United Utilities Group PLC
28 November 2012

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

£m (Continuing operations)	Six months ended 30 September 2012	Six months ended 30 September 2011
Underlying operating profit[1]	315.7	324.2
Underlying profit before taxation[1]	189.7	184.9
Underlying profit after taxation[1]	142.2	135.9
Underlying earnings per share[1,2] (pence)	20.9	19.9
Revenue	822.9	792.7
Operating profit	315.1	322.6
Profit before taxation	135.6	124.4
Profit after taxation	153.9	140.8
Basic earnings per share[2] (pence)	22.6	20.7
Interim dividend per ordinary share (pence)	11.44	10.67

[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 page 13
[2] Earnings per share and underlying earnings per share are explained in the earnings per share section on page 10
[3] Infrastructure renewals expenditure

- Continued progress on customer service: further improvement in Ofwat SIM scores
- Strong operational performance on Ofwat's overall KPIs assessment
- On track to meet regulatory outperformance targets
- Effective delivery of capex programme: up 29% at £354m; expect to invest around £750m in 2012/13
- Underlying operating profit down £8m to £316m, reflecting higher IRE[3] and depreciation
- Underlying profit before tax up £5m to £190m, benefiting from lower underlying net finance expense
- Robust financial position: RCV gearing in the middle of Ofwat's range and pension surplus
- Interim dividend of 11.44 pence per share, in line with policy

Steve Mogford, Chief Executive Officer, said:

"We have continued to deliver a better service to our customers and invest substantially in our network. Our sustained focus on operational performance across a broad front has seen us make a further improvement on Ofwat's service incentive mechanism, building on a marked improvement last year, coupled with a strong performance on Ofwat's overall KPIs assessment. Furthermore, we see plenty of scope to deliver additional improvements for customers.

"We are continuing to invest in our network for the benefit of our customers, the environment and the local economy. Since the start of the regulatory period in 2010, we have invested over £1.6 billion as we have sought to deliver a smoother and more effective investment profile. In the first half of this year, we have invested £354 million and now expect to invest around £750 million for the full year. In addition, we are on track to meet our regulatory leakage target for the seventh consecutive year.

"United Utilities is committed to continued positive engagement to support the progressive evolution of regulation in the water industry and we have submitted proposals to Ofwat in respect of its recent licence modifications consultation. We support the progression of retail competition for business customers and have already assembled a strong team. We have won our first customer out of our region and intend to pursue further opportunities as the market evolves.

"The recent progress we have made reinforces our confidence in delivering our 2010-15 regulatory outperformance targets. Alongside our operational and customer service improvements, we have delivered another good financial performance despite a tough economic environment."

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A presentation to investors and analysts starts at 9.00 am on Wednesday 28 November 2012, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025, access code 925146. A recording of the call will be available for seven days following Wednesday 28 November 2012 on +44 (0) 20 7031 4064, access code 925146.

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

BUSINESS REVIEW

KEY OPERATIONAL PROGRESS

Operational performance and customer service are top priorities for United Utilities (UU) and the company aims to deliver significant improvements in these areas and outperform its regulatory contract. Our strong focus on operational performance since the start of the 2010-15 regulatory period is continuing to deliver a range of improvements, as outlined below:

- **Significant improvements in customer service** – UU achieved the best improvement in the industry on Ofwat's combined service incentive mechanism (SIM) score in 2011/12, moving up five places to 16^{th} position out of the 21 water companies. We are building on this improvement and have improved further in the first half of 2012/13, moving up to joint 13^{th} position on Ofwat's qualitative SIM measure. Customer complaints to the Consumer Council for Water (CCW) have continued to fall with zero complaints warranting investigation by the CCW in the six months to 30 September 2012.

- **Strong operational performance rating** – UU has performed well in Ofwat's "Companies' key performance indicators 2011-12" report. Of the fifteen assessments, UU was rated 'Green' for eleven and 'Amber' on four, with no areas assessed as 'Red' on the traffic light reporting matrix. This balance of ratings would indicate a performance level above average, in respect of the ten water and sewerage companies.

- **Capital delivery** – We continue to drive more effective and efficient delivery of our capital programme. This is reflected in an improvement in our Time: Cost: Quality index (TCQi) score from around 50% 18 months ago to consistently over 80%. UU has now invested over £1.6 billion in the first half of the 2010-15 regulatory period. This represents good progress at the mid-point of the five year period, as management has sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

- **Leakage** – We are on track to meet or outperform our regulatory leakage target for the seventh consecutive year.

- **Regulatory outperformance** – We have set clear targets for the 2010-15 period and remain on track to deliver these targets: £300 million of financing outperformance, which is already secured, at least £50 million of operating expenditure outperformance and we expect to meet Ofwat's capital expenditure allowance. We are on course to deliver cumulative operating expenditure outperformance of at least £30 million by the end of 2012/13.

- **Corporate responsibility** – UU has retained its 'World Class' rating in the Dow Jones Sustainability Index for the fifth consecutive year, attaining its highest ever score. UU also has the highest platinum plus ranking in Business in the Community's Corporate Responsibility Index. In addition, UU has been awarded membership of the FTSE 350 Carbon Disclosure Leadership Index and is the top UK utility company in this index by some distance. UU is one of only four FTSE 100 companies to hold all three awards.

- **Retail competition for business customers** – We are building our capability to help ensure we are in a strong position as the industrial and commercial competitive retail market evolves. We appointed Sue Amies-King from Aviva, in the newly created role of Retail Director in June 2012, and recently recruited Tony McHardy from Business Stream as Sales Director. We have now secured a Scottish water supply licence and last month won our first business customer in Scotland. We are actively pursuing further opportunities and are also developing value-added services for business customers.

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the six months ended 30 September 2012. Revenue was up by £30 million to £823 million, principally as a result of the impact of the regulated price increase for 2012/13 of 5.8% nominal (0.6% real price increase plus 5.2% RPI inflation) partially offset by reduced commercial volumes, alongside lower property sales (associated with the water business).

Infrastructure renewals expenditure was up £12 million, reflecting continued progress on the capital investment programme and the impact of the transfer of private sewers. This spend, alongside an expected increase in depreciation, plus operating expenditure relating to private sewers, resulted in underlying operating profit decreasing by £8 million to £316 million.

Total regulatory capital investment in the half year, including £79 million of infrastructure renewals expenditure, was £354 million, representing an increase of 29% compared with the first half of last year.

Underlying profit before taxation was up 3%, at £190 million. This was as a result of a lower underlying net finance expense, reflecting lower RPI inflation, which more than offset the reduction in underlying operating profit.

