17. This £63 million decrease principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £55 million loss in the first half of 2016/17 to a £35 million gain in the first half of 2017/18.

The fair value gain in the first half of 2017/18 is due to the increase in market interest rates, impacting our derivatives hedging interest rates, partially offset by a loss on our fair value option debt and associated swaps. Losses in the first half of the prior year were largely due to a decrease in market interest rates, impacting our derivatives hedging interest rates. The group uses swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by Ofwat at each price review. The group has fixed the substantial majority of its non index-linked debt for the 2015-20 regulatory period.

Profit before tax

Underlying profit before tax was £194 million, £5 million higher than the first half of last year, as the £32 million increase in underlying operating profit, alongside a £3 million increase in profits from joint ventures, was largely offset by the £29 million increase in underlying net finance expense. This underlying measure reflects the adjusted items, as outlined in the operating profit section above, and other items such as fair value movements in respect of debt and derivative instruments, as outlined in the underlying profit measures tables on pages 13 and 14.

Reported profit before tax significantly increased by £84 million to £242 million, due in most part to the fair value movements, as outlined in the underlying profit measures tables on pages 13 and 14, and the increase in reported operating profit, partly offset by a £21 million profit in the first half of 2016/17 on disposal of the non-household retail business.

Tax

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £140 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes, and other regulatory service fees such as water abstraction charges.

In the first half of 2017/18, we paid corporation tax of £20 million, which represents an effective cash tax rate on underlying profits of 10 per cent, which is 9 per cent lower than the headline rate of corporation tax of 19 per cent. Consistent with prior years, the key reconciling item to the headline rate was allowable tax deductions on capital investment. We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We would expect the average cash tax rate on underlying profits through to the end of the current regulatory period in March 2020 to be around 10-15 per cent. The key risk to sustaining this rate is any unexpected changes in tax legislation or practice and, as necessary, we would actively engage with the relevant authorities in order to manage this risk.

The current tax charge was £24 million in the first half of 2017/18, compared with £7 million in the corresponding period last year. There was a current tax charge of £2 million in the first half of 2017/18, compared with a current tax credit of £14 million in the first half of 2016/17, following agreement of prior years' tax matters; in addition to UK tax, the prior year figure also included the release of a provision in relation to agreed historic overseas tax matters.

In the first half of 2017/18, the group recognised a deferred tax charge of £21 million, compared with a charge of £6 million in the first half of the previous year, the main difference being in relation to the net fair value movements on debt and derivative instruments. In addition, in the first half of 2016/17 the group recognised a deferred tax credit of £57 million relating to the enacted reduction in the headline rate of corporation tax to 17 per cent from 1 April 2020.

The total tax charge for the first half of 2017/18 was £45 million, compared to a total tax credit of £44 million for the first half of last year. For both periods, the total underlying tax effective rate was in line with the headline rate (currently at 19 per cent) and, subject to any legislative or tax practice changes, we would expect this to continue for the medium-term.

Profit after tax

Underlying profit after tax of £160 million was £9 million higher than the first half of last year, principally reflecting the £5 million increase in underlying profit before tax and the reduction in the headline rate of corporation tax to 19 per cent. Reported profit after tax at £197 million was lower than the £203 million in the first half of the previous year, as the £84 million increase in the reported profit before tax was more than offset by the £89 million higher tax charge, largely associated with the enactment of the reduction in corporation tax giving rise to a £57 million deferred tax credit in the first half of last year.

Earnings per share

Underlying earnings per share increased from 22.2 pence to 23.5 pence. This underlying measure is derived from underlying profit after tax. Basic earnings per share decreased from 29.7 pence to 28.9 pence, for the same reasons that caused the reduction in reported profit after tax.

Dividend per share

The Board has proposed an interim dividend of 13.24 pence per ordinary share in respect of the six months ended 30 September 2017. This is an increase of 2.2 per cent compared with the interim dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 2.2 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2017/18 financial year (i.e. the movement in RPI between November 2015 and November 2016).

The interim dividend is expected to be paid on 1 February 2018 to shareholders on the register at the close of business on 22 December 2017. The ex-dividend date is 21 December 2017.

In light of the Financial Reporting Lab's report entitled 'Disclosure of dividends – policy and practice', which provided best practice guidance, we have enhanced our dividend policy disclosure as outlined below.

- ***Dividend policy*** **–** a growth rate target of at least RPI inflation each year through to 2020.

- ***Policy period*** **–** the dividend policy aligns with the five-year regulatory period which runs from 1 April 2015 to 31 March 2020.

- ***Policy approval process*** **–** the dividend policy was considered and approved by the United Utilities Group Board in January 2015, as part of a comprehensive review of the 2015-20 regulatory final determination in the context of a detailed business planning process, with due regard for the group's financial metrics, credit ratings and long-term financial stability, and is reviewed at least annually.

- ***Distributable reserves*** **–** as at 30 September 2017, the company had distributable reserves of £3,172 million. The total external dividends relating to the 2016/17 financial year amounted to £265 million. The company's distributable reserves support almost 12 times this annual dividend.

- ***Financing headroom*** **–** supporting the group's cash flow, United Utilities adopts a funding/liquidity headroom policy of having available resources to cover at least the next 15 months of projected cash outflows on a rolling basis.

- ***Cash flows from subsidiaries*** – the directors consider that the group's principal operating subsidiary, United Utilities Water Limited, has sufficient resources to pay dividends to United Utilities Group PLC for the duration of the current dividend policy period to support the external payment of dividends to shareholders.

- ***Financial stability*** **–** the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which water companies earn a return allowed by the economic regulator, Ofwat. RCV gearing is useful in assessing a company's financial stability in the UK water industry, and is one of the key credit metrics that the credit rating agencies focus on. United Utilities has had a relatively stable RCV gearing level over the last five years, always comfortably within its target range of 55 per cent to 65 per cent, supporting a solid A3 credit rating for UUW with Moody's. RCV gearing at 30 September 2017 was 61 per cent and the movement in net debt is outlined in the cash flow section below.

