United Utilities Group PLC
23 November 2016

STRONG PERFORMANCE AND ON TRACK TO MEET OUR TARGETS

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

Highlights

- Further improvements in customer satisfaction: our best AMP6 score on Ofwat's service incentive mechanism
- Effective acceleration of capital investment continues: £383m invested in first half, c£800m planned for full year
- On track to meet our 2015-20 totex and outcome delivery incentives (ODI) targets
- Innovation and new technology through Systems Thinking approach driving further operational improvements
- Attained industry leading company status as measured by the Environment Agency
- Operating profit slightly ahead of last year
- Good financial performance, robust capital structure and effective pensions hedging
- Interim dividend of 12.95 pence per share, an increase of 1.1% in line with policy

Key financials

	Six months ended	
	30 September 2016	30 September 2015
Revenue	£853.0m	£857.0m
Underlying operating profit[1]	£312.5m	£308.6m
Operating profit	£303.6m	£278.3m
Interim dividend per ordinary share (pence)	12.95p	12.81p
RCV gearing[2]	62%	59%

[1] Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure table
[2] Regulatory capital value or RCV gearing calculated as group net debt/UUW's shadow RCV (outturn prices)

Steve Mogford, Chief Executive Officer, said:

"This has been a strong first half performance in which we made significant progress towards meeting our customer, environmental and financial targets.

"Customer service has again improved, resulting in our best score under Ofwat's revised service incentive mechanism. We're continuing to enhance our customer service offering and recently launched Priority Services, to provide dedicated support for those who are experiencing short or long-term personal or financial challenges.

"The acceleration of our capital investment programme continues to deliver early customer service and operational benefits. We have invested £383 million in the first half of this year and remain on track to

invest around £800 million for the full year. Our Systems Thinking approach to running the business continues to drive innovation into our operations and we are rolling out further capability this year, including new process technology.

“Our environmental performance has remained consistently high and we were delighted to attain industry leading company status from the Environment Agency.

“Overall, we are encouraged by our progress in the early part of this regulatory period. We have a robust financial position and are confident that we can deliver our targets for both customers and shareholders.”

For further information on the day, please contact:

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

A presentation to investors and analysts starts at 9.00am on Wednesday 23 November 2016, 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 0125, access code 960611. A recording of the call will be available for seven days following Wednesday 23 November 2016 on +44 (0) 20 7031 4064, access code 960611.

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

KEY OPERATIONAL PROGRESS

We continue to deliver improvements in customer service, operational and environmental performance and these areas will remain top priorities as we move through the 2015-20 regulatory period.

- **Further improvements in customer satisfaction**– we have significantly improved the customer experience over recent years and are pleased to have improved our service incentive mechanism (SIM) performance further, as measured through both Ofwat’s wave one and wave two 2016/17 qualitative scores. We achieved our best score so far in this regulatory period, placing us above the industry average, with our customers rating us highly for our billing and wastewater services.

  We recently launched our Priority Services offering, to provide targeted support to customers who are experiencing short or long term difficulty in their lives, such as suffering physical or mental illness, as well as those in financial difficulty. This is in addition to the wide range of initiatives we currently offer those customers struggling to pay, to help them get back into regular payment.

  Improving customer service continues to be a key area of focus and our new management team has identified a range of opportunities to deliver further benefits for our customers.

- **Innovation through Systems Thinking** – as part of our Systems Thinking approach to the way we run our business, we are being more proactive in the management of our assets and networks and are driving innovation through integrating the use of our assets, leveraging data intelligence and employing new technology and work processes. We aim to improve our predictive modelling through better use of sensors in our network and better analysis of other data, such as weather forecasting, to enable us to address more asset and network problems before they affect customers, thereby reducing the level of reactive work and improving performance and efficiency.

  Our new telemetry backbone has been successfully installed across our region. This provides the data highway between our sites and our integrated control centre, enabling enhanced monitoring and intervention. We have full regional production planning up and running for both water production and sludge processing, supported by more enhanced decision-making systems capability at site level.

  We piloted design for manufacture and assembly (DfMA) in AMP5, the prefabrication of a significant proportion of projects off-site and are targeting over 75% of our projects in AMP6 to employ this

approach. DfMA delivers improvements in safety, quality and maintainability and reduces build time on site, lessening disruption to the local community and site operations. DfMA also supports product standardisation and we are increasingly using common designs across our supply base, saving duplicated design costs and offering production and maintenance efficiencies.

Following successful trials, we are using a new process technology innovation, Nereda, that offers significant efficiency and cost saving benefits in wastewater treatment. Not only does it reduce the time wastewater has to sit in the tank as it goes through the activated sludge process, it also requires less oxygen which reduces power consumption. We recently contracted for our first Nereda plant in Kendal, the first in the UK of significant size. We are targeting up to a 20% through life cost reduction by using this technology. Other site applications will follow.

- **Leading operational and environmental performance** – in July, we attained industry leading company status, as measured through the Environment Agency's (EA) annual assessment. In particular, we delivered another strong performance in the area of pollution and are one of only two companies to attain a Green rating for serious pollution incidents. In addition, we are committed to reducing our carbon footprint and increasing our generation of renewable energy. We reduced our carbon footprint by 22% over the last 10 years and progress in the first half of 2016/17 is encouraging.

- **Effective acceleration and delivery of investment plan** – acceleration of our 2015-20 investment programme continues to deliver early customer service, operational and environmental benefits, enhance resilience and optimise performance under our ODIs. We continue to drive more effective and efficient delivery of our capital programme and this is reflected in our Time: Cost: Quality index (TCQi) score which remains high at over 90%, despite a tougher measurement mechanism being applied for this regulatory period.