Underlying profit after taxation was 5% higher than the first half of last year, at £142 million, reflecting the reduction in the mainstream UK corporation taxation rate. Reported profit after taxation benefited from a £53 million deferred taxation credit, which follows the UK government's changes to reduce the mainstream corporation taxation rate. A similar credit of £50 million was recognised in the first half of 2011/12.

UU has a robust capital structure and gearing (measured as group net debt to regulatory capital value) as at 30 September 2012 was 60%, comfortably within Ofwat's assumed range of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water PLC (UUW) has a long-term credit rating of A3 from Moody's Investors Service with a stable outlook.

The group benefits from headroom to cover its projected financing needs into 2014. This provides good flexibility in terms of when and how further debt finance is raised to help fund the regulated capital expenditure programme. Reflecting this robust financing position, in the first half of 2012/13, UU accelerated approximately £65 million of previously agreed pension deficit repair payments, providing a higher return for the group than could have been achieved through short-term deposits. This completes early all previously agreed pension deficit repair payments covering the 2010-15 regulatory period.

In line with its policy, the board has declared an interim dividend of 11.44 pence per ordinary share.

OUTLOOK

Our sustained focus on operational performance and customer service is delivering results. We have improved further on Ofwat's service incentive mechanism and have delivered a strong operational performance, as measured by Ofwat's overall KPIs assessment. We are encouraged by the progress we have made and believe there is plenty of scope for further improvement. In addition, we are on track to meet our regulatory outperformance targets, with substantial financing outperformance already secured. We have a robust capital structure and intend to continue with our dividend policy of targeting 2% per annum growth above the rate of RPI inflation through to at least 2015. We are committed to continued positive engagement with government and regulators to support the progressive evolution of the water industry, as we aim to achieve the optimal outcome for all our stakeholders.

OPERATIONAL PERFORMANCE

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

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

Best service to customers

We delivered further improvements in our performance on Ofwat's service incentive mechanism (SIM), reflecting our continuing strong focus on dealing with customer enquiries. The number of customer complaints made to the Consumer Council for Water (CCW) in the first half of 2012/13 has reduced by a further 12%, compared with the first half of 2011/12. We are pleased to report that the total number of escalated complaints assessed by the CCW was zero in the six months to 30 September 2012. This is the first time UU has achieved this since the SIM measure was introduced. This has helped UU improve its SIM performance further, as detailed in the KPIs section below. Our strong overall operational performance, as measured by Ofwat's 2011/12 KPIs report, has also contributed to improving customer satisfaction.

UU continues to benefit from a robust water supply and demand balance and reservoir levels are ahead of typical levels for this time of year. In addition, UU continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance remaining well over 99.9%.

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 are optimising water treatment to reduce discoloured water events. To help reduce sewer flooding, the actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. The plan includes an improved approach to risk assessment to identify and reduce the risk profile of the company's wastewater treatment works.

Improving customer service remains a significant area of continued management focus and we see plenty of opportunity to deliver further improvements.

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 wastewater non-infrastructure assets and 'stable' for water infrastructure and water non-infrastructure assets. UU is currently assessed by the regulator as 'marginal' in respect of wastewater infrastructure and the company is implementing an action plan to return this asset class back to a 'stable' rating. The aim is to hold at least a 'stable' rating for all four asset classes, which is aligned with Ofwat's target.

- **Service incentive mechanism (SIM)** – UU made significant progress on Ofwat's combined SIM assessment for 2011/12, moving up five places to 16th of the 21 water companies, compared with 2010/11. This represented the largest overall SIM score improvement in the industry. Further progress has been made in the first six months of 2012/13, with a half year quantitative score of 111 points, representing a further 27% improvement compared with the first half of 2011/12. On the qualitative measure, UU has improved its average 2011/12 score by 0.22 points to 4.40 points for the first six months of the year, moving up three places to joint 13th. Our progress is encouraging, as we aim to move to the first quartile in the medium-term.

Lowest sustainable cost

Our asset optimisation programme continues to progress well, providing the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to improve energy efficiency.

We are continuing to introduce 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.

UU has substantially locked in the cost of its power requirements through to 2014/15, via hedging, securing outperformance. Although power unit costs for 2012/13 onwards have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

We are continuing to enhance our proactive approach to debt collection and are implementing a detailed action plan. The North West faces a particularly tough economic environment, with unemployment having increased at a faster rate than any other UK region in 2011/12 resulting in an adverse impact on ability to pay this year. Despite this, we have again delivered a good performance and sustained bad debts at 2.2% of regulated revenue for the first half of 2012/13, consistent with the 2011/12 full year position.

The group placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further, with UU now benefiting from a small pension surplus. Further details on the group's pension provision are provided in the pensions section on page 12.

The business is strongly focused on delivering its commitments efficiently and on time and has a robust commercial capital delivery framework in place for the 2010-15 period. Regulatory capital investment in the half year, including £79 million of infrastructure renewals expenditure, was £354 million, an increase of 29% compared with the first half of last year. Our Time: Cost: Quality index (TCQi) score has been maintained at over 80% through the first half of the year, consistent with 2011/12, despite the increased activity. The company's long-term goal is to achieve over 90%. Following our good progress in the first half of the year, we expect to deliver around £750 million of capital investment in 2012/13.

The ownership of and responsibility for private sewers was transferred to the wastewater companies in England and Wales from 1 October 2011. In the first half of 2012/13, activity levels and expenditure have been a little below expectations and the mix of work has been weighted more towards capital enhancement rather than opex. As a result, opex in the first half of the year was £3 million and capex was £14 million, of which £6 million was IRE. There is no change to UU's 2011-15 total cost estimate of £160 million at this stage, but we will continue to review these cost estimates based on the levels and type of workload and activity experienced and provide updated forecasts as appropriate.

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. Should average RPI inflation outturn at 3.5% per annum across the five-year period, this would increase financing outperformance to around £400 million, net of the impact of the pensions inflation funding mechanism.
- **Operating expenditure outperformance** – The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. UU delivered cumulative operating expenditure outperformance of over £20 million in the first two years of the regulatory period and is on track to increase this to over £30 million across the first three years.
- **Capital expenditure outperformance** – UU is continuing to deliver significant efficiencies in the area of capital expenditure and expects to meet Ofwat's allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices.