- ***Dividend sustainability*** **–** in approving the policy, the Board is satisfied that across the current regulatory period the projected dividend is adequately covered by underlying profit after tax. Separately, the executive directors' long-term remuneration plan is directly linked to a measure of sustainable dividends. Whilst specific targets are not disclosed in advance, for commercial sensitivity reasons, there is a major focus on the creation of strong earnings that ensure the sustainability of dividends.

- ***Viability statement*** **–** the dividend policy is underpinned by the group's long-term viability statement (contained within the group's annual report and financial statements). Assurance supporting this statement is provided by the review of: the group's key financial measures; the key credit financial metrics; the group's liquidity position; the contingent liabilities of the group; and the key risks of the group together with the associated mitigating actions.

- ***Annual dividend approval process*** **–** the group places significant emphasis on strong corporate governance, and before declaring interim and proposing final dividends the United Utilities Group Board undertakes a comprehensive assessment of the group's key financial metrics.

- ***Policy sustainability***
  <u>2015-20</u>
  - the policy is considered by the Board to be robust to reasonable changes in assumptions such as inflation, opex, capex and interest rates;
  - extreme economic, regulatory, political or operational events, which could lead to a significant deterioration in the group's financial metrics during the policy period, may present risks to policy sustainability;

  <u>2020-25</u>
  - a dividend policy for the 2020-25 period will be formulated after Ofwat announces the outcome of the regulatory price review (currently expected in December 2019).

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2017 was £412 million, compared with £420 million in the first half of last year. The group's net capital expenditure was £329 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex is based on the capital work that is done in the period, rather than actual cash spent.

Net debt including derivatives at 30 September 2017 was £6,709 million, compared with £6,579 million at 31 March 2017. This increase reflects regulatory capital expenditure, payments of dividends, interest and tax, the inflationary uplift on index-linked debt, and loans to joint ventures, partly offset by operating cash flows.

Fair value of debt

The group's gross borrowings at 30 September 2017 had a carrying value of £7,428 million. The fair value of these borrowings was £8,622 million. This £1,194 million difference principally reflects the significant fall in real interest rates, compared with the rates at the time we raised a portion of the group's index-linked debt.

Debt financing and interest rate management

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 61 per cent at 30 September 2017. This is the same gearing as at 31 March 2017 and remains comfortably within our target range of 55 per cent to 65 per cent.

UUW has long-term credit ratings of A3/A- and United Utilities PLC's (UU PLC) debt securities are rated Baa1/BBB from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) Ratings Services respectively. Both Moody's and S&P have the group's ratings on a stable outlook.

The group has access to the international debt capital markets through its €7 billion euro medium-term note (EMTN) programme. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

Cash and short-term deposits at 30 September 2017 amounted to £88 million. Over 2015-20 we have financing requirements totalling around £2.5 billion to cover refinancing and incremental debt, supporting our five-year investment programme, and we have now raised over £1.8 billion of this requirement.

In April 2016 UUW signed a £250 million index-linked term loan facility with the EIB to support the delivery of UUW's AMP6 investment programme. As at 30 September 2017 £175 million had been drawn down, and the remaining £75 million was drawn down in October 2017. This is an amortising facility with an average loan life of 10 years and a final maturity of 18 years from draw down.

In October 2017 UUW's financing subsidiary, United Utilities Water Finance PLC (UUWF), raised c£104 million of term funding via the issue of EUR 28 million and HKD 830 million private placement notes off our EMTN programme, with 15-year and 10-year maturities respectively.

In response to Ofwat's decision to transition away from RPI inflation linkage, we have also increased the CPI-linkage in our debt portfolio further with an innovative switch, replacing some existing long-dated RPI-linked notes with two long-dated CPI-linked notes. This brings our total CPI-linked debt issuance to £165 million, cementing UU's place as leader in this fledgling market following issuing the first CPI-linked notes by a UK utility last year.

In addition, since March 2017, the group has renewed £50 million of committed bank facilities out to 2022 and extended a further £100 million also out to 2022. The group has headroom to cover its financing needs into 2019.

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 2017, approximately 55 per cent of the group's net debt was in index-linked form, representing around 34 per cent of UUW's RCV, with an average real interest rate of 1.3 per cent. The long-term nature of this funding also provides a good match to the group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 20 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. 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 has fixed interest costs for substantially all of its floating rate exposure over the 2015-20 period, locking in an average annual interest rate of around 3.3 per cent (inclusive of credit spreads).

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 EMTN programme provides further support.

Available headroom at 30 September 2017 was £331 million, consisting of cash and committed funding.

United Utilities 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. United Utilities' cash is held in the form of short-term money market deposits with prime commercial banks.

United Utilities 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 2017, the group had an IAS 19 net pension surplus of £220 million, compared with a net pension surplus of £248 million at 31 March 2017. This £28 million reduction mainly reflects the impact of a decrease in credit spreads over the period. In contrast, the scheme specific funding basis does not suffer from volatility due to inflation and credit spread movements, as it uses a fixed inflation assumption via a blend of the inflation market hedged rate and the inflation funding mechanism, along with a prudent, fixed credit spread assumption. Therefore, the recent inflation and credit spread movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

Further detail on pensions is provided in note 10 ('Retirement benefit surplus') of these condensed consolidated financial statements.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported under International Financial Reporting Standards (IFRSs) as adopted by the European Union in the group's consolidated income statement, which can be found on page 17. As such, they represent non-GAAP measures.