- **Improving our bad debt performance** – we maintained our strong focus on managing bad debt and cash collection and improved our performance in the first half of 2016/17 and reduced household bad debt to 2.8% of regulated revenue, from 3.0% in the first half of last year. We have made a good start to the year. However, notwithstanding our industry-leading debt management processes and wide-ranging schemes to help customers struggling to pay, as our region suffers from high levels of income deprivation, this will remain a principal challenge for us.

- **Delivering shareholder value through regulatory outperformance** – the low cost of debt we have already locked-in places UU in a strong position to deliver our target for the 2015-20 period of beating Ofwat's industry allowed cost of debt. We are making good progress, implementing initiatives to deliver over £400 million of savings to meet our totex allowance. Operationally, we delivered a good performance on our ODIs in 2015/16 and are making good progress this year. We are pleased to see continued strong performance in the areas of private sewers and pollution incidents.

- **Environmental focus on leakage** – we have consistently met or outperformed our regulatory leakage targets and performance to date keeps us on track to meet our 2015-20 targets, as set by Ofwat.

- **Strong environmental, social & governance (ESG) credentials** – we have received external recognition for our strong corporate responsibility and environmental credentials. In September 2016, we retained World Class rating in the Dow Jones Sustainability Index for the ninth consecutive year, a very good achievement in light of the ever evolving standards. In addition, at the Finance for the Future Awards in October 2016, UU won the Communicating Integrated Thinking award. This international award was sponsored by Deloitte, Accounting for Sustainability and the Institute of Chartered Accountants in England and Wales. This follows on from the PwC 2015 Building Public Trust Awards, when UU was selected as joint winner for Excellence in reporting in the FTSE 100.

- **Non-household retail: Water Plus JV with Severn Trent completed on 1 June 2016** – we have been building our capability to ensure that we are in a strong position as the competitive non-household retail market evolves. Our Water Plus JV with Severn Trent, which completed on 1 June 2016, reinforces this position and gives us first mover advantage ahead of full market opening in April 2017. Water Plus combines the complementary skills of both companies to deliver an attractive

proposition for customers and will create synergies to provide an efficient and cost-effective operation focussed on improved customer service and growth. The new Water Plus operations are up and running and we are well placed to compete.

OUTLOOK

We are encouraged by our continued strong operational and environmental performance, as well as our improvements in customer satisfaction. We have plans to improve further, supported by our Systems Thinking approach to operating the business and the acceleration of our capital investment programme. Overall, we are encouraged by our progress in the early part of this regulatory period. We have a robust financial position and are confident that we can deliver our targets for both customers and shareholders.

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the six months ended 30 September 2016.

- **Revenue** – was down £4 million, as expected, at £853 million, reflecting the accounting impact of our Water Plus JV, which completed on 1 June 2016, partly offset by our allowed regulatory revenue changes.

- **Operating profit** – underlying operating profit was up £4 million, at £313 million. This reflects the new regulated price controls, slightly lower infrastructure renewals expenditure, a small decrease in depreciation, as we recognised some accelerations in depreciation in the first half of last year, and a small decrease in the remaining cost base, partly offset by the accounting impact of our Water Plus JV. Reported operating profit was £304 million, up £25 million, mainly as a result of reduced profit in the first half of last year principally due to costs associated with the water quality incident.

- **Capex** – total regulatory capital investment in the first half of the year, including £73 million of infrastructure renewals expenditure, was £383 million, in line with the company's plans to accelerate the 2015-20 investment programme, and we remain on track to deliver a total of around £800 million of regulatory capital investment for the full year. In addition to our c£3.5 billion five-year regulatory capex programme, we plan to invest over £100 million in non-regulated projects across 2015-20, subject to acceptable returns, principally relating to solar power, and we have now invested a total of £37 million during the last 18 months.

- **Profit before tax** – underlying profit before tax was down £16 million to £189 million, as the £4 million increase in underlying operating profit was more than offset by a £19 million increase in underlying net finance expense. The increase in underlying net finance expense is mainly due to the impact of higher RPI inflation on our index-linked debt. Reported profit before tax was £158 million, reflecting fair value movements and other adjusting items as outlined in the underlying profit measures table.

- **Profit after tax** – underlying profit after tax was down by £11 million to £152 million. Reported profit after tax was higher at £203 million, mainly reflecting a deferred tax credit as a result of the UK Government's future planned reduction in the mainstream rate of corporation tax.

- **Capital structure** – the group has a robust capital structure with gearing of 62% as at 30 September 2016 (measured as group net debt to 'shadow' regulatory capital value). Our shadow RCV adjusts for actual spend and was £10.5 billion as at 30 September 2016. This gearing level is comfortably within our target range, of 55% to 65%, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has long-term credit ratings of A3 with Moody's, on stable outlook, and BBB+ with Standard & Poor's, on positive outlook.

- **Financing headroom** – the group now benefits from headroom to cover its projected needs into 2019, enhanced by the recent raising of new finance. This headroom provides good flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

- **Dividend** – the board has declared an interim dividend of 12.95 pence per ordinary share, an increase of 1.1%, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

KEY PERFORMANCE INDICATORS

United Utilities aims to deliver long-term shareholder value by providing:

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

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

Best service to customers

- **Outcome delivery incentives (ODIs)** – our ODIs form an important KPI composite to monitor the operational performance of our wholesale business. There are 19 wholesale financial ODIs and the risk is skewed to the downside, with ten attracting a penalty only, and our ODI targets get tougher as we move through the five-year regulatory period. We were pleased to deliver a net reward of £2.5 million for 2015/16 on our ODIs. In the first half of 2016/17 we have seen continued strong performance in the areas of private sewers and pollution incidents. We will provide a more comprehensive update of overall ODI performance at our full year results next May, including net reward/penalty quantification. Nonetheless, our progress so far gives us confidence in delivering our target of a cumulative net ODI outcome over the 2015-20 period of between plus £30 million and minus £70 million.