Responsible manner

Sustainability is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors as a strategic consideration in its decision making. This has contributed to UU achieving its highest ever score in the 2011/12 Dow Jones Sustainability Index assessment and retaining its 'World Class' rating for the fifth consecutive year. UU also holds the highest platinum plus ranking in Business in the Community's Corporate Responsibility Index and was recently awarded membership of the FTSE 350 Carbon Disclosure Leadership Index. UU is one of only four FTSE 100 companies to hold all three awards.

UU's strong, year round, operational focus on leakage enabled it to meet its regulatory leakage target for the sixth consecutive year in 2011/12 and the group is performing well in the first half of this year.

Environmental performance is a high priority for UU and we are pleased to report the lowest number of major pollution incidents of the ten water and wastewater companies, per kilometre of pipe for 2011/12, as assessed through Ofwat's published KPIs. Across Ofwat's six 'Environmental Impact' KPIs, UU's performance was above average, with three areas assessed as 'Green', three as 'Amber' and no areas assessed as 'Red', on the traffic light reporting matrix. Recognising that environmental performance is wide-ranging, the company is measuring itself against an Environment Agency (EA) composite measure as detailed in the key performance indicators below.

UU has a detailed carbon and renewable energy plan, which contributes to sustainability through reducing emissions and reducing costs. We are on track to meet our target of a 21% reduction in carbon emissions by 2015 (measured from a 2005/06 baseline). UU has consistently generated around 100 GWh of renewable electricity annually for the past three years, principally from sludge processing.

Construction is well underway on UU's £200 million plant expansion to its existing wastewater treatment works in Liverpool, serving over half a million customers. This project will deliver both environmental benefits and growth in the company's regulatory capital value, as well as contributing to the local economy.

The company's health and safety improvement programme has helped reduce further employee accident frequency rates through the first half of the year. Health and safety will continue to be a significant area of focus for the company, as we strive for continuous improvement.

Key performance indicators:

- **Leakage** – UU met its economic level of leakage rolling target for the sixth consecutive year in 2011/12, with a performance of 453 megalitres per day versus the regulatory target of 464 megalitres per day, and the company is on course to meet its 2012/13 target. The aim is to meet our regulatory leakage target each year.

- **Environmental performance** – The EA is introducing a revised environmental performance measure, which is due to be published shortly. UU's good performance on Ofwat's KPIs, within the 'Environmental Impact' category, should positively impact the EA's overall assessment on this revised measure. UU was positioned seventh out of the ten water and sewerage companies for 2010/11 on the EA's previous composite measure. UU aims to move to the first quartile in the medium-term.

- **Corporate responsibility** – UU has a strong focus on corporate responsibility and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index, achieving our highest ever score in 2011/12. The group aims to retain this 'World Class' rating each year.

POLITICAL AND REGULATORY DEVELOPMENTS

UU is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to regularly engage with the key parties. Retaining investor confidence in the sector is of paramount importance.

Draft Water Bill

The UK Government published a draft Water Bill in July 2012. This proposes the introduction of both retail competition and wholesale, or upstream, competition. The UK Government is considering the responses it has received from various interested parties to the draft Water Bill and the pre-legislative scrutiny period is expected to close by the end of the 2012 calendar year. UU supports the introduction of retail competition for industrial and commercial customers, but has responded to the Efra Select Committee that it has concerns with the upstream proposals. As currently drafted, it is questionable to what extent these proposals are consistent with commitments to protect the existing regulatory capital value (RCV), to secure continued investor confidence needed to support future investment and to allow customers to continue to benefit from low cost RCV funding in the long term.

Licence modifications

Ofwat issued proposals to modify company licences under 'Section 13' of the Water Industry Act on 26 October 2012. UU responded on 23 November 2012 and announced that, after careful consideration, the board of United Utilities Water PLC (UUW) has concluded that it is unable to accept Ofwat's 'Section 13' licence modification proposals because it believes that, in their current form, they are not in the best interests of customers, investors and wider stakeholders. To aid further constructive dialogue, UUW has submitted alternative proposals to Ofwat for its consideration.

UUW's principal concern is that the extent of flexibility in Ofwat's current licence proposals would create unnecessary and prolonged uncertainty for investors, with the potential for this uncertainty to impact customer bills.

UUW is committed to continued positive engagement with Ofwat to support the progressive evolution of regulation in the water industry. The company's proposals include the licence changes necessary to facilitate the forthcoming price review in 2014 and the development of retail competition for business customers. UUW also recognises that additional licence amendments may be required to accommodate specific changes to the regulatory regime in preparation for 2020 and beyond and will actively engage in helping to ensure that the benefits of such developments are fully evaluated and understood.

2014 price review

Ofwat published its statement of principles for the 2014 price review (PR14) in May 2012, followed by retail and wholesale price control consultations. UU has submitted its responses to Ofwat in respect of both of these consultations. On the matter of retail price controls, we believe it is essential that the regulator continues to take account of regional socio-economic conditions, addresses reporting inconsistencies between companies, allows for inflation and makes adjustments to reflect the number of customers who receive only a water or wastewater service. A framework consultation for PR14 is expected to be published by the regulator in December 2012.

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the six month period ended 30 September 2012. Revenue increased by £30 million to £823 million, principally reflecting a 5.8% nominal (0.6% real price increase plus 5.2% RPI inflation) regulated price increase, partially offset by reduced commercial volumes and lower property sales. Commercial volumes continued to be impacted by the tough economic climate, with a large rise in unemployment in the North West during 2011/12. The impact of meter switching and reduced domestic consumption was in line with our expectations, however, this was offset by additional revenue derived from new property connections. We would expect to recover the majority of any regulated revenue shortfall through the regulatory methodology.

Operating profit

Underlying operating profit decreased by 3% to £316 million, primarily as a result of an increase in depreciation alongside higher infrastructure renewals expenditure and other operating costs, both of which are impacted by the transfer of private sewers, largely offset by the increase in revenue. Reported operating profit decreased by 2% to £315 million.

Investment income and finance expense

Investment income and finance expense of £180 million was £19 million lower than the first half of 2011/12, principally reflecting a £13 million fall in the underlying net finance expense and a £7 million decrease in fair value losses on debt and derivative instruments. The £49 million net fair value loss in the period is largely due to losses on the regulatory swap portfolio resulting from a further decrease in sterling interest rates during the period. 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 has continued to benefit from fixing the majority of its remaining debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%.

The underlying net finance expense of £126 million was £13 million lower than the first six months of last year, principally reflecting lower RPI inflation in respect of the group's index-linked debt. The indexation of the principal on index-linked debt amounted to a net charge in the income statement of £43 million, compared with a net charge of £57 million in the corresponding period last year. The group had approximately £2.7 billion of index-linked debt as at 30 September 2012. The lower RPI indexation charge contributed to the group's average underlying interest rate of 5.0% being lower than the rate of 5.8% for the first six months of 2011/12.