These APMs have been presented in order to provide a more representative view of business performance. The group determines adjusted items in the calculation of its underlying measures against a framework which considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of reoccurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

Adjusted item	Rationale
Flooding incidents	Two significant flooding incidents in the year ended 31 March 2016 caused extensive damage to localised parts of our infrastructure, resulting in significant levels of remedial operating expenditure and a large claim under the group's insurance cover. Management's view is that these were significant and infrequent events and, as such, were not part of the normal course of business.
Non-household retail market reform	The group has incurred significant costs since the year ended March 2015 in preparation for the non-household retail market opening to competition in April 2017. This represents a one-off event and as such, is not considered part of the normal course of business.
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value losses on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro-economic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believe it is useful to adjust for this to provide a more representative view of performance.
Interest on swaps and debt under fair value option	Net fair value losses on debt and derivative instruments includes interest on swaps and debt under fair value option. In adjusting for the former, it is appropriate to add back interest on swaps and debt under fair value option to provide a view of the group's cost~~s~~ of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest (income)/ expense	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believe it is useful to adjust for this to provide a more representative view of performance which is better aligned to the return on capital it earns through revenue.
Capitalised borrowing costs	The accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believe it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
Profit on disposal of business	This relates to the disposal of the group's non-household retail business during the year ended 31 March 2017 which represents a significant one-off event and, as such, is not considered part of the normal course of business.
Deferred tax credit-change in tax rate	The deferred tax impact from changes to the corporation tax rate announced by HMRC represent both significant and volatile impacts which are outside the control of management. Management adjust for this to provide a more representative view of current year performance.
Agreement of prior years' current and deferred tax matters	The agreement of prior years' current and deferred tax matters can be significant, volatile and often related to final settlement with tax authorities of numerous prior year periods. Management adjust for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management adjust for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Operating profit	**Six months ended 30 September 2017**	**Six months ended 30 September 2016**
	£m	**£m**
Operating profit per published results	**341.8**	**303.6**
Flooding incidents in 2015 (net of insurance proceeds recognised)	(0.1)	0.9
Non-household retail market reform	1.0	3.4
Restructuring costs	1.3	4.6
Underlying operating profit	**344.0**	**312.5**

Net finance expense		
	£m	**£m**
Finance expense	(109.8)	(174.6)
Investment income	5.2	6.6
Net finance expense per published results	**(104.6)**	**(168.0)**
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	(34.5)	54.8
Interest on swaps and debt under fair value option	8.8	8.5
Net pension interest income	(3.3)	(4.8)
Capitalised borrowing costs	(21.2)	(15.9)
Underlying net finance expense	**(154.8)**	**(125.4)**

Profit before tax		
	£m	**£m**
Profit on disposal of non-household retail business	**-**	**20.9**
Share of profits of joint ventures	**5.1**	**1.9**
Profit before tax per published results	**242.3**	**158.4**
Adjustments:		
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	(0.1)	0.9
Non-household retail market reform	1.0	3.4
Restructuring costs	1.3	4.6
Profit on disposal of non-household retail business	-	(20.9)
Net fair value losses/(gains) on debt and derivative instruments	(34.5)	54.8
Interest on swaps and debt under fair value option	8.8	8.5
Net pension interest income	(3.3)	(4.8)
Capitalised borrowing costs	(21.2)	(15.9)
Underlying profit before tax	**194.3**	**189.0**

Profit after tax		
	£m	**£m**
Underlying profit before tax	194.3	**189.0**
Reported tax credit/(charge)	(44.9)	44.2
Deferred tax credit – change in tax rate	-	(57.1)
Agreement of prior years' current and deferred tax matters	1.6	(14.3)
Tax in respect of adjustments to underlying profit before tax	9.1	(10.3)
Underlying profit after tax	**160.1**	**151.5**

Earnings per share		
	£m	**£m**
Profit after tax per published results (a)	197.4	202.6
Underlying profit after tax (b)	160.1	151.5
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	28.9p	29.7p
Underlying earnings per share, in pence (b/c)	**23.5p**	**22.2p**

PRINCIPAL RISKS AND UNCERTAINTIES

As a business our strategy is to deliver value by providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In doing so, the group is exposed to a range of internal and external risks of varying types which can impact upon these strategic themes. We therefore maintain a risk management framework to continually identify, assess and manage risks.

All parts of the group use the same risk management framework, ensuring consistency of approach. The framework includes: an embedded governance and reporting process; an assessment and management process which is aligned to ISO 31000: 2009; and a central database, tools and guidance to further support consistency, embedment and continuous improvement.

Leaders within the group's individual business areas and functions are responsible for the assessment and management of risk, including the identification and escalation of new/emerging circumstances, and monitoring and reporting on risk and control effectiveness. All event types (strategic, financial, operational, compliance and hazard) are considered in the context of their potential impact on the delivery of our business objectives. The assessment is based on the likelihood of an event occurring and the financial and reputational impact should the event occur. The assessment takes into account a gross position (without controls or assuming that all controls fail), a current position (benefiting from existing controls), and a targeted position where further mitigation is required to meet objectives or obligations.

The resulting risk profile is reported to the Group Board twice a year. The report focuses on the ten principal risks to ensure that the Group Board review the key risks that "could" threaten the business plan, future performance, solvency and liquidity of the company, and ultimately affect the interest and investment of stakeholders (including shareholders). These principal risks were set out on pages 48-49 of the 2017 United Utilities Group PLC Annual Report and Financial Statements and are: (1) Political and regulatory; (2) Compliance; (3) Water service; (4) Wastewater service; (5) Retail and commercial; (6) Financial; (7) Programme delivery; (8) Resource; (9) Security; and (10) Health, safety and environmental.

In addition to consideration of the potential impact and mitigation of each principal risk, the biannual report to the Group Board highlights individual risks that underpin each one, enabling the Group Board to understand the nature of more specific events in order of exposure (likelihood x impact). From this initial overview, the report illustrates the ten highest ranked risks across the whole profile, the top ten operational risks (both based on likelihood x impact), a further five risks (Group and operational) due to the potential severity of their impact, and risks and issues that fall outside these categories but are included due to their potential reputational impact or new/emerging circumstances.

This approach is in line with the principles of the UK Corporate Governance Code and involves reporting to the Group Board for each full and half year statutory accounting period, allowing the Board to:

- determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- continuously monitor and oversee the management of those risks, and provide challenge to executive management where appropriate;
- express an informed opinion on the long term viability of the company; and
- monitor risk management and internal control systems and review their effectiveness.