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

  Qualitative: based on the four Ofwat surveys in 2015/16, UU improved its score to 4.27 points, compared with 4.24 points in 2014/15 (higher score is better). We have made further progress in the first half of 2016/17, with a wave one score of 4.33 points and another improvement to 4.42 points for wave two, taking UU above the industry average. In particular, customers scored us highly for billing and wastewater service.

  Quantitative: the quantitative assessment measures customer contacts and performance is assessed on both an absolute and relative basis. Relative performance can only be assessed following the end of each full financial year when the other companies publish their respective results. On absolute performance (lower score is better), for the first half of 2016/17, we achieved a score of 40 points, representing an encouraging improvement on the first half of 2015/16 when our score was 50 points.

- **Non-household customer retail growth** – Ofwat introduced a separate price control for non-household retail for the 2015-20 period and, with the expansion of competition, we initially included a new KPI measuring the impact of customer gains and losses. However, due to the JV between UU and Severn Trent, which completed on 1 June 2016, we no longer believe that this KPI is appropriate for future reporting. The contribution from this JV is now included within the share of profits of joint ventures line within the income statement.

Lowest sustainable cost

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

- **Total expenditure (totex) outperformance** – although our totex allowance is tough, progress during the first 18 months of this regulatory period has been good and we are confident of delivering our target of meeting our 2015-20 wholesale totex final determination allowance.

- **Household retail cost to serve** – with the household retail price control now being separated for the 2015-20 period, we introduced a new KPI to measure our costs in this area. Overall, it will be very challenging to meet the regulatory assumptions for household retail costs. This is primarily due to Ofwat's price review methodology at PR14 which made no allowance for inflation in the household retail business and, in our view, made insufficient allowance for dual service (water and wastewater) companies. The regulatory assumptions for household retail costs become progressively tougher as we move through the 2015-20 period. Our target is to minimise our costs compared with Ofwat's revenue allowance. We are continuing with our strong focus on this target and will provide an update for 2016/17 at our full year results next May.

Responsible manner

- **Leakage** – although leakage is included within our ODIs, we intend to continue publishing our leakage position separately, with it being an important measure from a corporate responsibility perspective. We delivered a good performance in 2015/16, meeting our regulatory leakage target of 463 megalitres per day, and remain on track to meet it again in 2016/17.

- **Environmental performance** – UU has consistently been a first quartile company over recent years and on the Environment Agency's latest assessment (2015/16 report), which covers a broad range of operational metrics, we improved our performance further by attaining Industry Leading Company status. Based on our performance across the range of metrics, this indicates we were in joint 2nd position among the ten water and sewerage companies and aligns with our medium-term goal of being a first quartile company on a consistent basis.

- **Corporate responsibility** – UU has a strong focus on operating in a responsible manner and is the only UK water company to have World Class rating as measured by the Dow Jones Sustainability Index, retaining this rating for the ninth consecutive year in 2016/17.

FINANCIAL PERFORMANCE

Revenue

UU delivered a good set of financial results for the six months ended 30 September 2016. Revenue was down £4 million, as expected, at £853 million, reflecting the accounting impact of our Water Plus JV, which completed on 1 June 2016, partly offset by our allowed regulatory revenue changes.

We have recently responded to Ofwat's "Consultation on the final 2010-15 reconciliation" published in October 2016. With regard to Ofwat's revenue correction mechanism, relating to the 2014/15 financial year, we have £9.5 million to return to customers and have carefully considered options based on customers' interests. We propose to return the £9.5 million to customers through revenue reductions of c£3 million in 2017/18, c£3 million in 2018/19 and c£3 million in 2019/20 to help aid a smoother bill profile.

Separately, consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we will also be reducing 2017/18 revenue by £7 million as actual volumes in 2015/16 were higher than our assumptions increasing revenue by 0.4%.

Operating profit

Underlying operating profit at £313 million was £4 million higher than the first half of last year. This reflects the new regulated price controls, slightly lower infrastructure renewals expenditure, a small decrease in depreciation, as we recognised some accelerations in depreciation in the first half of last year, and a small decrease in the remaining cost base, partly offset by the accounting impact of our Water Plus JV. The JV completed on 1 June 2016 and, from that date, its contribution is no longer included within operating profit and is, instead, included within the share of profits of joint ventures line in the income statement. However, as expected, due to start-up costs, our Water Plus JV made a small loss of £0.9 million in the first half of 2016/17.

Reported operating profit increased by £25 million, to £303 million, mainly due to a number of adjusting items and the small increase in underlying operating profit. Adjusting items for the first half of 2016/17 included £3 million of market reform costs and £5 million of restructuring costs. Adjusting items in the first half of last year amounted to £30 million, £25 million of which related to the water quality incident, which reduced reported operating profit in that period.

Investment income and finance expense

The underlying net finance expense of £125 million for the first half of 2016/17 was £19 million higher than the first half of last year, mainly reflecting the impact of higher RPI inflation on our index-linked debt, particularly on the portion of index-linked debt with a three month lag.

The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £45 million, compared with a net charge of £24 million in the first half of last year. As at 30 September 2016, the group had approximately £3.4 billion of index-linked debt at an average real rate of 1.4%.

The higher RPI inflation charge, compared with the first half of last year, contributed to the group's average underlying interest rate of 4.1% being higher than the rate of 3.7% for the six months ended 30 September 2015. The average underlying interest rate represents the underlying net finance expense divided by average net debt on a notional value basis.

Reported net finance expense of £168 million was significantly higher than the £65 million expense in the first half of 2015/16. This £103 million increase principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £37 million gain in the first half of 2015/16 to a £55 million loss in the first half of 2016/17.