Profit before taxation

Underlying profit before taxation was £190 million, £5 million higher than the first half of last year as the £8 million decrease in underlying operating profit was more than offset by the £13 million reduction in underlying finance expense. This underlying measure adjusts for the impact of one-off items, principally from restructuring and reorganisation within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation increased by £11 million to £136 million, primarily as a result of the increase in underlying profit before tax and a decrease in net fair value losses on debt and derivative instruments.

Taxation

The current taxation charge was £33 million in the half year and the current taxation effective rate was 24%, compared with 27% in the corresponding period last year.

The group has recognised a net deferred taxation credit of £51 million in the first half of 2012/13, which primarily relates to a £53 million credit in respect of the change substantively enacted by the UK government on 3 July 2012 to reduce the mainstream rate of corporation taxation from 24% to 23% with effect from 1 April 2013. A net deferred taxation credit of £50 million was also recognised in the first half of 2011/12, reflecting a similar 1% staged reduction in the rate of corporation taxation.

An overall taxation credit of £18 million has been recognised for the six months ended 30 September 2012. Excluding the deferred taxation impact of the future reduction in the corporation taxation rate, the total taxation charge would have been £35 million or 25% compared with a £33 million charge or 27% in the first half of last year. This reduction is principally due to the decrease in the mainstream rate of corporation taxation from 26% for 2011/12 to the current rate of 24%.

The group made cash taxation payments during the half year of £17 million. This was lower than the group's net taxation payment of £29 million in the first half of last year primarily due to the high levels of pension contributions made in 2011/12 which reduced the cash tax paid in the first half of 2012/13.

Profit after taxation

Underlying profit after taxation of £142 million was £6 million higher than the first half of last year, reflecting the increase in underlying profit before taxation and a lower underlying taxation charge. Reported profit after taxation was £154 million compared with £141 million last year.

Earnings per share

Underlying earnings per share increased from 19.9 pence to 20.9 pence. This underlying measure is derived from underlying profit after taxation. This includes the adjustments for the deferred taxation credits in both the first half of 2012/13 and 2011/12, associated with the reductions in the corporation taxation rate. Basic earnings per share increased from 20.7 pence to 22.6 pence.

Dividend per share

The board has declared an interim dividend of 11.44 pence per ordinary share in respect of the six months ended 30 September 2012. This is an increase of 7.2%, compared with the interim dividend relating to the previous year, in line with group's dividend policy of targeting a growth rate of RPI+2% per annum through to at least 2015. The inflationary increase of 5.2% is based on the RPI element included within the allowed regulated price increase for the 2012/13 financial year (i.e. the movement in RPI between November 2010 and November 2011).

The interim dividend is expected to be paid on 1 February 2013 to shareholders on the register at the close of business on 21 December 2012. The ex-dividend date is 19 December 2012.

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2012 was £265 million, compared with £212 million in the first half of last year. This is predominantly due to a reduction in the accelerated pension deficit repair payments between the two six monthly periods. The group's net capital expenditure was £294 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives at 30 September 2012 was £5,323 million, compared with £5,076 million at 31 March 2012. This expected increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and taxation, alongside the accelerated pension deficit repair payment, partly offset by operating cash flows.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value adjusted for actual capital expenditure) marginally increased to 60% at 30 September 2012, compared with 59% at 31 March 2012, and remains comfortably within Ofwat's 55% to 65% assumed gearing range. The group now has a small pensions surplus of £39 million, on an IFRS basis, compared with a deficit of £92 million as at 31 March 2012. Taking account of this small surplus, and treating it as cash, gearing remains at 60%.

At 30 September 2012, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies.

Cash and short-term deposits at 30 September 2012 amounted to £153 million. Between March 2011 and March 2012, the group's financing headroom position was enhanced by drawing down £400 million of index-linked loan facilities with the European Investment Bank. There were no further debt issuances in the first half of 2012/13, although the group also renewed £50 million of existing bank facilities in the period. UU has headroom to cover its projected financing needs into 2014.

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

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings. At 30 September 2012, approximately 51% of the group's net debt was in index-linked form, representing around 31% 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 profile which is approximately 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the 2010-15 regulatory period at around the time of the price review.

Following the 2009 price review, the group re-assessed its interest rate hedging policy with a view to further reducing regulatory risk. To help address the uncertainty as to how Ofwat may approach the setting of the cost of debt allowance at the next price review in 2014, UU revised its interest rate management strategy to extend its fixed interest rate hedge out to a ten year maturity on a reducing balance basis. The intention is that the effective interest rate, on the group's nominal debt, in any given year will, over time, be a ten-year rolling average interest rate. UU believes that this revised interest rate hedging policy, which provides for a longer fixing of interest rates, will put the company in a more flexible position to respond to whatever approach Ofwat adopts to the industry cost of debt in future.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. In addition to its €7 billion euro medium-term note programme, the group has a €2 billion euro-commercial paper programme, both of which do not represent funding commitments.

In line with the board's treasury policy, UU aims to maintain a robust headroom position. Available headroom at 30 September 2012 was £414 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2014.

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

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 2012, the group had an IAS 19 net retirement benefit, or pension, surplus of £39 million, compared with a net pension deficit of £92 million at 31 March 2012. This £131 million positive movement principally reflects payments of £65 million in respect of accelerated, previously agreed, deficit repair contributions, payments under the inflation funding mechanism and the favourable impact of a fall in inflation. This was partly offset by a fall in interest rates, the impact of which was tempered through positive investment returns due to the group's interest rate hedge. Following the accelerated deficit repair contributions paid in the period, the group has now completed all scheduled deficit repair payments through to March 2015.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and prior to the start of the 2010-15 regulatory period amended the terms of its defined benefit pension schemes. UU stated previously that it would continue to evaluate its pensions investment strategy to de-risk further its pension provision and introduced an inflation funding mechanism, which facilitates a move to a lower risk investment strategy. This allowed UU to reduce the allocation of its pension assets to 25% in equities and other high risk assets, down from 48% at 31 March 2010. In addition, UU has adopted the use of more prudent longevity assumptions. Over the last two financial years, the group also progressively increased its interest rate hedge and since 30 September 2012 has extended this further to around 75% of the pension scheme liabilities. Although any additional payments under the inflation funding mechanism would reduce financing outperformance, there would be a positive benefit to the pensions surplus or deficit position.

