United Utilities Group PLC
27 November 2013

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

Continuing operations	Six months ended	
	30 September 2013	30 September 2012 (Restated*)
Revenue	£853.3m	£822.9m
Underlying operating profit**	£343.2m	£314.7m
Operating profit	£341.7m	£314.1m
Interim dividend per ordinary share (pence)	12.01p	11.44p
Regulatory capital expenditure***	£407m	£354m
RCV gearing****	59%	60%

* In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the prior half year has been restated
** Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables
*** Regulatory capex represents fixed asset additions and infrastructure renewals expenditure using regulatory accounting guidelines; there is no equivalent GAAP measure
**** Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water's RCV adjusted for actual capex (outturn prices)

* **Operational improvement delivering further benefits for customers**
  - continued improvements in customer satisfaction, with further progress on Ofwat's SIM scores
  - strong operational performance on Ofwat's overall KPIs assessment
  - effective delivery of capital investment programme; Time: Cost: Quality index (TCQi) over 90%
  - expect to invest at least £800m in 2013/14
* **Outperformance continues to benefit customers and shareholders**
  - reinvesting c£240m of capex & financing outperformance for customer & environmental benefits
  - revised tax treatment agreed with HMRC; c£75m net cash benefit to be used as follows:
    - c£20m special customer discount; offsetting allowed real price increase for 2014/15
    - c£17m of further support for customers struggling to pay
    - c£38m balance to be used for future sharing with customers
* **Good financial performance**
  - underlying operating profit up £29m to £343m, benefiting from tight cost control
  - interim dividend of 12.01 pence per share, in line with policy
* **Business plan submission proposes below inflation bills for households**
  - reflects extensive customer consultation, coupled with significant cost saving initiatives
  - substantial capex programme to maintain & improve services & meet environmental obligations
  - below inflation average household bills for the ten-year period 2010-20

Steve Mogford, Chief Executive Officer, said:

"Customer satisfaction with our service has continued to improve, underpinned by strong operational and environmental performance, and we remain focused on delivering further improvements. We are on track to invest at least £800 million this year in our network, maintaining and improving services, providing environmental benefits and supporting the local economy.

"We are discounting prices next year so that customers do not pay the full allowed price increase, meaning that, on average, bills will go up by no more than inflation. We are also committing to further support for customers struggling to pay. This is in addition to the previously announced reinvestment of £240 million of outperformance for the benefit of our customers and the environment.

"Our business plan for the next five-year period means that customers would benefit from below inflation average household bills for the decade to 2020. We have sought the views of over 27,000 customers, as well as consulting with our regulators, to deliver a plan which we believe strikes the right balance for all our stakeholders. This includes a substantial capital investment programme to meet our environmental obligations and deliver further customer and economic benefits."

For further information on the day, please contact:

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A presentation to investors and analysts starts at 9.00 am on Wednesday 27 November 2013, 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 938555. A recording of the call will be available for seven days following Wednesday 27 November 2013 on +44 (0) 20 7031 4064, access code 938555.

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

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

* **Significant improvements in customer service** – Since 2010, every year we have continued to improve the customer experience, as demonstrated through Ofwat's customer service measure the service incentive mechanism (SIM). Over the two years to 2012/13, we have moved up from last position to joint fifth, among the ten water and sewerage companies, on Ofwat's combined SIM assessment. In the first half of 2013/14, we continued our progress and have improved our score on Ofwat's qualitative SIM measure, as we narrow the gap further to the leading performers, although recognise that we still have more to do. Following a 40% reduction in written complaints in 2012/13 (best improvement in sector), complaints have continued to fall and we are pleased to again have zero complaints warranting investigation by the Consumer Council for Water in the first half of 2013/14.

* **Strong operational performance** – We performed well again across a broad front, as measured in Ofwat's latest (2012/13) key performance indicators report. The balance of ratings across the fourteen assessments indicates that UU is again an above average performer, in respect of the ten water and sewerage companies. This performance has helped provide benefits for customers, for example in terms of better customer service and very high levels of reliability and availability of water supply and wastewater services, alongside a range of environmental benefits.

* **Effective capital delivery drives customer and environmental benefits** – We continue to drive more effective and efficient delivery of our capital programme. This is reflected in a significant improvement in our Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to over 90% for the first half of 2013/14. We met our water and wastewater asset serviceability standards in 2012/13 and have confidence that our performance in respect of meeting our 2010-15 regulatory commitments will be much improved, compared with the 2005-10 period. We have now invested just over £2.4 billion across the first three and a half years of this regulatory period, as we have sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

* **Leakage target** – We have met or outperformed our regulatory leakage target for seven consecutive years and our aim is to meet the target each year.

* **Regulatory outperformance on track** – We have set clear targets for the 2010-15 period and remain on track or ahead of schedule in delivering these targets. As outlined previously, we expect to reinvest around £240 million of capex and financing outperformance, over 2010-15, for the benefit of our customers and the environment.

* **Corporate responsibility –** We retained a ‘World Class’ rating in the Dow Jones Sustainability Index for the sixth consecutive year. We also have the highest ‘Platinum Big Tick’ ranking in Business in the Community’s Corporate Responsibility Index. We are one of only seven FTSE 100 companies to hold both accolades.

* **Extending our presence in the retail water market for business customers –** We have been building our capability over the last two years to help ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market. After attaining a Scottish water supply licence in 2012 we have already won over 50 customers, covering over 1,500 sites and representing future annual revenue of around £6 million. We are now the second largest water retailer in Scotland. We also have a significant pipeline of opportunities and are continuing to develop our range of value-added services.

FINANCIAL OVERVIEW

The group has delivered another good set of financial results for the six months ended 30 September 2013.

* **Revenue –** up by £30 million to £853 million, principally as a result of the impact of the regulated price increase for 2013/14 of 4.0% nominal (1.0% real price increase, plus 3.0% RPI inflation). This follows on from real price decreases of 4.3% in 2010/11 and 0.2% in 2011/12, with an allowed real price increase of 0.6% in 2012/13.

* **Underlying operating profit –** increased by £29 million to £343 million as the company tightly managed its cost base, keeping total cost increases below 1%.

* **Capex –** total regulatory capital investment in the half year, including £78 million of infrastructure renewals expenditure, was £407 million, representing an increase of 15% compared with the first half of last year, reflecting continued good progress on the capital investment programme.

* **Underlying profit before taxation –** up £27 million, at £216 million, marginally below the increase in underlying operating profit as net finance expense increased slightly, mainly due to higher levels of index-linked debt.

* **Reported profit after taxation –** this benefited from a £159 million deferred taxation credit, which follows the UK Government’s announced staged 3% reduction in the mainstream taxation rate down to 20% by 2015/16. A similar credit of £53 million, reflecting a 1% reduction in the mainstream taxation rate, was recognised in the first half of 2012/13. Reported profit after taxation also benefitted from a current taxation credit of £122 million and a deferred taxation credit of £3 million, both relating to recently agreed matters with Her Majesty’s Revenue and Customs (HMRC) in relation to prior years, covering a period of over ten years in total.