The fair value losses in the first half of 2016/17 were largely due to a decrease in market interest rates, which impact our derivatives hedging interest rates. The group uses these swaps to fix interest rates on a substantial proportion of its nominal debt to better match the financing cash flows allowed by the regulator at each price review. The group has fixed a substantial majority of its nominal debt for the 2015-20 regulatory period.

Profit before tax

Underlying profit before tax was £189 million, £16 million lower than the first half of last year, as the £4 million increase in underlying operating profit was more than offset by a £19 million increase in underlying net finance expense. This underlying measure reflects the adjusting items, as outlined in the operating profit section above, and other items such as fair value movements in respect of debt and derivative instruments, as outlined in the underlying profit measures table. Reported profit before tax decreased by £57 million to £158 million, mainly due to the aforementioned fair value movements partly offset by a profit on disposal relating to the Water Plus JV.

Tax

In the first half of 2016/17, we paid corporation tax of £22 million, which represents an effective cash tax rate on underlying profit before tax of 12%, 8% lower than the headline rate of corporation tax of 20%. As a major investor in the North West's infrastructure, we benefit from the UK Government's allowable tax deductions on net capital investment. Consistent with prior years, this is the key reconciling item to the headline rate. We would expect the average cash tax rate on underlying profits through to the end of the current regulatory period in March 2020 to be around 15%. The key risk to sustaining this rate is any unexpected changes in tax legislation or practice and, as necessary, we would actively engage with the relevant authorities in order to manage this risk.

The current tax charge was £7 million in the first half of 2016/17, compared with a charge of £23 million in the corresponding period last year, the main difference being a current period tax credit of £14 million following agreement with the tax authorities of prior years' tax matters.

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

The total tax credit in the first half of 2016/17 was £44 million, compared to a total tax charge of £44 million in the first half of last year, the main differences being the above deferred tax credit relating to the change in tax rate, reducing the rate by a further 1% to 17% from 1 April 2020 and the agreement of prior years' tax matters. For both periods, the total underlying tax effective rate was in line with the headline rate (currently at 20%) and subject to any legislative or tax practice changes, we would expect this to continue for the medium term.

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

Profit after tax

Underlying profit after tax of £152 million was £11 million lower than the first half of last year, principally reflecting the £16 million decrease in underlying profit before tax partly offset by lower underlying tax on lower profits. Reported profit after tax was higher at £203 million, compared with £172 million in the first half of last year, as the reduction in underlying profit was more than offset by the £57 million deferred tax credit in the first half of 2016/17 associated with the enactment of the reduction in corporation tax, from 18% to 17%, with effect from 1 April 2020.

Earnings per share

Underlying earnings per share decreased from 23.9 pence to 22.2 pence. This underlying measure is derived from underlying profit after tax. Basic earnings per share increased from 25.2 pence to 29.7 pence, for the same reasons that increased reported profit after tax.

Dividend per share

The Board has declared an interim dividend of 12.95 pence per ordinary share in respect of the six months ended 30 September 2016. This is an increase of 1.1%, compared with the interim dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 1.1% is based on the RPI element included within the allowed regulated revenue increase for the 2016/17 financial year (i.e. the movement in RPI between November 2014 and November 2015).

The interim dividend is expected to be paid on 1 February 2017 to shareholders on the register at the close of business on 16 December 2016. The ex-dividend date is 15 December 2016.

In light of the Financial Reporting Lab's recent report entitled 'Disclosure of dividends – policy and practice' which provided best practice guidance, we enhanced our dividend policy disclosure, at the 2015/16 full year results, as outlined below.

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

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

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

- ***Distributable reserves*** – as at 30 September 2016, the company had distributable reserves of £3,192 million. The total external dividends relating to the 2015/16 financial year amounted to £262 million. The company distributable reserves support over 12 times this annual dividend.

- ***Financing headroom*** – supporting the group's cash flow, UU adopts a funding/liquidity headroom policy of having available resources to cover the next 15-24 months of projected cash outflows.

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

- ***Financial stability*** – the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which water companies earn a return allowed by the economic regulator, Ofwat. RCV gearing is useful in assessing a company's financial stability in the UK water industry and is one of the key credit metrics that the credit rating agencies focus on. UU has had a relatively stable RCV gearing level over the last five years, always comfortably within its target range of 55% to 65%, supporting a solid A3 credit rating for UUW with Moody's. RCV gearing at 30 September 2016 was 62% and the movement in net debt is outlined in the cash flow section below.

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

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

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

- ***Policy sustainability***

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

  <u>2020-25</u>
  - a dividend policy for the post 2020 period will be formulated when the outcome of the next regulatory price review is known.

Cash flow

Net cash generated from operating activities for the six months ended 30 September 2016 was £420 million, compared with £370 million in the first half of last year. This increase mainly reflects higher profit in the first half of this year, principally due to the impact of the additional costs associated with the operational incidents in the first half of last year, an improvement in working capital cash flows and, to a lesser extent, lower corporation tax paid, partly offset by an increase in net interest paid. The group's net capital expenditure was £330 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost

under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex is based on capital projects commissioned in the period, rather than actual cash spent.

Net debt including derivatives at 30 September 2016 was £6,477 million, compared with £6,261 million at 31 March 2016. This increase reflects accelerated regulatory capital expenditure, payments of dividends, interest and tax, the inflationary uplift on index-linked debt, the impact of fair value movements and loans to joint ventures, partly offset by operating cash flows.

Fair value of debt

The group's gross borrowings at 30 September 2016 had a carrying value of £7,317 million. The fair value of these borrowings was £8,578 million. This £1,261 million difference, which has increased from £483 million at 31 March 2016, principally reflects the significant fall in real interest rates, compared with the rates at the time we raised our index-linked debt.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's shadow regulatory capital value) was 62% at 30 September 2016, marginally ahead of the position at 31 March 2016, and remaining comfortably within our target range of 55% to 65%. Our 'shadow' RCV adjusts for actual spend and was £10.5 billion as at 30 September 2016 (in outturn prices). The small increase in gearing mainly reflects an increase in net debt, as explained in the cash flow section above.