From an accounting perspective, IAS 19 treats the inflation funding mechanism as a schedule of contributions rather than a pension scheme asset. This means that the liabilities position can change to reflect a change in market expectations of long-term inflation, without a commensurate movement in assets. The change in inflation has decreased the present value of the liabilities during the six months to 30 September 2012. This accounting treatment means that there is likely to be a degree of volatility in future IAS 19 pension valuations.

Further detail is provided in note 7 ("Retirement benefit surplus/(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 taxation from continuing operations are reconciled to underlying operating profit, underlying profit before taxation and underlying profit after taxation (non-GAAP measures) as follows:

Continuing operations

Operating profit	**Six months ended 30 September 2012**	**Six months ended 30 September 2011**
	£m	**£m**
Operating profit per published results	**315.1**	**322.6**
One-off items[1]	0.6	1.6
Underlying operating profit	**315.7**	**324.2**

Net finance expense		
	£m	**£m**
Finance expense	(180.8)	(199.9)
Investment income	1.3	1.7
Net finance expense per published results	**(179.5)**	**(198.2)**
Net fair value losses on debt and derivative instruments	49.4	55.9
Adjustment for interest on swaps and debt under fair value option	3.0	3.8
Adjustment for net pension interest expense	6.5	3.2
Adjustment for capitalised borrowing costs	(5.4)	(4.0)
Underlying net finance expense	**(126.0)**	**(139.3)**

Profit before taxation		
	£m	**£m**
Profit before taxation per published results	**135.6**	**124.4**
One-off items[1]	0.6	1.6
Net fair value losses on debt and derivative instruments	49.4	55.9
Adjustment for interest on swaps and debt under fair value option	3.0	3.8
Adjustment for net pension interest expense	6.5	3.2
Adjustment for capitalised borrowing costs	(5.4)	(4.0)
Underlying profit before taxation	**189.7**	**184.9**

Profit after taxation		
	£m	**£m**
Underlying profit before taxation	**189.7**	**184.9**
Reported taxation	18.3	16.4
Deferred taxation credit – change in taxation rate	(52.8)	(49.7)
Taxation in respect of adjustments to underlying profit before taxation	(13.0)	(15.7)
Underlying profit after taxation	**142.2**	**135.9**

[1] Principally relates to restructuring costs within the business

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk through our corporate risk management framework. As part of this we maintain a process that regularly assesses the nature and magnitude of internal and external risks. Mitigation measures are used in a prioritised manner to reduce exposure and ensure resilience. The executive reviews significant risks so that the board can determine the nature and extent of those risks it is willing to take in achieving our strategic objectives. The audit and risk committee regularly reviews the framework's effectiveness and the group's compliance with it.

The group's anticipated principal risks and uncertainties over the second half of the financial year and beyond remain as stated in its 2012 Annual Report and Financial Statements, with two additions: the recent RPI methodology consultation initiated by the UK Office for National Statistics; and the infraction hearing decision regarding the UK's implementation of the Urban Waste Water Treatment Directive in respect of combined sewer overflows, the details of which are outlined below. The principal risks and uncertainties are set out in full on pages 26-32 of the 2012 Annual Report and Financial Statements, namely (a) government market reform agenda; (b) future price limits – average cost to serve; (c) future price limits – licence modifications; (d) capital investment programmes; (e) service incentive mechanism; (f) serviceability assessment; (g) pension scheme obligations; (h) failure to comply with applicable law or regulations; (i) events, service interruptions, systems failures, water shortages or contamination of water supplies; and (j) material litigation. An update in respect of "(c) price limits – licence modifications" has been provided in the political and regulatory developments section of this half year report.

The UK Office for National Statistics initiated a consultation in October 2012 in respect of the methodology for calculating RPI inflation. The options being considered range from no change to a change which would likely lower the value of RPI, compared with the current methodology, and align the formulae to that of CPI inflation. UU has contributed to the consultation process, which runs through to the end of November 2012. The water industry is awaiting the outcome of this consultation and any subsequent decisions by the UK Government in respect of whether any potential changes are considered to be 'fundamental'. There remains much uncertainty as to the possible outcome and implications. Depending on the outcome, which is expected in early 2013, this may impact growth in the RCV and revenue, alongside implications for operating costs, finance expense and pensions. Any possible changes in RPI are likely to ensue before the next regulatory price review in 2014, providing Ofwat with the opportunity to consider and respond to the potential impact on the water industry.

On 18 October 2012 the European Commission delivered its verdict and found the UK to have failed to implement correctly the Urban Waste Water Treatment Directive for the Whitburn and the London test cases, in respect of combined sewer overflows. The water industry is now awaiting the UK Government's response to this outcome. Should material additional capital expenditure be required, UU would expect this to be reflected in future regulatory price determinations. UU will engage with its regulators and stakeholders as appropriate.

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 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Continuing operations			
Revenue	**822.9**	792.7	1,564.9
Employee benefits expense:			
- excluding restructuring costs	**(69.7)**	(66.0)	(135.4)
- restructuring costs	**(0.6)**	(1.6)	(2.6)
Total employee benefits expense	**(70.3)**	(67.6)	(138.0)
Other operating costs	**(199.8)**	(192.2)	(388.0)
Other income	**1.3**	2.7	4.8
Depreciation and amortisation expense	**(160.2)**	(146.6)	(297.8)
Infrastructure renewals expenditure	**(78.8)**	(66.4)	(154.4)
Total operating expenses	**(507.8)**	(470.1)	(973.4)
Operating profit	**315.1**	322.6	591.5
Investment income	**1.3**	1.7	4.4
Finance expense (note 3)	**(180.8)**	(199.9)	(315.5)
Investment income and finance expense	**(179.5)**	(198.2)	(311.1)
Profit before taxation	**135.6**	124.4	280.4
Current taxation charge	**(32.6)**	(34.0)	(45.5)
Deferred taxation (charge)/credit	**(1.9)**	0.7	(28.1)
Deferred taxation credit – change in taxation rate	**52.8**	49.7	104.6
Taxation (note 4)	**18.3**	16.4	31.0
Profit after taxation from continuing operations	**153.9**	140.8	311.4
Discontinued operations			
Profit after taxation from discontinued operations	**3.0**	0.9	5.1
Profit after taxation	**156.9**	141.7	316.5
Earnings per share			
from continuing and discontinued operations (note 5)			
Basic	**23.0p**	20.8p	46.4p
Diluted	**23.0p**	20.8p	46.4p
Earnings per share			
from continuing operations (note 5)			
Basic	**22.6p**	20.7p	45.7p
Diluted	**22.5p**	20.7p	45.6p
Dividend per ordinary share (note 6)	**11.44p**	10.67p	32.01p