Our risk profile currently consists of over 200 event-based risks. By their nature, these will include all combinations of high to low likelihood and high to low impact. Heat maps are typically used in various managerial and group reports, either as a method to collectively evaluate the extent of multiple risks within a certain profile, or to evaluate the effectiveness of mitigation for a single risk relative to the initial gross position.

Key features and developments

Political and regulatory risk remains a key features of the Group's risk profile. This includes increased pressure at the next price review regarding increased efficiency, reduced customer bills and the introduction of competition to various elements of our business, and the potential renationalisation of the industry.

Another key feature is the nature and extent of operational risk and the supply of essential services. This includes the reliable supply of clean safe drinking water, the removal and treatment of wastewater in a manner that does not cause pollution or the flooding of properties, and the customer service provision that adds value to household customers and treats non-household retailers on a level playing field. In addition to the day-to-day operational focus, greater emphasis is being placed on the long term resilience and sustainability of assets.

Associated with the above is the risk posed by the social environment and natural hazards that constantly place greater strain on the system. Population growth and climate change are recognised as the sector's biggest challenges, with significant and permanent implications on the water cycle and the long-term sustainability of the water and wastewater service including: water abstraction; supply and treatment capability; drainage and sewer capacity; and wastewater treatment and discharge efficiency and effectiveness.

Material Litigation

There continue to be two ongoing pieces of material litigation worthy of note, as outlined on page 47 of the 2017 United Utilities Group PLC Annual Report and Financial Statements. However, based on the facts currently known to us and the provisions in our statement of financial position, our directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

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.

This announcement contains inside information, disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016 and for UK Regulatory purposes the person responsible for making the announcement is Simon Gardiner, Company Secretary.

LEI 2138002IEYQAOC88ZJ59
Classification – Half Year Results

Consolidated income statement

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Revenue	**876.0**	853.0	1,704.0
Employee benefits expense (note 3)	**(74.4)**	(78.2)	(151.9)
Other operating costs (note 4)	**(205.2)**	(222.3)	(435.1)
Other income	**1.7**	1.6	4.2
Depreciation and amortisation expense	**(185.3)**	(178.0)	(364.9)
Infrastructure renewals expenditure	**(71.0)**	(72.5)	(150.8)
Total operating expenses	**(534.2)**	(549.4)	(1,098.5)
Operating profit	**341.8**	303.6	605.5
Investment income (note 5)	**5.2**	6.6	13.7
Finance expense (note 6)	**(109.8)**	(174.6)	(202.7)
Investment income and finance expense	**(104.6)**	(168.0)	(189.0)
Profit on disposal of business	**-**	20.9	22.1
Share of profits of joint ventures	**5.1**	1.9	3.8
Profit before tax	**242.3**	158.4	442.4
Current tax charge	**(24.4)**	(6.5)	(31.5)
Deferred tax charge	**(20.5)**	(6.4)	(35.2)
Deferred tax credit – change in tax rate	**-**	57.1	58.2
Tax (note 7)	**(44.9)**	44.2	(8.5)
Profit after tax	**197.4**	202.6	433.9

All of the results shown above relate to continuing operations.

Earnings per share (note 8)			
Basic	**28.9p**	29.7p	63.6p
Diluted	**28.9p**	29.7p	63.5p
Dividend per ordinary share (note 9)	**13.24p**	12.95p	38.87p

Consolidated statement of comprehensive income

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Profit after tax	**197.4**	202.6	433.9
Other comprehensive income			
Remeasurement losses on defined benefit pension schemes (note 10)	**(52.4)**	(83.8)	(76.7)
Tax on items taken directly to equity (note 7)	**9.4**	18.0	17.3
Foreign exchange adjustments	**0.7**	4.1	3.7
Total comprehensive income	**155.1**	140.9	378.2

Consolidated statement of financial position

	30 September 2017 £m	30 September 2016 £m	31 March 2017 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**10,589.0**	10,196.2	10,405.5
Intangible assets	**192.3**	179.8	187.7
Interests in joint ventures	**78.3**	70.2	75.2
Investments	**7.8**	9.1	9.0
Trade and other receivables	**131.6**	51.7	112.3
Retirement benefit surplus (note 10)	**219.8**	214.8	247.5
Derivative financial instruments	**418.3**	937.6	731.0
	11,637.1	11,659.4	11,768.2
Current assets			
Inventories	**19.6**	29.2	22.4
Trade and other receivables	**284.6**	337.2	303.9
Current tax asset	**7.6**	7.8	7.1
Cash and short-term deposits	**87.6**	237.4	247.8
Derivative financial instruments	**331.4**	0.3	76.7
	730.8	611.9	657.9
Total assets	**12,367.9**	12,271.3	12,426.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(611.5)**	(567.3)	(589.3)
Borrowings (note 11)	**(6,778.2)**	(7,014.5)	(7,058.4)
Deferred tax liabilities	**(1,047.3)**	(998.0)	(1,031.5)
Derivative financial instruments	**(111.0)**	(328.3)	(235.5)
	(8,548.0)	(8,908.1)	(8,914.7)
Current liabilities			
Trade and other payables	**(342.0)**	(365.2)	(323.0)
Borrowings (note 11)	**(649.6)**	(302.4)	(326.1)
Provisions	**(22.8)**	(18.6)	(26.5)
Derivative financial instruments	**(7.1)**	(6.7)	(14.2)
	(1,021.5)	(692.9)	(689.8)
Total liabilities	**(9,569.5)**	(9,601.0)	(9,604.5)
Total net assets	**2,798.4**	2,670.3	2,821.6
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Cumulative exchange reserve	**(1.3)**	(1.6)	(2.0)
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**1,967.3**	1,839.5	1,991.2
Shareholders' equity	**2,798.4**	2,670.3	2,821.6