UUW has long-term credit ratings of A3/BBB+ and United Utilities PLC has long-term credit ratings of Baa1/BBB- with Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P) respectively. The split rating reflects differing methodologies used by the credit rating agencies. Moody's has the group's ratings on a stable outlook, and S&P has the group's ratings on a positive outlook.

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

Cash and short-term deposits at 30 September 2016 amounted to £237 million. Over 2015-20 we have financing requirements totalling around £2.5 billion to cover refinancing and incremental debt, supporting our five-year investment programme and we have already raised over £1.5 billion of this requirement. We have supplemented our funding position in the first half of this year with further new financing, as outlined below.

In April 2016, UUW signed a £250 million index-linked term loan facility with the EIB to support the delivery of UUW's AMP6 investment programme. As at 30 September 2016, £75 million had been drawn down. This is an amortising facility with an average loan life of 10 years and a final maturity of 18 years from draw down and is the first tranche of an anticipated £500m funding package for AMP6 from the EIB, with the second tranche expected to be made available for signature later in the AMP.

In June 2016, UUW's financing subsidiary, United Utilities Water Finance PLC (UUWF), raised c£76 million of term funding, via the issue of €30m and HKD600m private placement notes, both with a 15-year maturity, off our EMTN programme. In September 2016, UUWF raised c£53 million of term funding, via the issue of 12-year and 20-year private placement notes, in index-linked form, off our EMTN programme, at the group's best ever real interest rates. In addition, since March 2016, the group has agreed £100 million of new 7-year committed bank facilities and extended a further £100m for an initial term of 5-years. The group now has headroom to cover its projected financing needs into 2019.

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

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 30 September 2016, approximately 53% of the group's net debt was in index-linked form, representing around 32% of UUW's regulatory capital value, with an average real interest rate of 1.4%. 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 around 20 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis. This is supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination.

In line with this, the group has fixed interest costs for substantially all of its floating rate exposure over the 2015-20 period, locking in an average annual interest rate of around 3.6% (inclusive of credit spreads). For 2015/16, the rate was slightly higher, as we transitioned between the two regulatory periods.

Liquidity

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

Available headroom at 30 September 2016 was £610 million based on cash, short-term deposits, committed bank facilities, along with the undrawn portion of any signed EIB term loan facilities, net of short-term debt plus term debt falling due within 12 months, and excluding any committed facilities due to expire within 12 months.

UU considers that it operates a prudent approach to managing banking counterparty credit risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. UU's cash is held in the form of short-term money market deposits with 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 2016, the group had an IAS 19 net pension surplus of £215 million, compared with a net pension surplus of £275 million at 31 March 2016. This £60 million reduction in the surplus mainly reflects the impact of a decrease in credit spreads, increasing the IAS19 pension liability, partially offset by a better return than assumed on the pension schemes' assets.

Further detail on pensions is provided in note 11 ("Retirement benefit 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 (non-GAAP measures). The group determines adjusted items in the calculation of its underlying measures against a framework which considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of reoccurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

Operating profit	**Six months ended 30 September 2016**	**Six months ended 30 September 2015**

	£m	£m
Operating profit per published results	**303.6**	**278.3**
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	0.9	**-**
Non-household retail market reform	3.4	5.4
Restructuring costs	4.6	0.1
Underlying operating profit	**312.5**	**308.6**

Net finance expense

	£m	£m
Finance expense	(174.6)	(67.4)
Investment income	6.6	2.5
Net finance expense per published results	**(168.0)**	**(64.9)**
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	54.8	(36.9)
Interest on swaps and debt under fair value option	8.5	7.9
Net pension interest income	(4.8)	(1.4)
Capitalised borrowing costs	(15.9)	(10.8)
Underlying net finance expense	**(125.4)**	**(106.1)**

Profit before tax

	£m	£m
Profit on disposal of non-household retail business	**20.9**	**-**
Share of profits of joint ventures	**1.9**	**2.2**
Profit before tax per published results	**158.4**	**215.6**
Adjustments:		
Water quality incident	-	24.8
Flooding incidents in Dec 15 (net of insurance proceeds recognised)	0.9	-
Non-household retail market reform	3.4	5.4
Restructuring costs	4.6	0.1
Profit on disposal of non-household retail business	(20.9)	-
Net fair value losses/(gains) on debt and derivative instruments	54.8	(36.9)
Interest on swaps and debt under fair value option	8.5	7.9
Net pension interest income	(4.8)	(1.4)
Capitalised borrowing costs	(15.9)	(10.8)
Underlying profit before tax	**189.0**	**204.7**

Profit after tax

	£m	£m
Underlying profit before tax	**189.0**	**204.7**
Reported tax credit/(charge)	44.2	(43.7)
Deferred tax credit – change in tax rate	(57.1)	-
Agreement of prior years' tax matters	(14.3)	-
Tax in respect of adjustments to underlying profit before tax	(10.3)	2.2
Underlying profit after tax	**151.5**	**163.2**

Earnings per share

	£m	£m
Profit after tax per published results (a)	202.6	171.9
Underlying profit after tax (b)	151.5	163.2
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	29.7p	25.2p

Underlying earnings per share, in pence (b/c)	22.2p	23.9p

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

The resulting risk profile is reported to the group board twice a year. The report covers four areas: the ten highest ranked risks and the top ten operational risks (both based on likelihood x impact); a further five risks included due to the potential severity of their impact; risks that fall outside these categories but are included due to potential reputational impact or new/emerging circumstances; and a summary of all of the event-based risks within the profile relative to ten principal risks (see below) that could seriously affect the performance, future prospects or reputation of the business.