Consolidated statement of comprehensive income

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Profit after taxation	**156.9**	141.7	316.5
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension schemes (note 7)	**62.2**	98.8	(24.3)
Taxation on items taken directly to equity (note 4)	**(15.1)**	(24.7)	4.4
Foreign exchange adjustments	**(1.7)**	(1.1)	(1.9)
Total comprehensive income	**202.3**	214.7	294.7

Consolidated statement of financial position

	30 September 2012 £m	30 September 2011 £m	31 March 2012 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**8,785.4**	8,380.9	8,644.5
Goodwill	**4.7**	5.0	5.0
Other intangible assets	**90.9**	90.5	89.5
Investments	**4.5**	3.4	3.3
Trade and other receivables	**1.2**	4.5	1.1
Retirement benefit surplus (note 7)	**39.3**	27.9	-
Derivative financial instruments	**612.8**	646.4	567.5
	9,538.8	9,158.6	9,310.9
Current assets			
Inventories	**47.7**	46.8	47.4
Trade and other receivables	**360.8**	342.6	301.4
Cash and short-term deposits	**152.5**	325.2	321.2
Derivative financial instruments	**99.7**	3.8	49.9
	660.7	718.4	719.9
Total assets	**10,199.5**	9,877.0	10,030.8
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(397.0)**	(281.9)	(378.0)
Borrowings	**(5,821.2)**	(5,513.2)	(5,728.1)
Retirement benefit obligations (note 7)	**-**	-	(92.0)
Deferred taxation liabilities	**(1,211.5)**	(1,284.8)	(1,245.2)
Provisions	**(2.5)**	(6.8)	(4.0)
Derivative financial instruments	**(207.2)**	(152.6)	(159.7)
	(7,639.4)	(7,239.3)	(7,607.0)
Current liabilities			
Trade and other payables	**(481.2)**	(490.9)	(447.6)
Borrowings	**(158.1)**	(319.9)	(127.1)
Current income taxation liabilities	**(91.5)**	(58.2)	(78.1)
Provisions	**(6.4)**	(12.1)	(6.3)
Derivative financial instruments	**(1.3)**	-	(0.1)
	(738.5)	(881.1)	(659.2)
Total liabilities	**(8,377.9)**	(8,120.4)	(8,266.2)
Total net assets	**1,821.6**	1,756.6	1,764.6
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.3	2.4
Revaluation reserve	**158.8**	158.8	158.8
Cumulative exchange reserve	**(6.7)**	(4.2)	(5.0)
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**837.1**	770.2	778.9
Shareholders' equity	**1,821.6**	1,756.6	1,764.6

Consolidated statement of changes in equity

Six months ended 30 September 2012

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2012	499.8	2.4	158.8	(5.0)	329.7	778.9	1,764.6
Profit after taxation	-	-	-	-	-	156.9	156.9
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 7)	-	-	-	-	-	62.2	62.2
Taxation on items taken directly to equity (note 4)	-	-	-	-	-	(15.1)	(15.1)
Foreign exchange adjustments	-	-	-	(1.7)	-	-	(1.7)
Total comprehensive (expense)/income for the period	-	-	-	(1.7)	-	204.0	202.3
Transactions with owners							
Dividends (note 6)	-	-	-	-	-	(145.5)	(145.5)
New share capital issued	-	0.5	-	-	-	-	0.5
Equity-settled share-based payments	-	-	-	-	-	0.7	0.7
Exercise of share options – purchase of shares	-	-	-	-	-	(1.0)	(1.0)
At 30 September 2012	**499.8**	**2.9**	**158.8**	**(6.7)**	**329.7**	**837.1**	**1,821.6**

Six months ended 30 September 2011

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2011	499.8	1.3	158.8	(3.1)	329.7	691.0	1,677.5
Profit after taxation	-	-	-	-	-	141.7	141.7
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 7)	-	-	-	-	-	98.8	98.8
Taxation on items taken directly to equity (note 4)	-	-	-	-	-	(24.7)	(24.7)
Foreign exchange adjustments	-	-	-	(1.1)	-	-	(1.1)
Total comprehensive (expense)/income for the period	-	-	-	(1.1)	-	215.8	214.7
Transactions with owners							
Dividends (note 6)	-	-	-	-	-	(136.3)	(136.3)
New share capital issued	-	1.0	-	-	-	-	1.0
Equity-settled share-based payments	-	-	-	-	-	0.6	0.6
Exercise of share options – purchase of shares	-	-	-	-	-	(0.9)	(0.9)
At 30 September 2011	**499.8**	**2.3**	**158.8**	**(4.2)**	**329.7**	**770.2**	**1,756.6**

Consolidated statement of changes in equity

Year ended 31 March 2012

	Share capital	Share premium account	Revaluation reserve	Cumulative exchange reserve	Merger reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2011	499.8	1.3	158.8	(3.1)	329.7	691.0	1,677.5
Profit after taxation	-	-	-	-	-	316.5	316.5
Other comprehensive income							
Actuarial losses on defined benefit pension schemes (note 7)	-	-	-	-	-	(24.3)	(24.3)
Taxation on items taken directly to equity (note 4)	-	-	-	-	-	4.4	4.4
Foreign exchange adjustments	-	-	-	(1.9)	-	-	(1.9)
Total comprehensive (expense)/income for the year	-	-	-	(1.9)	-	296.6	294.7
Transactions with owners							
Dividends (note 6)	-	-	-	-	-	(209.0)	(209.0)
New share capital issued	-	1.1	-	-	-	-	1.1
Equity-settled share-based payments	-	-	-	-	-	1.2	1.2
Exercise of share options – purchase of shares	-	-	-	-	-	(0.9)	(0.9)
At 31 March 2012	**499.8**	**2.4**	**158.8**	**(5.0)**	**329.7**	**778.9**	**1,764.6**