Consolidated statement of changes in equity

Six months ended 30 September 2017

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2017	499.8	2.9	(2.0)	329.7	1,991.2	2,821.6
Profit after tax	-	-	-	-	197.4	197.4
Other comprehensive income						
Remeasurement losses on defined benefit pension schemes (note 10)	-	-	-	-	(52.4)	(52.4)
Tax on items taken directly to equity (note 7)	-	-	-	-	9.4	9.4
Foreign exchange adjustments	-	-	0.7	-	-	0.7
Total comprehensive income	-	-	0.7	-	154.4	155.1
Dividends (note 9)	-	-	-	-	(176.7)	(176.7)
Equity-settled share-based payments	-	-	-	-	1.2	1.2
Exercise of share options - purchase of shares	-	-	-	-	(2.8)	(2.8)
At 30 September 2017	**499.8**	**2.9**	**(1.3)**	**329.7**	**1,967.3**	**2,798.4**

Six months ended 30 September 2016

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2016	499.8	2.9	(5.7)	329.7	1,878.8	2,705.5
Profit after tax	-	-	-	-	202.6	202.6
Other comprehensive income						
Remeasurement losses on defined benefit pension schemes (note 10)	-	-	-	-	(83.8)	(83.8)
Tax on items taken directly to equity (note 7)	-	-	-	-	18.0	18.0
Foreign exchange adjustments	-	-	4.1	-	-	4.1
Total comprehensive income	-	-	4.1	-	136.8	140.9
Dividends (note 9)	-	-	-	-	(174.8)	(174.8)
Equity-settled share-based payments	-	-	-	-	1.1	1.1
Exercise of share options - purchase of shares	-	-	-	-	(2.4)	(2.4)
At 30 September 2016	**499.8**	**2.9**	**(1.6)**	**329.7**	**1,839.5**	**2,670.3**

Year ended 31 March 2017

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2016	499.8	2.9	(5.7)	329.7	1,878.8	2,705.5
Profit after tax	-	-	-	-	433.9	433.9
Other comprehensive income/(expense)						
Remeasurement losses on defined benefit pension schemes (note 10)	-	-	-	-	(76.7)	(76.7)
Tax on items taken directly to equity (note 7)	-	-	-	-	17.3	17.3
Foreign exchange adjustments	-	-	3.7	-	-	3.7
Total comprehensive income	-	-	3.7	-	374.5	378.2
Dividends (note 9)	-	-	-	-	(263.1)	(263.1)
Equity-settled share-based payments	-	-	-	-	3.4	3.4
Exercise of share options - purchase of shares	-	-	-	-	(2.4)	(2.4)
At 31 March 2017	**499.8**	**2.9**	**(2.0)**	**329.7**	**1,991.2**	**2,821.6**

Consolidated statement of cash flows

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Operating activities			
Cash generated from operations (note 14)	**499.4**	517.4	1,018.1
Interest paid	**(71.1)**	(77.5)	(161.0)
Interest received and similar income	**3.5**	1.7	4.9
Tax paid	**(20.2)**	(21.9)	(42.4)
Tax received	**-**	-	1.2
Net cash generated from operating activities	**411.6**	419.7	820.8
Investing activities			
Purchase of property, plant and equipment	**(323.5)**	(315.0)	(672.4)
Purchase of intangible assets	**(15.7)**	(29.8)	(52.4)
Proceeds from sale of property, plant and equipment	**0.2**	0.8	4.1
Grants and contributions received	**10.5**	14.3	29.0
Loans to joint ventures	**(12.6)**	(46.0)	(109.0)
Investment in joint ventures	**-**	(10.0)	(13.5)
Proceeds from disposal of non-household retail business	**6.5**	4.1	3.3
Dividends received from joint ventures	**3.4**	5.4	5.4
Proceeds from investments	**0.6**	0.4	0.9
Net cash used in investing activities	**(330.6)**	(375.8)	(804.6)
Financing activities			
Proceeds from borrowings	**129.1**	505.4	736.2
Repayment of borrowings	**(178.0)**	(341.9)	(448.7)
Dividends paid to equity holders of the company (note 9)	**(176.7)**	(174.8)	(263.1)
Exercise of share options – purchase of shares	**(2.8)**	(2.4)	(2.4)
Net cash (used in)/generated from financing activities	**(228.4)**	(13.7)	22.0
Net (decrease)/increase in cash and cash equivalents	**(147.4)**	30.2	38.2
Cash and cash equivalents at beginning of the period	**220.3**	182.1	182.1
Cash and cash equivalents at end of the period	**72.9**	212.3	220.3

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2017 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 are consistent with those applied in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2017 and are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

No new accounting standards, interpretations or amendments have been adopted during the six months ended 30 September 2017.

As at the date of approval of the condensed financial statements the relevant major accounting standards that were in issue but not yet effective were IFRS 9 *'Financial Instruments'*, IFRS 15 *'Revenue from Contracts with Customers'*, and IFRS 16 *'Leases'*. The directors anticipate that the group will adopt these standards on their effective date. Further detail of the expected impact of adopting these standards can be found in the group's annual report and financial statements for the year ended 31 March 2017. Detailed transition work in relation to each of these new standards remains ongoing.

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 2017.

The comparative figures for the year ended 31 March 2017 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, 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 for a period of at least 12 months from the date of approval of the condensed financial statements, and have therefore assessed that the going concern basis of accounting is appropriate in preparing the condensed financial statements and that there are no material uncertainties to disclose. This conclusion is based upon a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities as well as consideration of the group's capital adequacy, consideration of the primary legal duty of United Utilities Water Limited's economic regulator to ensure that water and wastewater companies can finance their functions, and any material uncertainties. In reaching this conclusion, the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence, and the likely effectiveness of mitigating actions that the directors would consider undertaking.

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 regulatory capital value 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. Employee benefits expense

Included within employee benefits expense were £1.3 million (30 September 2016: £4.6 million, 31 March 2017: £10.1 million) of restructuring costs.

Employee benefits expense is stated net of £nil (30 September 2016: £3.1 million, 31 March 2017: £4.0 million) costs recharged under transitional service agreements at nil margin to Water Plus, a joint venture established between the group and Severn Trent PLC.