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

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

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

Key features and developments

Regulatory, operational, compliance and delivery risks remain key features of the group's risk profile. The introduction of outcome delivery incentives by Ofwat after PR14 creates a regime of potential penalties and rewards based on meeting targets for the delivery of operational and capital programmes. In the context of customer service and operational performance, the Lancashire water quality incident in the summer of 2015 reinforced the requirement to consistently deliver clean, safe drinking water and to further mitigate risks to a continuous service through implementing greater resilience in the asset base.

Market Reform and the introduction of non-household retail competition in April 2017 requires significant preparation so that the group's retail and wholesale functions are in a position to compete successfully while continuing to operate compliantly and in accordance with the 'level playing field'.

Looking further ahead, greater competition in the sector is a risk to the group. Specific areas include the expected introduction of competition in sludge and water resource activities, the further promotion of the existing inset regime, and the UK Government's consideration (announced November 2015) of legislation to enable household retail activities to become competitive at some future date. Climate change is also recognised as one of the sector's biggest challenges with significant and permanent implications on the water cycle and the long-term sustainability of the water and wastewater service including: water abstraction; supply and treatment capability; drainage and sewer capacity; and wastewater treatment and discharge efficiency and effectiveness.

Principal risks

The principal risks (aggregated clusters of event-based risks), reflect the categories of risks that define business activity or contributing factors where value can be lost or gained and could have a material impact on the business model, future performance, solvency or liquidity of the group. In each case the magnitude of the potential effect is highlighted together with the extent of management/mitigation. To ensure relevance with the current environment, issues or areas of uncertainty associated with each principal risk are also illustrated.

These principal risks were set out on pages 46-49 of the 2016 United Utilities Group PLC Annual Report and Financial Statements and are: (1) Regulatory environment and framework; (2) Corporate governance and legal compliance; (3) Water service; (4) Wastewater service; (5) Security (cyber or physical); (6) Resource (human, technological and physical); (7) Financial; (8) Programme delivery; (9) Revenue; and (10) Health, safety and environmental.

Britain's potential exit from the EU was recognised as a risk in our last Annual Report and the Referendum result has crystallised that risk, but the full impact will depend upon the outcome of the exit negotiation.

Material Litigation

There continue to be two ongoing pieces of material litigation worthy of note, as outlined on page 47 of the 2016 United Utilities Group PLC Annual Report and Financial Statements. However, based on the facts currently known to us and the provisions in our statement of financial position, our directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Consolidated income statement

	Six months ended 30 September 2016	Six months ended 30 September 2015	Year ended 31 March 2016
	£m	£m	£m

Revenue	**853.0**	857.0	1,730.0
Employee benefits expense (note 3)	**(78.2)**	(72.6)	(146.9)
Other operating costs (note 4)	**(222.3)**	(247.0)	(485.8)
Other income	**1.6**	1.6	3.6
Depreciation and amortisation expense	**(178.0)**	(185.1)	(363.7)
Infrastructure renewals expenditure	**(72.5)**	(75.6)	(169.3)
Total operating expenses	**(549.4)**	(578.7)	(1,162.1)
Operating profit	**303.6**	278.3	567.9
Investment income (note 5)	**6.6**	2.5	5.0
Finance expense (note 6)	**(174.6)**	(67.4)	(224.4)
Investment income and finance expense	**(168.0)**	(64.9)	(219.4)
Profit on disposal of business (note 7)	**20.9**	-	-
Share of profits of joint ventures	**1.9**	2.2	5.0
Profit before tax	**158.4**	215.6	353.5
Current tax charge	**(6.5)**	(22.5)	(44.3)
Deferred tax charge	**(6.4)**	(21.2)	(24.2)
Deferred tax credit – change in tax rate	**57.1**	-	112.5
Tax (note 8)	**44.2**	(43.7)	44.0
Profit after tax	**202.6**	171.9	397.5

All of the results shown above relate to continuing operations.

Earnings per share (note 9)			
Basic	**29.7p**	25.2p	58.3p
Diluted	**29.7p**	25.2p	58.2p
Dividend per ordinary share (note 10)	**12.95p**	12.81p	38.45p

Consolidated statement of comprehensive income

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	Year ended 31 March 2016 £m
Profit after tax	**202.6**	171.9	397.5
Other comprehensive income			
Remeasurement (losses)/gains on defined benefit pension schemes (note 11)	**(83.8)**	33.4	160.1
Tax on items taken directly to equity (note 8)	**18.0**	(6.7)	(26.5)
Foreign exchange adjustments	**4.1**	0.3	3.0
Total comprehensive income	**140.9**	198.9	534.1

Consolidated statement of financial position

	30 September	30 September	31 March

	2016 £m	2015 £m	2016 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**10,196.2**	9,845.7	10,031.4
Intangible assets	**179.8**	157.5	162.4
Interests in joint ventures	**70.2**	29.8	35.1
Investments	**9.1**	8.5	8.7
Trade and other receivables	**51.7**	2.5	2.5
Retirement benefit surplus (note 11)	**214.8**	126.2	275.2
Derivative financial instruments	**937.6**	663.3	765.5
	11,659.4	10,833.5	11,280.8
Current assets			
Inventories	**29.2**	38.4	29.3
Trade and other receivables	**337.2**	379.9	367.4
Current tax asset	**7.8**	-	-
Cash and short-term deposits	**237.4**	356.4	213.6
Derivative financial instruments	**0.3**	-	0.1
Assets classified as held for sale (note 7)	**-**	-	15.6
	611.9	774.7	626.0
Total assets	**12,271.3**	11,608.2	11,906.8
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(567.3)**	(503.0)	(530.5)
Borrowings (note 12)	**(7,014.5)**	(5,997.7)	(6,508.8)
Deferred tax liabilities	**(998.0)**	(1,151.7)	(1,062.0)
Derivative financial instruments	**(328.3)**	(186.2)	(255.8)
	(8,908.1)	(7,838.6)	(8,357.1)
Current liabilities			
Trade and other payables	**(365.2)**	(428.0)	(341.7)
Borrowings (note 12)	**(302.4)**	(845.3)	(469.2)
Current tax liabilities	**-**	(16.9)	(12.3)
Provisions	**(18.6)**	(18.5)	(15.1)
Derivative financial instruments	**(6.7)**	(3.4)	(5.9)
	(692.9)	(1,312.1)	(844.2)
Total liabilities	**(9,601.0)**	(9,150.7)	(9,201.3)
Total net assets	**2,670.3**	2,457.5	2,705.5
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Treasury shares	**-**	(0.4)	-
Cumulative exchange reserve	**(1.6)**	(8.4)	(5.7)
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**1,839.5**	1,633.9	1,878.8
Shareholders' equity	**2,670.3**	2,457.5	2,705.5