* **Agreement with HMRC –** this agreement principally relates to revised taxation treatment with regard to capital expenditure, particularly in respect of the abolition of industrial buildings allowances in 2008. The total taxation credit to the income statement of £125 million includes deferred taxation and the release of an accounting accrual, which are non-cash items. We expect to receive a cash taxation benefit of around £90 million over the next two years relating to the revised capex taxation treatment, of which a £15 million cost was borne by shareholders in the latter part of the previous regulatory period. We are proposing to share the £75 million net cash benefit with customers. We are proposing a special customer discount of c£20 million to offset the allowed real price increase for 2014/15 and we are committing to further support of £17 million, through additional contributions to our trust fund, for customers who are struggling to pay. We intend to use the balance of c£38 million for future sharing with customers. In addition, we estimate that there will be taxation savings of around £90 million in the 2015-20 period, all of which will flow through to customers.

* **Capital structure –** the group has a robust capital structure and gearing (measured as group net debt to regulatory capital value) as at 30 September 2013 was 59%, 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 with a stable outlook.

* **Financing headroom –** the group benefits from headroom to cover its projected financing needs into 2015, with substantially all term debt due in the 2010-15 period already repaid. This provides good flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and fund the regulated capital investment programme.

* **Dividend –** in line with its policy, the board has declared an interim dividend of 12.01 pence per ordinary share.

PRICE REVIEW 2014 – BUSINESS PLAN

On 2 December 2013, we will submit our business plans, covering the 2015-20 period, to Ofwat. Following a period of extensive consultation with around 27,000 customers and other key stakeholders, we believe our plans strike the right balance for all parties. Supported by customer research and significant cost saving initiatives, we are proposing below inflation average household bills across 2015-20. This would mean that our customers would benefit from below inflation average household bills for the decade to 2020. Our plan will include a substantial capital investment programme to help us meet our environmental obligations, alongside maintaining and improving services for customers.

OUTLOOK

Our sustained focus on operational performance, combined with continued substantial investment in our assets, will deliver further benefits for our customers and the environment. We are encouraged by our progress on Ofwat's service incentive mechanism and our strong operational performance and believe we can improve further. We remain confident of delivering our 2010-15 regulatory outperformance targets, where we are ahead of schedule. We intend to continue with our dividend policy of targeting 2% per annum growth above the rate of RPI inflation through to at least 2015, underpinned by a robust capital structure. We are submitting our 2015-20 business plan to Ofwat, which we believe strikes the right balance for all our stakeholders, and will continue to actively engage with our regulators as we look forward to the draft and final determinations from Ofwat next year.

OPERATIONAL PERFORMANCE

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

Best service to customers

Our continuing strong focus on dealing effectively with customer enquiries has helped us deliver further improvements in our performance on Ofwat's service incentive mechanism (SIM). Following on from a 40% reduction in written complaints in 2012/13 (the biggest improvement in the water sector), complaints have continued to fall in the first half of 2013/14. In addition, the number of customer complaints made to the Consumer Council for Water (CCW) in the first half of 2013/14 has reduced by a further 12%, compared with the first half of 2012/13. We are pleased to report that the total number of escalated complaints assessed by the CCW was again zero in the first half of 2013/14. This has helped us improve our SIM performance further, as detailed in the KPIs section below. This places us in a good position as we aim to avoid a SIM penalty. Our strong overall operational performance, as measured by Ofwat's latest (2012/13) KPIs report, has also contributed to improving customer satisfaction.

Our customers continue to benefit from our robust water supply and demand balance and high levels of water supply reliability. In addition, we continue to supply a high level of water quality, with mean zonal compliance continuing to be over 99.9%.

We have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes, including incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

We have a range of actions to help support the serviceability of our assets. We are improving the robustness of our water treatment processes, refurbishing service reservoir assets, continuing with our comprehensive mains cleaning programme and optimising water treatment to reduce discoloured water events.

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

Key performance indicators:

* **Serviceability** – Long-term stewardship of assets is critical and Ofwat measures this through its serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). We are currently assessed as 'improving' for our wastewater non-infrastructure assets and 'stable' for our water infrastructure, water non-infrastructure and wastewater infrastructure assets. The aim is to continue to hold at least a 'stable' rating for all four asset classes, which aligns with Ofwat's target.
* **Service incentive mechanism (SIM)** – UU continued its progress on Ofwat's combined SIM assessment for 2012/13, moving up a further three places to joint 13th of the 21 water companies, compared with 2011/12. This represents joint fifth position among the ten water and sewerage companies. Progress has continued in the first six months of 2013/14, with a further improvement in the quantitative SIM score, compared with the first half of 2012/13. On the qualitative measure, UU has improved its 2013/14 average score by 0.10 points to 4.53 points which represents an above average score and narrows the gap to the leading performers. From 2013/14, Ofwat assesses SIM out of 19 water companies and UU's qualitative SIM improvement moves it to 10th position. Our continued 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 provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy.

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

We have substantially locked in the cost of our power requirements through to 2015, via hedging, securing outperformance across the 2010-15 period.

We are continuing to enhance our proactive approach to debt collection and are implementing a detailed action plan. We recognise the financial difficulties facing many of our customers and provide a range of options to help those who are struggling to pay their bills and we have helped many customers back onto manageable payment plans. We have again delivered a good performance and have sustained bad debts at 2.2% of regulated revenue for the first half of 2013/14, consistent with the 2012/13 full year position.

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

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 £78 million of infrastructure renewals expenditure, was £407 million and we expect to deliver at least £800 million in 2013/14. We improved our internal Time: Cost: Quality index (TCQi) score from around 50% in 2010/11 to approximately 90% in 2012/13 and have delivered over 90% in the first half of 2013/14. We received a shortfalling revenue penalty of over £80 million at the last price review in 2009 but, with our improved TCQi performance, we aim to avoid, or at least minimise, any revenue penalties at the 2014 price review. We remain on track to deliver the five-year programme within the regulatory allowance of around £3.5 billion (excluding costs associated with private sewers and transitional investment) and we are reinvesting any capex outperformance to deliver further customer benefits.

The transfer of private sewers around two years ago has gone well and is now fully embedded within our 'business as usual' activities. In the first half of 2013/14, private sewers opex was £5 million and capex was £16 million, of which £9 million was IRE. This level of spend is broadly in line with our expectations and there is no change to our 2011-15 total cost estimate of £160 million.