4. Other operating costs

	Six months ended 30 September 2017 £m	**Six months ended 30 September 2016 £m**	**Year ended 31 March 2017 £m**
Hired and contracted services	**47.7**	51.0	101.5
Property rates	**42.6**	47.2	91.6
Materials	**33.2**	37.4	67.7
Power	**31.9**	33.2	68.7
Regulatory fees	**14.9**	17.4	28.6
Charge for bad and doubtful receivables	**14.8**	17.7	29.9
Cost of properties disposed	**7.7**	0.1	8.6
Legal and professional expenses	**2.2**	3.6	6.5
Loss on disposal of property, plant and equipment	**2.2**	1.9	3.3
Operating leases payable	**2.0**	2.4	4.4
Third party wholesale charges	**-**	3.0	3.0
Impairment of property, plant and equipment	**-**	-	0.2
Amortisation of deferred grants and contributions	**(3.1)**	(3.1)	(6.7)
Compensation from insurers	**(3.5)**	(7.6)	(12.3)
Other expenses	**12.6**	18.1	40.1
	205.2	222.3	435.1

As a result of two significant flooding incidents caused by Storms Desmond and Eva in December 2015, there were £3.4 million (30 September 2016: £8.5 million, 31 March 2017: £13.8 million) of expenses incurred during the period, comprising £2.2 million (30 September 2016: £7.3 million, 31 March 2017: £11.1 million) of operating costs, £1.2 million (30 September 2016: £0.3 million, 31 March 2017: £2.5 million) of infrastructure renewals expenditure and £nil (30 September 2016: £0.9 million, 31 March 2017: £0.2 million) impairment of property, plant and equipment. Insurance compensation of £3.5 million (30 September 2016: £7.6 million, 31 March 2017: £12.3 million) relating to the flooding incidents has been recognised as part of a final settlement of the insurance claim. The group does not expect there to be any further recovery of the flooding incident costs under its insurance cover in the year ending 31 March 2018, though a small level of additional cost is expected to be incurred in relation to the incidents as further remedial work is undertaken.

In addition, there were £1.0 million (30 September 2016: £3.4 million, 31 March 2017: £5.8 million) of market reform restructuring costs incurred preparing the business for open competition in the non-household retail market.

Total other operating costs are stated net of £0.9 million (30 September 2016: £6.7 million, 31 March 2017: £14.5 million) of costs recharged to Water Plus at nil margin under transitional service agreements.

5. Investment income

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Interest receivable	**1.9**	1.8	3.5
Net pension interest income (note 10)	**3.3**	4.8	10.2
	5.2	6.6	13.7

6. Finance expense

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Interest payable	**144.3**	119.8	227.0
Net fair value (gains)/losses on debt and derivative instruments	**(34.5)**	54.8	(24.3)
	109.8	174.6	202.7

Interest payable is stated net of £21.2 million (30 September 2016: £15.9 million, 31 March 2017: £29.2 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the period. Interest payable includes an £83.0 million (30 September 2016: £45.4 million, 31 March 2017: £80.7 million) non-cash, inflation uplift charge in relation to the group's index-linked debt.

Net fair value (gains)/losses on debt and derivative instruments includes £8.8m income (30 September 2016: £8.5 million, 31 March 2017: £15.4 million) due to net interest on swaps and debt designated at fair value.

7. Tax

The total effective tax rate for the current period was in line with the headline rate of 19 per cent. After adjusting for prior year tax adjustments, non-taxable business disposals, and deferred tax credits for changes in the headline rate of tax, the total effective tax rate for prior periods was similarly in line with the headline rate. The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on capital investment, pension contributions, and unrealised gains and losses on treasury derivatives.

The tax adjustments taken to equity primarily relate to remeasurement movements on the group's defined benefit pension schemes.

8. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after tax by the weighted average number of shares in issue during the period. The weighted average number of shares in issue as at 30 September 2017 for the purpose of the basic earnings per share was 681.9 million (30 September 2016: 681.9 million, 31 March 2017: 681.9 million) and for the diluted earnings per share was 683.0 million (30 September 2016: 682.9 million, 31 March 2017: 683.0 million).

9. Dividends

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Dividends relating to the period comprise:			
Interim dividend	**90.3**	88.3	88.3
Final dividend	**-**	-	176.7
	90.3	88.3	265.0
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	88.3
Final dividend	**176.7**	174.8	174.8
	176.7	174.8	263.1

At March 2017, the proposed final dividend was £176.8 million although the final dividend amount actually paid was £176.7 million. This difference is due to a higher than anticipated number of shares purchased cum-dividend to satisfy the dividend reinvestment plan. Dividends in relation to these shares are waived.

The interim dividends for the six months ended 30 September 2017 and 30 September 2016, and the final dividend for the year ended 31 March 2017, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2017 and 30 September 2016, and the consolidated financial statements at 31 March 2017, because they were approved after the reporting date.

The interim dividend of 13.24 pence per ordinary share (2016: interim dividend of 12.95 pence per ordinary share, final dividend of 25.92 pence per ordinary share) is expected to be paid on 1 February 2018 to shareholders on the register at the close of business on 22 December 2017. The ex-dividend date for the interim dividend is 21 December 2017.

10. Retirement benefit surplus

The main financial assumptions used by the company's actuary to calculate the defined benefit surplus 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 2017 % p.a.	Six months ended 30 September 2016 % p.a.	Year ended 31 March 2017 % p.a.
Discount rate	**2.7**	2.3	2.55
Pensionable salary growth and pension increases	**3.4**	3.3	3.40
Price inflation	**3.4**	3.3	3.40

Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA (30 September 2016: S1NA, 31 March 2017: S2PA) year of birth tables, with scaling factor of 108 per cent for males and 102 per cent for females (30 September 2016: one-year age rating for males in the UUPS only, 31 March 2017: same as 30 September 2016), reflecting actual mortality experience; and CMI 2016 (30 September 2016: CMI 2014, 31 March 2017: CMI 2015) long-term improvement factors, with a long-term annual rate of improvement of 1.75 per cent (30 September 2016 and 31 March 2017: 1.75 per cent).