Consolidated statement of cash flows

	Six months ended 30 September 2012 £m	*Re-presented** Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Operating activities			
Cash generated from continuing operations	**347.5**	306.5	727.4
Interest paid	**(66.6)**	(67.0)	(167.2)
Interest received and similar income	**1.3**	1.6	4.4
Tax paid	**(17.1)**	(29.0)	(39.8)
Tax received	**-**	-	35.0
Net cash generated from operating activities (continuing operations)	**265.1**	212.1	559.8
Investing activities			
Proceeds from disposal of discontinued operations	**-**	-	3.5
Transaction costs, deferred consideration and cash disposed	**-**	-	2.0
Proceeds from disposal of discontinued operations net of transaction costs, deferred consideration and cash disposed	**-**	-	5.5
Purchase of property, plant and equipment	**(285.4)**	(216.5)	(502.2)
Purchase of other intangible assets	**(14.8)**	(8.1)	(17.3)
Proceeds from sale of property, plant and equipment	**0.7**	0.6	4.8
Grants and contributions received	**5.6**	6.1	13.0
Purchase of investments	**(1.1)**	(1.1)	(2.2)
Net cash used in investing activities (continuing operations)	**(295.0)**	(219.0)	(498.4)
Financing activities			
Proceeds from issue of ordinary shares	**0.5**	1.0	1.1
Proceeds from borrowings	**26.3**	222.2	446.3
Repayment of borrowings	**(31.2)**	(5.8)	(231.7)
Exercise of share options – purchase of shares	**(1.0)**	(0.9)	(0.9)
Dividends paid to equity holders of the company	**(145.5)**	(136.3)	(209.0)
Net cash (used in)/generated from financing activities (continuing operations)	**(150.9)**	80.2	5.8
Effects of exchange rate changes (continuing operations)	**(0.3)**	0.2	0.5
Net (decrease)/increase in cash and cash equivalents	**(181.1)**	73.5	67.7
Cash and cash equivalents at beginning of the period	**312.1**	244.4	244.4
Cash and cash equivalents at end of the period	**131.0**	317.9	312.1

*The comparatives for the six months ended 30 September 2011 have been re-presented to show grants and contributions received of £6.1 million separately within investing activities (previously included within increase in trade and other payables as part of cash generated from operating activities) to be consistent with the presentation adopted at 31 March 2012.

Cash generated from continuing operations

	Six months ended 30 September 2012 £m	*Re-presented** Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Operating profit	**315.1**	322.6	591.5
Adjustments for:			
Depreciation of property, plant and equipment	**148.4**	135.2	278.0
Amortisation of other intangible assets	**11.8**	11.4	19.8
Loss on disposal of property, plant and equipment	**2.2**	1.5	5.5
Loss on disposal of other intangible assets	**2.7**	-	2.6
Amortisation of deferred grants and contributions	**(3.5)**	(3.4)	(6.9)
Equity-settled share-based payments charge	**0.7**	0.6	1.2
Other non-cash movements	**(0.8)**	(0.4)	(0.1)
Changes in working capital:			
(Increase)/decrease in inventories	**(0.3)**	0.8	(0.1)
Increase in trade and other receivables	**(59.8)**	(50.3)	(8.2)
Increase/(decrease) in trade and other payables	**8.0**	20.6	(26.5)
Decrease in provisions and retirement benefit obligations	**(77.0)**	(132.1)	(129.4)
Cash generated from continuing operations	**347.5**	306.5	727.4

*The comparatives for the six months ended 30 September 2011 have been re-presented to show amortisation of deferred grants and contributions separately (previously included within increase in trade and other payables) along with the reclassification of grants and contributions received which were previously included in increase in trade and other payables, now shown separately on the consolidated statement of cash flows within investing activities. This presentation is consistent with that adopted in the March 2012 financial statements.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2012 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The accounting policies, presentation and methods of computation are consistent with those set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2012, which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The adoption of the following amendment to standards that are mandatory for the period commencing 1 April 2012, has not had a material impact on the group's financial statements.

'*Amendments to IFRS 7 Financial Instruments*'
This amendment introduces new disclosure requirements about transfers of financial assets which will impact the group only if it enters into any relevant transactions in the future.

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

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2012.

The comparative figures for the year ended 31 March 2012 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 in 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.

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 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. Finance expense

Continuing operations	**Six months ended 30 September 2012 £m**	**Six months ended 30 September 2011 £m**	**Year ended 31 March 2012 £m**
Interest payable	**(124.9)**	(140.8)	(269.0)
Net fair value losses on debt and derivative instruments	**(49.4)**	(55.9)	(43.2)
	(174.3)	(196.7)	(312.2)
Expected return on pension schemes' assets	**47.7**	48.4	100.5
Interest cost on pension schemes' obligations	**(54.2)**	(51.6)	(103.8)
Net pension interest expense (note 7)	**(6.5)**	(3.2)	(3.3)
	(180.8)	(199.9)	(315.5)

3. Finance expense (continued)

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period and has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable. The underlying net finance expense for the continuing group of £126.0 million (30 September 2011: £139.3 million, 31 March 2012: £267.1 million) is derived as shown in the table below.

Continuing operations	**Six months ended 30 September 2012 £m**	**Six months ended 30 September 2011 £m**	**Year ended 31 March 2012 £m**
Finance expense	**(180.8)**	(199.9)	(315.5)
Net fair value losses on debt and derivative instruments	**49.4**	55.9	43.2
Interest on swaps and debt under fair value option	**3.0**	3.8	7.2
Investment income	**1.3**	1.7	4.4
Adjustment for capitalised borrowing costs	**(5.4)**	(4.0)	(9.7)
Adjustment for net pension interest expense (note 7)	**6.5**	3.2	3.3
Underlying net finance expense	**(126.0)**	(139.3)	(267.1)

4. Taxation

Continuing operations	**Six months ended 30 September 2012 £m**	**Six months ended 30 September 2011 £m**	**Year ended 31 March 2012 £m**
Current taxation			
UK corporation taxation	**31.3**	32.7	60.1
Foreign taxation	**1.3**	1.3	1.3
Adjustments in respect of prior years	**-**	-	(15.9)
	32.6	34.0	45.5
Deferred taxation			
Current period	**1.9**	(0.7)	12.6
Adjustments in respect of prior years	**-**	-	15.5
	1.9	(0.7)	28.1
Change in taxation rate	**(52.8)**	(49.7)	(104.6)
Total deferred taxation credit for the period	**(50.9)**	(50.4)	(76.5)
Total taxation credit for the period	**(18.3)**	(16.4)	(31.0)

The deferred taxation credit for the period ended 30 September 2012 includes a credit of £52.8 million to reflect the change enacted on 3 July 2012 to reduce the mainstream corporation tax rate from 24 per cent to 23 per cent effective from 1 April 2013. A related deferred taxation charge of £0.9 million is included within items taken directly to equity.