Key performance indicators:

* **Financing outperformance –** UU has secured over £300 million of financing outperformance across the 2010-15 period, when compared with Ofwat's allowed cost of debt of 3.6% real, based on an average RPI inflation rate of 2.5% per annum. As outlined previously, we expect to reinvest around £40 million of our financing outperformance in unfunded private sewers costs.
* **Operating expenditure outperformance** – The business is targeting total operating expenditure outperformance over the 2010-15 period of at least £50 million, or approximately 2%, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. We have now delivered cumulative operating expenditure outperformance of over £50 million in the first three and a half years of the regulatory period and are ahead of schedule.
* **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. As outlined previously, we expect to reinvest around £200 million of capital expenditure outperformance for the benefit of our customers and the environment.

<u>Responsible manner</u>

Acting responsibly is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors in its strategic decision making. Our environmental and sustainability performance across a broad front has received external recognition. UU continues to be rated 'World Class' in the Dow Jones Sustainability Index and has retained the highest ranking, 'Platinum Big Tick', in Business in the Community's Corporate Responsibility Index. UU is one of only seven FTSE 100 companies (and the only water company) to hold both accolades.

Our strong, year round, operational focus on leakage and the implementation of a range of initiatives, such as active pressure management, enabled us to again beat our leakage target for 2012/13. Our aim is meet our leakage target each year.

Environmental performance is a high priority for UU and we are pleased to again deliver a strong performance as assessed through Ofwat's published KPIs for 2012/13. Across Ofwat's five

'Environmental Impact' KPIs, UU's performance was above average, with three areas assessed as 'Green', two as 'Amber' and no areas assessed as 'Red', on the traffic light reporting matrix.

Our £100 million+ project in Preston, which is designed to improve river and bathing quality, is nearing completion. The project involved building a 3.5 kilometre storm water storage tunnel and the construction of shafts to divert storm water flows, which will be retained in the new storage tunnel. It will reduce the number of spills to the River Ribble from combined sewers and should deliver significant improvements to the Fylde Coast bathing waters and the Ribble Estuary.

We are committed to reducing our carbon footprint and increasing our generation of renewable energy. We remain on track to meet our plan target of a 21% reduction in carbon emissions by 2015 (measured from a 2005/06 baseline). We have consistently generated around 100 GWh of renewable electricity annually for the past four years, principally from sludge processing, and expect this to increase with the completion of our £100 million+ recycling and energy plant at our Davyhulme wastewater site in 2014.

We continue to be successful in attracting and retaining people and have continued to expand our apprentice and graduate programmes, having recruited a further 24 graduates and 32 apprentices in 2013/14. We remain firmly focussed on our health and safety improvement programme, as we strive for continuous improvement.

Key performance indicators:

* **Leakage –** UU met its economic level of leakage rolling target for the seventh consecutive year in 2012/13. The aim is to meet our regulatory leakage target each year.

* **Environmental performance** – The Environment Agency's 2012/13 assessment, covering a broad range of operational metrics, 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. For the EA's 2011/12 assessment, based on the balance of 'Green', 'Amber' and 'Red' categories, UU would rank third out of the ten water and sewerage companies. The medium-term goal is to be a first quartile company on a consistent basis.

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

FINANCIAL PERFORMANCE

Revenue

UU has delivered a good set of financial results for the six months ended 30 September 2013. Revenue increased by £30 million to £853 million, principally reflecting a 4.0% nominal (1.0% real price increase plus 3.0% RPI inflation) allowed regulated price increase.

Operating profit

Underlying operating profit increased by 9% to £343 million, primarily as a result of an increase in revenue and benefiting from tight cost control with total operating expenses up £3 million, representing an increase of less than 1%. Reported operating profit increased by 9% to £342 million.

Investment income and finance expense

The underlying net finance expense of £128 million was £2 million higher than the first half of last year, reflecting an increase in index-linked debt. The indexation of the principal on index-linked debt amounted to a net charge in the income statement of £45 million, compared with a net charge of £43 million in the first half of last year. The group had approximately £2.9 billion of index-linked debt as at 30 September 2013. The group's average underlying interest rate of 4.8% was slightly lower than the rate of 5.0% for the corresponding prior year period, mainly reflecting a reduction in cash.

Reported investment income and finance expense of £7 million was significantly lower than the £175 million expense in the first half of 2012/13. This £168 million reduction principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £49 million loss in the first half of last year to a £100 million gain in the first half of 2013/14. The £100 million fair value gain in the half year is largely due to gains on the regulatory swap portfolio, resulting from a significant increase 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 fixed the majority of its non index-linked debt for the 2010-15 financial period, providing a net effective nominal interest rate of approximately 5%.

Profit before taxation

Underlying profit before taxation was £216 million, £27 million higher than the corresponding period last year, due to the £29 million increase in underlying operating profit slightly offset by the £2 million increase in underlying net 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 £196 million to £335 million.

Taxation

The current taxation charge is £49 million in the half year, compared with £33 million in the corresponding period last year. In addition, there was a current taxation credit of £122 million relating to recently agreed matters with HMRC in relation to prior years. We expect this to result in a one-off cash taxation inflow of around £75 million to be received in this or the next financial year.

The group has a deferred taxation charge of £23 million in the first half of 2013/14, compared with a charge of £3 million in the first half of 2012/13. The group has recognised a deferred taxation credit of £159 million in the first half of 2013/14 which relates to the 3% staged reduction in the mainstream rate of corporation taxation, substantively enacted on 2 July 2013, to reduce taxation to 20% by 2015/16. A deferred taxation credit of £53m relating to a similar 1% reduction in the mainstream rate of corporation taxation was included in the first half of 2012/13. The group also recognised a deferred taxation credit of £3 million relating to recently agreed matters in relation to prior years.

An overall taxation credit of £212 million has been recognised for the six months ended 30 September 2013. Excluding the deferred taxation impact of the future reduction in the corporation taxation rate and the adjustments relating to recently agreed matters in relation to prior years, the total taxation charge would have been £72 million or 21% compared with a £35 million charge or 25% in the first half of last year. This reduction in total taxation rate is due to the decrease in the mainstream rate of corporation taxation from 24% for 2012/13 to the current rate of 23%, together with the period-on-period movement in taxation disallowable items.

The group made cash taxation payments during the half year of £27 million. This was higher than the group's net taxation payment of £17 million in the first half of last year, primarily due to the high levels of pension contributions relating to the previous year.

Profit after taxation

Underlying profit after taxation of £168 million was £27 million higher than the first half of last year, principally reflecting the increase in underlying profit before taxation. Reported profit after taxation was

£547 million, compared with £157 million in the first half of last year, impacted by the £149 million improvement in fair value gains on debt and derivative instruments and the £194 million increase in the net taxation credit between the two periods.

Earnings per share

Underlying earnings per share increased from 20.8 pence to 24.7 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 2013/14 and 2012/13, associated with the reductions in the corporation taxation rate and an adjustment for the taxation credit arising from agreement of prior years' taxation matters in the first half of 2013/14. Basic earnings per share increased from 23.0 pence to 80.2 pence.