10. Retirement benefit surplus (continued)

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

	Six months ended 30 September 2017 £m	**Six months ended 30 September 2016 £m**	**Year ended 31 March 2017 £m**
Current service cost	**14.0**	10.2	19.7
Curtailments/settlements	**0.2**	1.7	3.1
Administrative expenses	**1.2**	1.6	2.7
Pension expense charged to operating profit	**15.4**	13.5	25.5
Net pension interest income credited to investment income (note 5)	**(3.3)**	(4.8)	(10.2)
Net pension expense charged before tax	**12.1**	8.7	15.3

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

	Six months ended 30 September 2017 £m	**Six months ended 30 September 2016 £m**	**Year ended 31 March 2017 £m**
At the start of the period	**247.5**	275.2	275.2
Expense recognised in the income statement	**(12.1)**	(8.7)	(15.3)
Contributions paid	**36.8**	32.1	64.3
Remeasurement losses gross of tax	**(52.4)**	(83.8)	(76.7)
At the end of the period	**219.8**	214.8	247.5

The closing surplus at each reporting date is analysed as follows:

	30 September 2017 £m	**30 September 2016 £m**	**31 March 2017 £m**
Present value of defined benefit obligations	**(3,487.9)**	(3,762.0)	(3,615.5)
Fair value of schemes' assets	**3,707.7**	3,976.8	3,863.0
Net retirement benefit surplus	**219.8**	214.8	247.5

In the six month period ended 30 September 2017 the discount rate has increased by 0.15 per cent, which comprises a 0.25 per cent increase in swap yields and a 0.10 per cent decrease in credit spreads over the period. The £52.4 million remeasurement loss has largely resulted from a reduction in credit spreads, offset by a favourable impact from updating mortality assumptions. 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 2017.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuation as at 31 March 2016 for both the group's ESPS and UUPS schemes.

11. Borrowings

New borrowings raised during the six month period ended 30 September 2017 were as follows:

- On 21 July 2017 the group drew down £100.0 million against its £250.0 million term loan facility signed in April 2016 with the European Investment Bank. This floating rate loan is structured on an amortising basis with final repayment in July 2035.

New borrowings raised following the six month period ended 30 September 2017, which have not been recognised in the statement of financial position at that date, were as follows:

- On 2 October 2017 the group drew down the remaining £75.0 million against its existing £250.0 million term facility signed in April 2016 with the European Investment Bank. This floating rate loan is structured on an amortising basis with final repayment in October 2035.
- On 4 October 2017 the group issued HKD 830.0 million fixed interest rate notes due October 2027.
- On 5 October 2017 the group issued £32.0 million CPI index-linked notes due October 2048 and £33.0 million CPI index-linked notes due October 2057. The issue of these notes is connected to the partial close out of £50.0 million RPI index-linked notes due April 2043 with a nominal value of £30.0 million (carrying value £41.3 million) at a fair value of £64.4 million. The purchase of the RPI index-linked notes results in a £23.1 million fair value loss, which has not been recognised in the income statement for the period ended 30 September 2017.
- On 6 October 2017 the group issued EUR 28.0 million fixed interest rate notes due October 2032.

The notes were issued through private placement under the Euro medium-term note programme.

12. Fair values of financial instruments

The fair values of financial instruments are shown in the table below.

	30 September 2017		**30 September 2016**		**31 March 2017**	
	Fair value £m	**Carrying value £m**	**Fair value £m**	**Carrying value £m**	**Fair value £m**	**Carrying value £m**
Available for sale financial assets						
Investments	**7.8**	**7.8**	9.1	9.1	9.0	9.0
Financial assets at fair value through profit or loss						
Derivative financial assets - fair value hedge	**543.1**	**543.1**	694.9	694.9	591.1	591.1
Derivative financial assets - held for trading	**206.6**	**206.6**	243.0	243.0	216.6	216.6
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities - fair value hedge	**(5.7)**	**(5.7)**	-	-	-	-
Derivative financial liabilities - held for trading	**(112.4)**	**(112.4)**	(335.0)	(335.0)	(249.7)	(249.7)
Financial liabilities designated as fair value through profit or loss	**(367.7)**	**(367.7)**	(379.6)	(379.6)	(375.5)	(375.5)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(2,492.1)**	**(2,449.8)**	(2,631.3)	(2,609.9)	(2,544.6)	(2,522.4)
Other financial liabilities at amortised cost	**(5,761.8)**	**(4,610.3)**	(5,567.4)	(4,327.4)	(5,682.8)	(4,486.6)
	(7,982.2)	**(6,788.4)**	(7,966.3)	(6,704.9)	(8,035.9)	(6,817.5)

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair value measurement'* hierarchy of £1,708.1 million (30 September 2016: £2,162.4 million, 31 March 2017: £1,766.1 million) for financial liabilities in fair value hedge relationships and £2,253.7 million (30 September 2016: £1,669.0 million, 31 March 2017: £937.9 million) for other financial liabilities at amortised cost.

12. Fair values of financial instruments (continued)

The £1,257.8 million increase (30 September 2016: £372.0 million increase, 31 March 2017: £755.4 million reduction) in ‘level 1’ fair value liability measurements is largely due to an increase in the number of observable quoted bond prices in active markets at 30 September 2017. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data, which are classified as ‘level 2’ valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2017.

13. Net debt

	Six months ended 30 September 2017 £m	**Six months ended 30 September 2016 £m**	**Year ended 31 March 2017 £m**
At the start of the period	**6,578.7**	6,260.5	6,260.5
Net capital expenditure	**328.5**	329.7	691.7
Dividends (note 9)	**176.7**	174.8	263.1
Interest	**67.6**	75.8	156.1
Loans to joint ventures	**12.6**	46.0	109.0
Inflation uplift on index-linked debt (note 6)	**83.0**	45.4	80.7
Fair value movements	**(52.9)**	34.9	(9.9)
Tax	**20.2**	21.9	41.2
Other	**(6.4)**	5.0	4.4
Cash generated from operations (note 14)	**(499.4)**	(517.4)	(1,018.1)
At the end of the period	**6,708.6**	6,476.6	6,578.7

Net debt comprises borrowings, net of cash and short-term deposits and derivatives.