Consolidated statement of changes in equity

Six months ended 30 September 2016

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2016	499.8	2.9	(5.7)	329.7	1,878.8	2,705.5
Profit after tax	-	-	-	-	202.6	202.6
Other comprehensive income						
Remeasurement losses on defined benefit pension schemes (note 11)	-	-	-	-	(83.8)	(83.8)
Tax on items taken directly to equity (note 8)	-	-	-	-	18.0	18.0
Foreign exchange adjustments	-	-	4.1	-	-	4.1
Total comprehensive income	-	-	4.1	-	136.8	140.9
Dividends (note 10)	-	-	-	-	(174.8)	(174.8)
Equity-settled share-based payments	-	-	-	-	1.1	1.1
Exercise of share options - purchase of shares	-	-	-	-	(2.4)	(2.4)
At 30 September 2016	**499.8**	**2.9**	**(1.6)**	**329.7**	**1,839.5**	**2,670.3**

Six months ended 30 September 2015

	Share capital £m	Share premium account £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2015	499.8	2.9	-	(8.7)	329.7	1,610.7	2,434.4
Profit after tax	-	-	-	-	-	171.9	171.9
Other comprehensive income							
Remeasurement gains on defined benefit pension schemes (note 11)	-	-	-	-	-	33.4	33.4
Tax on items taken directly to equity (note 8)	-	-	-	-	-	(6.7)	(6.7)
Foreign exchange adjustments	-	-	-	0.3	-	-	0.3
Total comprehensive income	-	-	-	0.3	-	198.6	198.9
Dividends (note 10)	-	-	-	-	-	(171.4)	(171.4)
Purchase of shares	-	-	(0.4)	-	-	-	(0.4)
Equity-settled share-based payments	-	-	-	-	-	1.2	1.2
Exercise of share options - purchase of shares	-	-	-	-	-	(5.2)	(5.2)
At 30 September 2015	**499.8**	**2.9**	**(0.4)**	**(8.4)**	**329.7**	**1,633.9**	**2,457.5**

Year ended 31 March 2016

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2015	499.8	2.9	(8.7)	329.7	1,610.7	2,434.4
Profit after tax	-	-	-	-	397.5	397.5
Other comprehensive income						
Remeasurement gains on defined benefit pension schemes (note 11)	-	-	-	-	160.1	160.1

Tax on items taken directly to equity (note 8)	-	-	-	-	(26.5)	(26.5)
Foreign exchange adjustments	-	-	3.0	-	-	3.0
Total comprehensive income	-	-	3.0	-	531.1	534.1
Dividends (note 10)	-	-	-	-	(258.7)	(258.7)
Equity-settled share-based payments	-	-	-	-	2.3	2.3
Exercise of share options - purchase of shares	-	-	-	-	(6.6)	(6.6)
At 31 March 2016	**499.8**	**2.9**	**(5.7)**	**329.7**	**1,878.8**	**2,705.5**

Consolidated statement of cash flows

	Six months ended 30 September 2016 £m	**Six months ended 30 September 2015 £m**	**Year ended 31 March 2016 £m**
Operating activities			
Cash generated from operations (note 15)	**517.4**	461.6	905.5
Interest paid	**(77.5)**	(65.9)	(168.7)
Interest received and similar income	**1.7**	1.0	1.9
Tax paid	**(21.9)**	(26.7)	(53.1)
Net cash generated from operating activities	**419.7**	370.0	685.6
Investing activities			
Purchase of property, plant and equipment	**(315.0)**	(299.4)	(634.2)
Purchase of intangible assets	**(29.8)**	(27.1)	(66.1)
Proceeds from sale of property, plant and equipment	**0.8**	0.5	1.4
Grants and contributions received	**14.3**	8.4	17.3
Loans to joint ventures	**(46.0)**	-	-
Purchase of investment in joint ventures	**(10.0)**	-	-
Proceeds from disposal of business (note 7)	**4.1**	-	-
Dividends received from joint ventures	**5.4**	4.6	4.6
Proceeds from investments	**0.4**	-	0.2
Net cash used in investing activities	**(375.8)**	(313.0)	(676.8)
Financing activities			
Proceeds from borrowings	**505.4**	261.3	693.0
Repayment of borrowings	**(341.9)**	(34.1)	(474.1)
Dividends paid to equity holders of the company (note 10)	**(174.8)**	(171.4)	(258.7)
Purchase of shares	**(2.4)**	(5.6)	(6.6)
Net cash (used in)/generated from financing activities	**(13.7)**	50.2	(46.4)
Net increase/(decrease) in cash and cash equivalents	**30.2**	107.2	(37.6)
Cash and cash equivalents at beginning of the period	**182.1**	219.7	219.7
Cash and cash equivalents at end of the period	**212.3**	326.9	182.1

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The accounting policies, presentation and methods of computation are consistent with those applied in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2016 and are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

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 2016.