Dividend per share

The board has declared an interim dividend of 12.01 pence per ordinary share in respect of the six months ended 30 September 2013. This is an increase of 5.0%, compared with the dividend relating to the first half of last year, in line with group's dividend policy of targeting a growth rate of RPI+2% per annum through to at least 2015. The inflationary increase of 3.0% is based on the RPI element included within the allowed regulated price increase for the 2013/14 financial year (i.e. the movement in RPI between November 2011 and November 2012).

The interim dividend is expected to be paid on 3 February 2014 to shareholders on the register at the close of business on 20 December 2013. The ex-dividend date is 18 December 2013.

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2013 was £383 million, compared with £265 million in the first half of last year. This mainly reflected an improvement in working capital cash flows, impacted by the reduction in the total pension contribution payments between the two periods, as well as an increase in operating profit. The group's net capital expenditure was £335 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 (IFRS).

Net debt including derivatives at 30 September 2013 was £5,485 million, compared with £5,451 million at 31 March 2013. This slight increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and taxation, alongside an increase in the principal of our index-linked debt, largely offset by operating cash flows and fair value gains on our debt and derivative instruments.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value adjusted for actual capital expenditure) decreased marginally to 59% at 30 September 2013, compared with 60% at 31 March 2013, remaining comfortably within Ofwat's 55% to 65% assumed gearing range. The group's pension accounting position has moved to a deficit of £184 million at 30 September 2013, on an IFRS basis, compared with a small pension surplus of £15 million as at 31 March 2013. Taking account of the group's pension deficit, and treating it as debt, gearing would be 61%.

At 30 September 2013, UUW 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. Standard & Poor's currently have both the group's ratings on positive outlook, citing improving financial metrics and operational performance.

Cash and short-term deposits at 30 September 2013 amounted to £53 million and, taken together with medium-term committed bank facilities, the group has headroom to cover its projected financing needs into 2015.

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 UUW 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.

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 30 September 2013, approximately 53% 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 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 2009 price review.

Following the 2009 price review, the group reassessed 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 help mitigate the risk of the group being materially misaligned with 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 2013 was £273 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt.

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

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

Pensions

As at 30 September 2013, the group had an IAS 19 net retirement benefit, or pension, deficit of £184 million, compared with a net pension surplus of £15 million at 31 March 2013. This £199 million adverse movement principally reflects the movement of market rates during the period, particularly influenced by the significant reduction in corporate credit spreads. In contrast, the scheme specific funding basis does not suffer from volatility due to credit spread movements as it uses a conservative, fixed credit spread assumption. Therefore, the recent credit spread movements have not had a material impact on the scheme specific funding and the level of deficit repair contributions.

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

Further detail is provided in note 9 ("Retirement benefit (obligations)/surplus") 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		**Restated***
Operating profit	**Six months ended 30 September 2013**	**Six months ended 30 September 2012**
	£m	**£m**
Operating profit per published results	**341.7**	**314.1**
One-off items**	1.5	0.6
	-----	-----
Underlying operating profit	**343.2**	**314.7**
	-----	-----
Net finance expense		
	£m	**£m**
Finance expense	(7.9)	(176.0)
Investment income	1.2	1.3
	-----	-----
Net finance expense per published results	**(6.7)**	**(174.7)**
Net fair value (gains)/losses on debt and derivative instruments	(100.0)	49.4
Adjustment for interest on swaps and debt under fair value option	4.5	3.0
Adjustment for net pension interest (income)/expense	(0.5)	1.7
Adjustment for capitalised borrowing costs	(11.5)	(5.4)
Adjustment for release of tax interest accrual	(13.3)	-
	-----	-----
Underlying net finance expense	**(127.5)**	**(126.0)**
	-----	-----
Profit before taxation		
	£m	**£m**
Profit before taxation per published results	**335.0**	**139.4**
One-off items**	1.5	0.6
Net fair value (gains)/losses on debt and derivative instruments	(100.0)	49.4
Adjustment for interest on swaps and debt under fair value option	4.5	3.0
Adjustment for net pension interest (income)/expense	(0.5)	1.7
Adjustment for capitalised borrowing costs	(11.5)	(5.4)
Adjustment for release of tax interest accrual	(13.3)	-
	-----	-----
Underlying profit before taxation	**215.7**	**188.7**
	-----	-----

Profit after taxation

	£m	£m
Underlying profit before taxation	**215.7**	**188.7**
Reported taxation	211.8	17.4
Deferred taxation credit – change in taxation rate	(158.6)	(52.8)
Agreement of prior years' UK taxation matters	(125.0)	-
Taxation in respect of adjustments to underlying profit before taxation	24.4	(11.8)
	-----	-----
Underlying profit after taxation	**168.3**	**141.5**
	-----	-----

Earnings per share

	£m	£m
Profit after taxation per published results (a)	546.8	156.8
Underlying profit after taxation (b)	168.3	141.5
Weighted average number of shares in issue, in millions (c)	681.9m	681.8m
Earnings per share per published results, in pence (a/c)	80.2p	23.0p
Underlying earnings per share, in pence (b/c)	**24.7p**	**20.8p**

* In accordance with the revised accounting standard IAS 19 'Employee benefits' which applies retrospectively, the first half of 2012/13 has been restated
** Principally relates to restructuring costs within the business

PRINCIPAL RISKS AND UNCERTAINTIES

We manage risk through line management supported by our corporate risk management framework which aims for continuous improvement. With an overarching mandate from and commitment by the group board, the framework consists of four key areas: governance; approach; guidance; and process.

The application of our framework involves regular review of internal and external risk environments, the assessment of factors that will limit or prevent the achievement of the group's objectives and the prioritised implementation of controls and mitigation to manage the exposure and build resilience.

The audit committee regularly reviews the framework's effectiveness and our compliance with it. There is also twice yearly formal reporting of the most significant risks and profile summary to the executive and the group board. These activities facilitate the determination of the nature and extent of those risks we are willing to take in pursuing our objectives and accord with good corporate governance practice.

The group's anticipated principal risks and uncertainties over the second half of the financial year and beyond remain as stated in its 2013 Annual Report and Financial Statements, with the additional development of elevated political and public focus in relation to the cost of utility bills to household customers as explained in the paragraph below. The principal risks and uncertainties were set out in full on pages 32-37 of the 2013 Annual Report and Financial Statements, namely (a) government market reform agenda; (b) future price limits and the price control review 2014; (c) failure to comply with applicable law or regulations; (d) material litigation; (e) pension deficit risk; (f) counterparty risk; (g) customer service risk; (h) bad debt risk; (i) operational service risk; (j) capital delivery risk; (k) secure supply of safe clean drinking water risk; and (l) significant and catastrophic events.