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

The deferred taxation credit for the year ended 31 March 2012 includes a credit of £104.6 million to reflect the change enacted on 5 July 2011 to reduce the mainstream rate of corporation tax from 26 per cent to 25 per cent and the subsequent change enacted on 26 March 2012 to reduce the mainstream rate of corporation tax further to 24 per cent effective from 1 April 2012. A related deferred taxation charge of £3.9 million is included within items taken directly to equity.

There will be a further reduction in the mainstream rate of corporation tax to 22 per cent by 1 April 2014. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £50.0 million.

4. 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 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Current taxation			
Relating to other pension movements	**(2.1)**	(17.5)	(33.1)
Deferred taxation			
On actuarial gains/(losses) on defined benefit pension schemes	**14.3**	24.7	(5.8)
Relating to other pension movements	**2.0**	17.5	30.6
Change in taxation rate	**0.9**	-	3.9
	17.2	42.2	28.7
Total taxation on items taken directly to equity	**15.1**	24.7	(4.4)

5. 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 2012	**681.8**	**682.6**
Six months ended 30 September 2011	681.7	682.1
Year ended 31 March 2012	681.8	682.2

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 2012	Six months ended 30 September 2011	Year ended 31 March 2012
From continuing and discontinued operations			
Basic	**23.0p**	20.8p	46.4p
Diluted	**23.0p**	20.8p	46.4p
From continuing operations			
Basic	**22.6p**	20.7p	45.7p
Diluted	**22.5p**	20.7p	45.6p

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Profit after taxation – continuing and discontinued operations	**156.9**	141.7	316.5
Adjustment for profit after taxation from discontinued operations	**(3.0)**	(0.9)	(5.1)
Profit after taxation – continuing operations	**153.9**	140.8	311.4

6. Dividends

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Dividends relating to the period comprise:			
Interim dividend	**78.0**	72.7	72.7
Final dividend	**-**	-	145.5
	78.0	72.7	218.2

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	72.7
Final dividend	**145.5**	136.3	136.3
	145.5	136.3	209.0

The interim dividends for the six months ended 30 September 2012 and 30 September 2011 and the final dividend for the year ended 31 March 2012 have not been included as liabilities in the consolidated financial statements at 30 September 2012, 30 September 2011 and 31 March 2012 respectively.

The interim dividend of 11.44 pence per ordinary share (2012: interim dividend of 10.67 pence per ordinary share; final dividend of 21.34 pence per ordinary share) is expected to be paid on 1 February 2013 to shareholders on the register at the close of business on 21 December 2012. The ex-dividend date for the interim dividend is 19 December 2012.

7. Retirement benefit surplus/(obligations)

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

	Six months ended 30 September 2012 %pa	Six months ended 30 September 2011 %pa	Year ended 31 March 2012 %pa
Discount rate	**4.40**	5.20	5.00
Expected return on assets – UUPS	**4.45**	5.65	4.45
Expected return on assets – ESPS	**5.00**	6.10	5.00
Pensionable salary growth and pension increases	**2.85**	3.10	3.25
Price inflation	**2.85**	3.10	3.25

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

	Six months ended 30 September 2012 £m	Six months ended 30 September 2011 £m	Year ended 31 March 2012 £m
Continuing operations			
Current service cost	**(8.0)**	(6.7)	(13.3)
Curtailments/settlements and past service costs	**-**	(1.6)	(5.4)
Pension expense charged to operating profit	**(8.0)**	(8.3)	(18.7)
Expected return on schemes' assets	**47.7**	48.4	100.5
Interest on schemes' obligations	**(54.2)**	(51.6)	(103.8)
Net pension interest expense charged to finance expense (note 3)	**(6.5)**	(3.2)	(3.3)
Net pension expense charged before taxation	**(14.5)**	(11.5)	(22.0)

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

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

	Six months ended 30 September 2012 £m	**Six months ended 30 September 2011 £m**	**Year ended 31 March 2012 £m**
At the start of the period	**(92.0)**	(195.0)	(195.0)
Expense recognised in the income statement – continuing operations	**(14.5)**	(11.5)	(22.0)
Expense recognised in the income statement – discontinued operations	**-**	(0.4)	(0.4)
Contributions paid	**83.6**	136.0	149.7
Actuarial gains/(losses) gross of taxation	**62.2**	98.8	(24.3)
At the end of the period	**39.3**	27.9	(92.0)

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

	30 September 2012 £m	**30 September 2011 £m**	**31 March 2012 £m**
Present value of defined benefit obligations	**(2,313.3)**	(1,950.7)	(2,205.0)
Fair value of schemes' assets	**2,352.6**	1,978.6	2,113.0
Net retirement benefit surplus/(obligations)	**39.3**	27.9	(92.0)

8. Related party transactions

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

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

	Six months ended 30 September 2012 £m	**Six months ended 30 September 2011 £m**	**Year ended 31 March 2012 £m**
Group			
Sales of services	**0.5**	0.3	1.1
Purchases of goods and services	**0.4**	0.2	0.3

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

	30 September 2012 £m	**30 September 2011 £m**	**31 March 2012 £m**
Group			
Amounts owed by related parties	**1.1**	1.4	1.0

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.0 million (30 September 2011: £5.5 million; 31 March 2012: £5.4 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 2011: £0.1 million; 31 March 2012: £nil).

9. Contingent liabilities

As at 30 September 2012, the group has entered into performance guarantees and has provided letters of credit where a financial limit has been specified of £85.3 million (30 September 2011: £87.4 million; 31 March 2012: £85.2 million).

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

From 1 April 2012 to 30 September 2012 market interest rates have fallen significantly, increasing the fair value of the group's borrowings and derivative assets.

The group's borrowings have a carrying amount of £5,979.3 million (31 March 2012: £5,855.2 million). The fair value of these borrowings is £5,962.2 million (31 March 2012: £5,830.3 million). The group's derivatives measured at fair value are a net asset of £504.0 million (31 March 2012: £457.6 million).

11. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the financial statements for the six months ended 30 September 2012.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU; and
- the interim management report includes a fair review of the information required by:
    - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events during the first six months of the current financial year and their impact on the condensed set of financial statements; and a description of principal risks and uncertainties for the remaining six months of the year; and
    - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

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

Dr John McAdam
Steve Mogford
Russ Houlden
Dr Catherine Bell CB
Paul Heiden
Nick Salmon
Sara Weller
Brian May (appointed 1 September 2012)

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

………………………..	……………………….
Steve Mogford	Russ Houlden
27 November 2012	27 November 2012
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 2012 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

John Luke
for and on behalf of KPMG Audit Plc
Chartered Accountants
St James' Square
Manchester
M2 6DS
27 November 2012