Fair value movements includes net fair value gains on debt and derivative instruments of £34.5 million (30 September 2016: £54.8 million loss, 31 March 2017: £24.3 million gain) less net payments on swaps and debt designated at fair value of £18.4 million (30 September 2016: £19.9 million net payment, 31 March 2017: £14.4 million net receipt).

During the period the group paid £106.8 million in settlement of certain interest rate swap liabilities (30 September 2016 and 31 March 2017: received £70.0 million on settlement of a cross currency swap asset) as part of an exercise to better align the existing hedging profile with the group’s target hedge ratios and to manage swap counterparty positions to facilitate future treasury activity. This payment is included within ‘Repayment of borrowings’ in the statement of cash flows.

14. Cash generated from operations

	Six months ended 30 September 2017 £m	Six months ended 30 September 2016 £m	Year ended 31 March 2017 £m
Operating profit	**341.8**	303.6	605.5
Adjustments for:			
Depreciation of property, plant and equipment	**172.5**	164.5	336.2
Amortisation of intangible assets	**12.8**	13.5	28.7
Impairment of property, plant and equipment	**-**	-	0.2
Loss on disposal of property, plant and equipment	**2.2**	1.9	3.3
Loss on disposal of intangible assets	**-**	-	0.5
Amortisation of deferred grants and contributions	**(3.1)**	(3.1)	(6.7)
Equity-settled share-based payments charge	**1.2**	1.1	3.4
Other non-cash movements	**(1.6)**	(1.4)	(3.0)
Changes in working capital:			
Decrease in inventories	**2.9**	0.1	6.9
Decrease in trade and other receivables	**3.7**	43.6	71.1
(Decrease)/increase in trade and other payables	**(8.0)**	8.7	(0.6)
(Decrease)/increase in provisions	**(3.6)**	3.5	11.4
Pension contributions paid less pension expense charged to operating profit	**(21.4)**	(18.6)	(38.8)
Cash generated from operations	**499.4**	517.4	1,018.1

15. Commitments and contingent liabilities

At 30 September 2017 there were commitments for future capital expenditure contracted but not provided for of £325.8 million (30 September 2016: £425.8 million, 31 March 2017: £336.9 million).

Details of the group's contingent liabilities were disclosed in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2017. There have been no significant developments relating to contingent liabilities in the period ended 30 September 2017.

16. Related party transactions

The related party trading transactions with the group's joint ventures during the period and amounts outstanding at the period end date were as follows:

	Six months ended 30 September 2017 £m	**Represented* Six months ended 30 September 2016 £m**	**Year ended 31 March 2017 £m**
Sales of services	**264.9**	159.8	404.3
Purchases of goods and services	**0.2**	0.3	0.7
Costs recharged at nil margin under transitional service agreements	**0.9**	9.8	18.5
Interest income and fees recognised on loans to related parties	**1.2**	1.0	2.6
Amounts owed by related parties	**179.9**	111.4	163.5
Amounts owed to related parties	**3.4**	1.8	12.1

* Amounts relating to sales of services and costs recharged at nil margin under transitional service agreements have been represented to provide additional detail in respect of these balances.

Sales of services to related parties during the period mainly represent non-household wholesale charges billed and accrued during the period. These transactions were on the group's normal trading terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

At 30 September 2017 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £179.9 million (30 September 2016: £111.4 million, 31 March 2017: £163.5 million), comprising £51.6 million of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £128.3 million relating to loans. Included within these loans receivable were the following amounts owed by Water Plus:

- £100.0 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2019, bearing a floating interest rate of LIBOR plus a credit margin;
- £9.0 million receivable being the fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027. This is an interest-free shareholder loan with a total amount outstanding at 31 March 2017 of £12.5 million, comprising the £9.0 million receivable held at fair value, and £3.5 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures;
- £3.1 million outstanding on a £19.6 million unsecured amortising loan note held by United Utilities PLC, with a final maturity date of 30 November 2017, bearing a floating interest rate of LIBOR plus a credit margin. Repayments received on this loan note represent part of the proceeds received on disposal of the group's non-household retail business for the year ended 31 March 2017; and
- £12.5 million outstanding on a £20.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2019, bearing a floating interest rate of LIBOR plus a credit margin.

A further £3.7 million (30 September 2016: £2.6 million, 31 March 2017: £3.3 million) of non-current receivables was owed by other related parties at 30 September 2017.

No expense or allowance has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (30 September 2016 and 31 March 2017: £nil).

16. Related party transactions (continued)

During the period, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £42.5 million, of which £24.0 million related to guarantees to United Utilities Water Limited.

At 31 March 2017, amounts owed to joint ventures were £3.4 million (30 September 2016: £1.8 million, 31 March 2017: £12.1 million). The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

17. Events after the reporting period

With the exception of the activity after the reporting date relating to the group's borrowings as documented in note 11, there were no material events arising after the reporting date that required recognition or disclosure in the condensed financial statements for the period ended 30 September 2017.

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
Stephen Carter
Mark Clare
Steve Fraser
Alison Goligher
Russ Houlden
Brian May
Paulette Rowe
Sara Weller

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

………………………..	……………………….
Steve Mogford	Russ Houlden
21 November 2017	21 November 2017
Chief Executive Officer	Chief Financial Officer

INDEPENDENT REVIEW REPORT TO UNITED UTILITIES GROUP PLC

Conclusion

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 2017 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.

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 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 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.

The purpose of our review work and to whom we owe our responsibilities

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 DTR of 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.

William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
St Peter's Square
Manchester
M2 3AE
21 November 2017