There is currently an elevated political and public focus on the cost to households of bills, especially in relation to certain utilities including the regulated water industry. The Secretary of State for Environment, Food and Rural Affairs has recently written to industry CEOs supporting the work being done by Ofwat and the industry to ensure a fair deal for customers and stressing the need to keep bills for customers as low as possible, while ensuring that low-cost investment in the sector continues. It is unclear whether the broader political and public focus on utilities will ultimately impact Government policy, legislation or regulatory outcomes affecting the sector.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Consolidated income statement

	Six months ended 30 September 2013 £m	Restated* Six months ended 30 September 2012 £m	Restated* Year ended 31 March 2013 £m
Continuing operations			
Revenue	**853.3**	822.9	1,636.0
Employee benefits expense:			
- excluding restructuring costs	**(65.9)**	(70.7)	(130.4)
- restructuring costs	**(1.5)**	(0.6)	(2.6)
Total employee benefits expense	**(67.4)**	(71.3)	(133.0)
Other operating costs	**(204.4)**	(199.8)	(414.1)
Other income	**1.5**	1.3	3.1
Depreciation and amortisation expense	**(163.3)**	(160.2)	(329.2)
Infrastructure renewals expenditure	**(78.0)**	(78.8)	(161.2)
Total operating expenses	**(511.6)**	(508.8)	(1,034.4)
Operating profit	**341.7**	314.1	601.6
Investment income (note 3)	**1.2**	1.3	2.3
Finance expense (note 4)	**(7.9)**	(176.0)	(292.1)
Investment income and finance expense	**(6.7)**	(174.7)	(289.8)
Profit before taxation	**335.0**	139.4	311.8
Current taxation charge	**(48.7)**	(32.6)	(80.7)
Current taxation credit - prior years' adjustments	**122.0**	-	6.5
Deferred taxation (charge)/credit	**(23.1)**	(2.8)	3.0
Deferred taxation credit/(charge) - prior years' adjustments	**3.0**	-	(5.8)
Deferred taxation credit - change in taxation rate	**158.6**	52.8	53.0
Taxation (note 5)	**211.8**	17.4	(24.0)

	-----	-----	-----
Profit after taxation from continuing operations	**546.8**	156.8	287.8
Discontinued operations			
Profit after taxation from discontinued operations (note 6)	**0.5**	3.0	14.6
	-----	-----	-----
Profit after taxation	**547.3**	159.8	302.4
	-----	-----	-----
Earnings per share			
from continuing and discontinued operations (note 7)			
Basic	**80.3p**	23.4p	44.3p
Diluted	**80.1p**	23.4p	44.3p
Earnings per share			
from continuing operations (note 7)			
Basic	**80.2p**	23.0p	42.2p
Diluted	**80.1p**	23.0p	42.2p
Dividend per ordinary share (note 8)	**12.01p**	11.44p	34.32p

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See note 1 for details.

Consolidated statement of comprehensive income

	Six months ended 30 September 2013 £m	**Restated* Six months ended 30 September 2012 £m**	**Restated* Year ended 31 March 2013 £m**
Profit after taxation	**547.3**	159.8	302.4
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes (note 9)	**(207.5)**	58.4	35.0
Taxation on items taken directly to equity (note 5)	**42.1**	(14.2)	(8.4)
Foreign exchange adjustments	**(0.6)**	(1.7)	0.6
	-----	-----	-----
Total comprehensive income	**381.3**	202.3	329.6
	-----	-----	-----

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See note 1 for details.

Consolidated statement of financial position

	30 September 2013 £m	**30 September 2012 £m**	**31 March 2013 £m**
ASSETS			
Non-current assets			
Property, plant and equipment	**9,176.0**	8,785.4	8,990.7
Goodwill	**4.9**	4.7	5.0
Other intangible assets	**110.9**	90.9	99.9
Investments	**6.7**	4.5	5.7
Trade and other receivables	**1.1**	1.2	2.2

Retirement benefit surplus (note 9)	**-**	39.3	15.1
Derivative financial instruments	**525.7**	612.8	659.2
	-----	-----	-----
	9,825.3	9,538.8	9,777.8
	-----	-----	-----
Current assets			
Inventories	**42.1**	47.7	39.6
Trade and other receivables	**358.8**	360.8	326.9
Current income taxation assets	**30.2**	-	-
Cash and short-term deposits	**53.0**	152.5	201.7
Derivative financial instruments	**54.5**	99.7	62.0
	-----	-----	-----
	538.6	660.7	630.2
	-----	-----	-----
Total assets	**10,363.9**	10,199.5	10,408.0
	-----	-----	-----
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(434.0)**	(397.0)	(419.8)
Borrowings	**(5,861.3)**	(5,821.2)	(6,007.4)
Retirement benefit obligations (note 9)	**(183.9)**	-	-
Deferred taxation liabilities	**(1,040.3)**	(1,211.5)	(1,219.0)
Provisions	**(3.4)**	(2.5)	(3.4)
Derivative financial instruments	**(125.0)**	(207.2)	(196.2)
	-----	-----	-----
	(7,647.9)	(7,639.4)	(7,845.8)
	-----	-----	-----
Current liabilities			
Trade and other payables	**(482.5)**	(481.2)	(440.1)
Borrowings	**(129.9)**	(158.1)	(166.1)
Current income taxation liabilities	**-**	(91.5)	(71.5)
Provisions	**(3.5)**	(6.4)	(8.8)
Derivative financial instruments	**(1.5)**	(1.3)	(3.8)
	-----	-----	-----
	(617.4)	(738.5)	(690.3)
	-----	-----	-----
Total liabilities	**(8,265.3)**	(8,377.9)	(8,536.1)
	-----	-----	-----
Total net assets	**2,098.6**	1,821.6	1,871.9
	-----	-----	-----
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Revaluation reserve	**158.8**	158.8	158.8
Cumulative exchange reserve	**(5.0)**	(6.7)	(4.4)
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**1,112.4**	837.1	885.1
	-----	-----	-----
Shareholders' equity	**2,098.6**	1,821.6	1,871.9
	-----	-----	-----

Consolidated statement of changes in equity

Six months ended 30 September 2013

	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 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	-	-	-	-	-	547.3	547.3
Other comprehensive income							
Actuarial losses on defined benefit pension schemes (note 9)	-	-	-	-	-	(207.5)	(207.5)
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	42.1	42.1
Foreign exchange adjustments	-	-	-	(0.6)	-	-	(0.6)
	-----	-----	-----	-----	-----	-----	-----
Total comprehensive (expense)/income	-	-	-	(0.6)	-	381.9	381.3
	-----	-----	-----	-----	-----	-----	-----
Transactions with owners							
Dividends (note 8)	-	-	-	-	-	(156.0)	(156.0)
Equity-settled share-based payments	-	-	-	-	-	2.2	2.2
Exercise of share options – purchase of shares	-	-	-	-	-	(0.8)	(0.8)
	-----	-----	-----	-----	-----	-----	-----
At 30 September 2013	**499.8**	**2.9**	**158.8**	**(5.0)**	**329.7**	**1,112.4**	**2,098.6**
	-----	-----	-----	-----	-----	-----	-----

Six months ended 30 September 2012 (Restated*)

	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	-	-	-	-	-	159.8	159.8
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 9)	-	-	-	-	-	58.4	58.4
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	(14.2)	(14.2)
Foreign exchange adjustments	-	-	-	(1.7)	-	-	(1.7)
	-----	-----	-----	-----	-----	-----	-----
Total comprehensive (expense)/income	-	-	-	(1.7)	-	204.0	202.3
	-----	-----	-----	-----	-----	-----	-----
Transactions with owners							
Dividends (note 8)	-	-	-	-	-	(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**
	-----	-----	-----	-----	-----	-----	-----

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See note 1 for details.

Consolidated statement of changes in equity

Year ended 31 March 2013 (Restated*)

	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	-	-	-	-	-	302.4	302.4
Other comprehensive income							
Actuarial gains on defined benefit pension schemes (note 9)	-	-	-	-	-	35.0	35.0
Taxation on items taken directly to equity (note 5)	-	-	-	-	-	(8.4)	(8.4)
Foreign exchange adjustments	-	-	-	0.6	-	-	0.6
	-----	-----	-----	-----	-----	-----	-----
Total comprehensive income	-	-	-	0.6	-	329.0	329.6
	-----	-----	-----	-----	-----	-----	-----
Transactions with owners							
Dividends (note 8)	-	-	-	-	-	(223.5)	(223.5)
New share capital issued	-	0.5	-	-	-	-	0.5
Equity-settled share-based payments	-	-	-	-	-	1.7	1.7
Exercise of share options – purchase of shares	-	-	-	-	-	(1.0)	(1.0)
	-----	-----	-----	-----	-----	-----	-----
At 31 March 2013	**499.8**	**2.9**	**158.8**	**(4.4)**	**329.7**	**885.1**	**1,871.9**
	-----	-----	-----	-----	-----	-----	-----

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See note 1 for details.

Consolidated statement of cash flows

	Six months ended 30 September 2013 £m	**Six months ended 30 September 2012 £m**	**Year ended 31 March 2013 £m**
Operating activities			
Cash generated from continuing operations	**476.7**	347.5	852.2
Interest paid	**(67.8)**	(66.6)	(168.3)
Interest received and similar income	**0.7**	1.3	2.4
Tax paid	**(26.5)**	(17.1)	(55.2)
	-----	-----	-----
Net cash generated from operating activities (continuing operations)	**383.1**	265.1	631.1
	-----	-----	-----
Net cash used in operating activities (discontinued operations)	**(0.8)**	-	(1.4)
	-----	-----	-----
Investing activities			
Purchase of property, plant and equipment	**(321.4)**	(285.4)	(625.6)
Purchase of other intangible assets	**(21.7)**	(14.8)	(35.3)
Proceeds from sale of property, plant and equipment	**1.4**	0.7	2.9
Grants and contributions received	**6.5**	5.6	16.3
Purchase of investments	**(1.4)**	(1.1)	(3.0)
Proceeds from sale of investments	**-**	-	0.9
	-----	-----	-----
Net cash used in investing activities (continuing operations)	**(336.6)**	(295.0)	(643.8)
	-----	-----	-----

Financing activities			
Proceeds from issue of ordinary shares	**-**	0.5	0.5
Proceeds from borrowings	**45.4**	26.3	147.9
Repayment of borrowings	**(67.6)**	(31.2)	(39.4)
Exercise of share options – purchase of shares	**(0.8)**	(1.0)	(1.0)
Dividends paid to equity holders of the company	**(156.0)**	(145.5)	(223.5)
	-----	-----	-----
Net cash used in financing activities (continuing operations)	**(179.0)**	(150.9)	(115.5)
	-----	-----	-----
Effects of exchange rate changes (continuing operations)	**(0.1)**	(0.3)	-
	-----	-----	-----
Net decrease in cash and cash equivalents (continuing operations)	**(132.6)**	(181.1)	(128.2)
	-----	-----	-----
Net decrease in cash and cash equivalents (discontinued operations)	**(0.8)**	-	(1.4)
	-----	-----	-----
Cash and cash equivalents at beginning of the period	**182.5**	312.1	312.1
	-----	-----	-----
Cash and cash equivalents at end of the period	**49.1**	131.0	182.5
	-----	-----	-----

Cash generated from continuing operations

	Six months ended 30 September 2013 £m	Restated* Six months ended 30 September 2012 £m	Restated* Year ended 31 March 2013 £m
Operating profit	**341.7**	314.1	601.6
Adjustments for:			
Depreciation of property, plant and equipment	**151.8**	148.4	305.9
Amortisation of other intangible assets	**11.5**	11.8	23.3
Loss on disposal of property, plant and equipment	**1.8**	2.2	6.6
Loss on disposal of other intangible assets	**-**	2.7	3.2
Amortisation of deferred grants and contributions	**(3.5)**	(3.5)	(7.1)
Equity-settled share-based payments charge	**2.2**	0.7	1.7
Other non-cash movements	**(1.0)**	(0.8)	(1.9)
Changes in working capital:			
(Increase)/decrease in inventories	**(2.4)**	(0.3)	7.8
Increase in trade and other receivables	**(30.7)**	(59.8)	(26.5)
Increase in trade and other payables	**18.6**	8.0	9.3
(Decrease)/increase in provisions	**(5.3)**	(1.4)	1.9
Pension contributions paid less pension expense charged to operating profit	**(8.0)**	(74.6)	(73.6)
	-----	-----	-----
Cash generated from continuing operations	**476.7**	347.5	852.2
	-----	-----	-----

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See note 1 for details.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2013 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 2013, with the exception of the adoptions detailed below, and are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The adoption of the following standards and interpretations, at 1 April 2013, has had no material impact on the group’s financial statements.

IAS 19 (Revised) ‘Employee Benefits’
The impact of the changes in this standard is to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit (obligations)/surplus. In addition, the standard clarifies that administration costs relating to the administration of benefits should be recognised as an employee benefits expense through the income statement, rather than as a deduction from the return on plan assets which was previously recognised through other comprehensive income. The standard’s application is retrospective and hence requires the restatement of the comparative periods ended 30 September 2012 and 31 March 2013.

The impact in the period to 30 September 2013 has been an increase in employee benefit expense of £1.2 million (30 September 2012: £1.0 million, 31 March 2013: £2.9 million), a decrease in finance expense of £nil million (30 September 2012: £4.8 million, 31 March 2013: £10.0 million) and an offsetting gain to actuarial gains and losses within other comprehensive income of £1.2 million (30 September 2012: £3.8 million loss, 31 March 2013: £7.1 million loss). These amendments have had no overall impact on the retirement benefit (obligations)/surplus in the statement of financial position.

The impact on taxation in the period to 30 September 2013 has been a deferred taxation credit of £0.2 million (30 September 2012: £0.9 million charge, 31 March 2013: £1.6 million charge) and an offsetting charge to actuarial gains and losses within other comprehensive income of £0.2 million (30 September 2012: £0.9 million credit, 31 March 2013: £1.6 million credit).

IFRS 13 ‘Fair Value Measurement’
The standard provides guidance on the measurement of fair value where required by existing accounting standards. The standard’s application is prospective in line with the transitional provisions of the standard. The impact on the period to 30 September 2013 has been a £0.3 million credit to finance expense and a corresponding reduction in non-current derivative liabilities, due to the inclusion of the group’s own credit risk in measuring the fair value of its liabilities.

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 2013.

The comparative figures for the year ended 31 March 2013 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 as well as consideration of the group's capital adequacy. In addition, the directors also considered the primary legal duty of United Utilities Water PLC's economic regulator, to ensure that the companies can finance their functions.

2. Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit, operating profit, assets and liabilities, regulatory capital expenditure and RCV gearing at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

3. Investment income

	Six months ended 30 September 2013 £m	**Six months ended 30 September 2012 £m**	**Year ended 31 March 2013 £m**
Continuing operations			
Interest receivable	**0.7**	1.3	2.3
Net pension interest income (note 9)	**0.5**	-	-
	-----	-----	-----
	1.2	1.3	2.3
	-----	-----	-----

4. Finance expense

	Six months ended 30 September 2013 £m	**Restated Six months ended 30 September 2012 £m**	**Restated Year ended 31 March 2013 £m**
Continuing operations			
Interest payable	**(107.9)**	(124.9)	(249.1)
Net fair value gains/(losses) on debt and derivative instruments	**100.0**	(49.4)	(41.5)
	-----	-----	-----
	(7.9)	(174.3)	(290.6)
Net pension interest expense (note 9)	**-**	(1.7)	(1.5)
	-----	-----	-----
	(7.9)	(176.0)	(292.1)
	-----	-----	-----

The group has fixed interest costs for a substantial proportion of the group's net debt for the duration of the regulatory pricing period. Following the revision to its interest rate management strategy in the year ended 31 March 2012, the group has continued to extend the fixing of interest rates out to a ten year maturity on a reducing balance basis, seeking to lock in a 10-year rolling average of 10-year interest rates, on the group's nominal liabilities. In addition, the group has hedged currency exposures for the term of each relevant debt instrument. The group has hedged its position through the use of interest rate and cross currency swap contracts where applicable.

The underlying net finance expense for the continuing group of £127.5 million (30 September 2012: £126.0 million, 31 March 2013: £252.8 million) is derived as shown in the table below.

	Six months ended 30 September 2013 £m	**Restated Six months ended 30 September 2012 £m**	**Restated Year ended 31 March 2013 £m**
Continuing operations			
Finance expense	**(7.9)**	(176.0)	(292.1)
Investment income	**1.2**	1.3	2.3

Net fair value (gains)/losses on debt and derivative instruments	**(100.0)**	49.4	41.5
Interest on swaps and debt under fair value option	**4.5**	3.0	8.3
Adjustment for net pension interest (income)/ expense (note 9)	**(0.5)**	1.7	1.5
Adjustment for capitalised borrowing costs	**(11.5)**	(5.4)	(14.3)
Adjustment for release of tax interest accrual	**(13.3)**	-	-
	-----	-----	-----
Underlying net finance expense	**(127.5)**	(126.0)	(252.8)
	-----	-----	-----

5. Taxation

Continuing operations	**Six months ended 30 September 2013 £m**	**Restated Six months ended 30 September 2012 £m**	**Restated Year ended 31 March 2013 £m**
Current taxation			
UK corporation taxation	**47.3**	31.3	79.4
Foreign taxation	**1.4**	1.3	1.3
Adjustments in respect of prior years	**(122.0)**	-	(6.5)
	-----	-----	-----
Total current taxation (credit)/charge for the period	**(73.3)**	32.6	74.2
	-----	-----	-----
Deferred taxation			
Current period	**23.1**	2.8	(3.0)
Adjustments in respect of prior years	**(3.0)**	-	5.8
	-----	-----	-----
	20.1	2.8	2.8
Change in taxation rate	**(158.6)**	(52.8)	(53.0)
	-----	-----	-----
Total deferred taxation credit for the period	**(138.5)**	(50.0)	(50.2)
	-----	-----	-----
	-----	-----	-----
Total taxation (credit)/charge for the period	**(211.8)**	(17.4)	24.0
	-----	-----	-----

The current taxation charge is £48.7 million for the period ended 30 September 2013 representing a current taxation effective rate of 15 per cent compared with 23 per cent in the corresponding period last year and 26 per cent for the year ended 31 March 2013. The reduction is principally due to fair value movements which give rise to a corresponding current period deferred taxation charge. In addition, there is a current taxation credit of £122.0 million, and an associated deferred tax credit of £3.0 million relating to recently agreed matters in relation to prior years.

The deferred taxation credits for the periods ended 30 September 2013, 30 September 2012 and 31 March 2013 include a credit of £158.6 million, £52.8 million and £53.0 million respectively to reflect the staged reductions in the mainstream rate of corporation tax from 24 per cent in the year ended 31 March 2013 to 20 per cent effective from 1 April 2015.

Taxation on items taken directly to equity

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

Continuing operations	**Six months ended 30 September 2013 £m**	**Restated Six months ended 30 September 2012 £m**	**Restated Year ended 31 March 2013 £m**
Current taxation			
Relating to other pension movements	**(1.9)**	(2.1)	(15.6)
	-----	-----	-----
Deferred taxation			
On actuarial (losses)/gains on defined benefit			

pension schemes	**(41.5)**	13.4	8.1
Relating to other pension movements	**1.7**	2.0	15.0
Change in taxation rate	**(0.4)**	0.9	0.9
	-----	-----	-----
	(40.2)	16.3	24.0
	-----	-----	-----
	-----	-----	-----
Total taxation (credit)/charge on items taken directly to equity	**(42.1)**	14.2	8.4
	-----	-----	-----

6. Discontinued operations

Discontinued operations represent the retained obligations in respect of businesses sold in prior years. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations,' the post-tax results of discontinued operations are disclosed separately in the consolidated income statement and consolidated statement of cash flows.

The profit after taxation from discontinued operations is analysed as follows:

	Six months ended 30 September 2013 £m	**Six months ended 30 September 2012 £m**	**Year ended 31 March 2013 £m**
Transaction and other costs of disposal	**0.5**	3.0	14.6
	-----	-----	-----
Profit after taxation from discontinued operations	**0.5**	3.0	14.6
	-----	-----	-----

The profit after taxation from discontinued operations for the period ended 30 September 2013 relates primarily to the release of accrued costs of disposal in respect of certain elements of the group's non-regulated disposal programme.

7. Earnings per share

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

	Basic million	**Diluted million**
Six months ended 30 September 2013	**681.9**	**682.9**
Six months ended 30 September 2012	681.8	682.6
Year ended 31 March 2013	681.9	682.8

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 2013	**Restated Six months ended 30 September 2012**	**Restated Year ended 31 March 2013**
From continuing and discontinued operations			
Basic	**80.3p**	23.4p	44.3p
Diluted	**80.1p**	23.4p	44.3p
From continuing operations			
Basic	**80.2p**	23.0p	42.2p
Diluted	**80.1p**	23.0p	42.2p

8. Dividends

	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Dividends relating to the period comprise:			
Interim dividend	**81.9**	78.0	78.0
Final dividend	**-**	-	156.0
	-----	-----	-----
	81.9	78.0	234.0
	-----	-----	-----

	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	78.0
Final dividend	**156.0**	145.5	145.5
	-----	-----	-----
	156.0	145.5	223.5
	-----	-----	-----

The interim dividends for the six months ended 30 September 2013 and 30 September 2012 and the final dividend for the year ended 31 March 2013 have not been included as liabilities in the consolidated half yearly financial statements at 30 September 2013, 30 September 2012 and the consolidated financial statements at 31 March 2013 respectively.

The interim dividend of 12.01 pence per ordinary share (2013: interim dividend of 11.44 pence per ordinary share; final dividend of 22.88 pence per ordinary share) is expected to be paid on 3 February 2014 to shareholders on the register at the close of business on 20 December 2013. The ex-dividend date for the interim dividend is 18 December 2013.

9. Retirement benefit (obligations)/surplus

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 PLC Group of the Electricity Supply Pension Scheme (ESPS) were as follows:

	Six months ended 30 September 2013 %pa	Six months ended 30 September 2012 %pa	Year ended 31 March 2013 %pa
Discount rate	**4.40**	4.40	4.60
Pensionable salary growth and pension increases	**3.30**	2.85	3.30
Price inflation	**3.30**	2.85	3.30

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 2013 £m	Restated Six months ended 30 September 2012 £m	Restated Year ended 31 March 2013 £m
Continuing operations			
Current service cost	**(9.2)**	(8.0)	(15.9)
Curtailments/settlements arising on reorganisation	**(1.1)**	-	(0.6)
Administrative expenses	**(1.2)**	(1.0)	(2.9)
	-----	-----	-----
Pension expense charged to operating profit	**(11.5)**	(9.0)	(19.4)
	-----	-----	-----
Net pension interest income (note 3) / (expense) (note 4)	**0.5**	(1.7)	(1.5)

Net pension expense charged before taxation	**(11.0)**	(10.7)	(20.9)

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

	Six months ended 30 September 2013 £m	**Restated Six months ended 30 September 2012 £m**	**Restated Year ended 31 March 2013 £m**
At the start of the period	**15.1**	(92.0)	(92.0)
Expense recognised in the income statement	**(11.0)**	(10.7)	(20.9)
Contributions paid	**19.5**	83.6	93.0
Actuarial (losses)/gains gross of taxation	**(207.5)**	58.4	35.0
At the end of the period	**(183.9)**	39.3	15.1

Under the prescribed IAS19 basis, pension scheme liabilities are calculated based on current accrued benefits. These are then projected forwards and inflated by forecast RPI for the relevant time period based on current member mortality assumptions. These projected cash flows are then discounted by a AA corporate bond rate which comprises both an underlying interest rate and a credit spread.

In de-risking our pension scheme, we have largely hedged: (1) the underlying interest rate through external market swaps, the value of which is included in scheme assets; and (2) the forecast RPI through the Inflation Funding Mechanism (IFM), which is treated as an additional schedule of deficit contributions and is not included in the value of scheme assets until contributions are actually paid into the pension scheme.

As a consequence the reported statement of financial position under IAS19 remains volatile due to changes in: (1) credit spread (because hedging credit spreads over long durations is difficult); (2) inflation (because inflation is hedged via the IFM and is treated as a schedule of contributions, not as a scheme asset); and to a lesser extent (3) mortality (it was decided not to hedge this risk due to its lower volatility in the short term).

In contrast the scheme specific funding basis (which forms the basis for deficit repair contributions) is unlikely to suffer from volatility due to credit spread (as it uses a conservative, fixed credit spread assumption) or inflation (as it includes the value of the IFM).

In the IAS19 assessment of financial position at 30 September 2013, although the discount rate has fallen by 0.2% this masks a rise in underlying interest rates offset by a credit spread reduction of 0.4%. This credit spread reduction results in substantially all of the reported £199.0m deterioration. During the six months ended 30 September 2013, there has not been any material change in the scheme specific funding basis and therefore the level of deficit repair contributions.

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

	30 September 2013 £m	**30 September 2012 £m**	**31 March 2013 £m**
Present value of defined benefit obligations	**(2,499.6)**	(2,313.3)	(2,426.9)
Fair value of schemes' assets	**2,315.7**	2,352.6	2,442.0
Net retirement benefit (obligations)/surplus	**(183.9)**	39.3	15.1

10. Related party transactions

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

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

	Six months ended 30 September 2013 £m	Six months ended 30 September 2012 £m	Year ended 31 March 2013 £m
Sales of services	**0.7**	0.5	1.3
Purchases of goods and services	**0.4**	0.4	0.7
	-----	-----	-----

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

	30 September 2013 £m	30 September 2012 £m	31 March 2013 £m
Amounts owed by related parties	**-**	1.1	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 £5.2 million (30 September 2012: £5.0 million; 31 March 2013: £5.2 million) in support of its joint ventures.

No provision has been made for doubtful receivables in respect of the amounts owed by related parties (30 September 2012: £nil; 31 March 2013: £nil).

11. Contingent liabilities

The group has entered into performance guarantees as at 30 September 2013 where a financial limit has been specified of £47.3 million (30 September 2012: £85.3 million; 31 March 2013: £72.1 million).

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

From 1 April 2013 to 30 September 2013 market interest rates have increased, decreasing the fair value of the group's borrowings and derivative assets.

The group's borrowings have a carrying amount of £5,991.2 million (31 March 2013: £6,173.5 million). The fair value of these borrowings is £6,270.1 million (31 March 2013: £6,470.0 million). The group's derivatives measured at fair value are a net asset of £453.7 million (31 March 2013: £521.2 million).

13. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the financial statements for the six months ended 30 September 2013.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

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

Dr John McAdam
Steve Mogford
Dr Catherine Bell CB
Mark Clare (appointed 1 November 2013)
Russ Houlden
Brian May
Nick Salmon
Sara Weller

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

………………………..	………………………
Steve Mogford	Russ Houlden
26 November 2013	26 November 2013
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 2013 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, he consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in note 1, 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 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
St James' Square
Manchester
M2 6DS
26 November 2013