The comparative figures for the year ended 31 March 2016 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 for a period of at least 12 months from the date of approval of the condensed consolidated financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the condensed consolidated financial statements and that there are no material uncertainties to disclose. This conclusion is based upon a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities as well as consideration of the group's capital adequacy, consideration of the primary legal duty of United Utilities Water Limited's economic regulator to ensure that water and wastewater companies can finance their functions, and any material uncertainties. In reaching this conclusion, the board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the directors would consider undertaking.

2. Segmental reporting

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

3. Employee benefits expense

Included within employee benefits expense were £4.6 million (30 September 2015: £0.1 million, 31 March 2016: £0.9 million) of restructuring costs.

4. Other operating costs

	Six months ended 30 September 2016 £m	Re-presented* Six months ended 30 September 2015 £m	Year ended 31 March 2016 £m

Hired and contracted services	**51.0**	53.2	107.5
Property rates	**47.2**	46.4	86.3
Materials	**37.4**	34.2	67.2
Power	**33.2**	30.4	65.3
Charge for bad and doubtful receivables	**17.7**	19.7	39.2
Regulatory fees	**17.4**	10.4	27.9
Legal and professional expenses	**3.6**	2.2	5.8
Third party wholesale charges	**3.0**	6.5	15.1
Operating leases payable	**2.4**	2.4	5.0
Loss on disposal of property, plant and equipment	**1.9**	2.6	5.4
Cost of properties disposed	**0.1**	2.2	10.5
Impairment of property, plant and equipment	**-**	-	11.4
Impairment of assets classified as held for sale	**-**	-	2.7
Amortisation of deferred grants and contributions	**(3.1)**	(3.3)	(6.9)
Compensation from insurers	**(7.6)**	-	(20.1)
Other expenses	**18.1**	40.1	63.5
	222.3	247.0	485.8

*The comparatives have been re-presented to include additional categories for amounts previously included within other expenses.

As a result of two significant flooding incidents caused by Storms Desmond and Eva in December 2015, there were £8.5 million (31 March 2016: £19.5 million) of expenses incurred, comprising £7.3 million (31 March 2016: £7.0 million) of operating costs, £0.3 million (31 March 2016: £1.1 million) of infrastructure renewals expenditure and a £0.9 million (31 March 2016: £11.4 million) impairment of property, plant and equipment. Insurance compensation of £7.6 million (31 March 2016: £20.1 million) relating to the flooding incidents has been recognised and the group expects there to be further recovery of the flooding incident costs under its insurance cover in the year ending 31 March 2017, as further remedial work is undertaken.

In addition, there were £3.4 million (30 September 2015: £5.4 million, 31 March 2016: £11.1 million) of market reform restructuring costs incurred preparing the business for open competition in the non-household retail market and £nil (30 September 2015: £24.8 million, 31 March 2016: £24.8 million) of costs relating to a large water quality incident, largely comprising customer compensation payments included within other expenses.

5. Investment income

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	Year ended 31 March 2016 £m
Interest receivable	**1.8**	1.1	1.9
Net pension interest income (note 11)	**4.8**	1.4	3.1
	6.6	2.5	5.0

6. Finance expense

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	Year ended 31 March 2016 £m

Interest payable	**119.8**	104.3	198.1
Net fair value losses/(gains) on debt and derivative instruments	**54.8**	(36.9)	26.3
	174.6	67.4	224.4

Interest payable is stated net of £15.9 million (30 September 2015: £10.8 million, 31 March 2016: £21.3 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the period. Interest payable includes a £45.4 million (30 September 2015: £23.8 million, 31 March 2016: £37.9 million) non-cash, inflation uplift charge in relation to the group's index-linked debt.

Net fair value losses/(gains) on debt and derivative instruments includes £8.5 million income (30 September 2015: £7.9 million, 31 March 2016: £16.5 million) due to net interest on swaps and debt designated at fair value.

7. Disposal of non-household retail business

On 3 May 2016 the Competition and Markets Authority approved the formation of a joint venture, Water Plus, between the group and Severn Trent PLC. On 1 June 2016 the group completed the disposal of its non-household water and wastewater retail business, principally comprising billing and customer service activities, to Water Plus. This resulted in a £20.9 million profit and £4.1 million of cash proceeds on disposal of the business, together with a £15.6 million disposal of assets that had been classified as held for sale. The formation of the joint venture resulted in an increase in investments of £35.6 million, and the subsequent recognition of a £0.9 million share of the joint venture's losses.

8. Tax

During the period there was a current tax credit of £14.3 million (30 September 2015: £nil, 31 March 2016: £9.0 million) relating to agreed matters in relation to prior years and a deferred tax credit of £57.1 million (30 September 2015: £nil, 31 March 2016: £112.5 million) reflecting the substantive enactment of the reduction in the headline rate of corporation tax from 18 per cent to 17 per cent from 1 April 2020. In addition, the profit on disposal of business during the current period was non-taxable.

After adjusting for the above tax credits and the non-taxable item, the total effective tax rate for the current and prior periods was in line with the headline rate of corporation tax of 20 per cent. The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on pension contributions, capital investment and unrealised gains and losses on treasury derivatives.

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

9. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after tax by the weighted average number of shares in issue during the period. The weighted average number of shares in issue as at 30 September 2016 for the purpose of the basic earnings per share was 681.9 million (30 September 2015: 681.9 million, 31 March 2016: 681.9 million) and for the diluted earnings per share was 682.9 million (30 September 2015: 682.8 million, 31 March 2016: 683.0 million).

10. Dividends

	Six months ended 30 September 2016 £m	Six months ended 30 September 2015 £m	Year ended 31 March 2016 £m
Dividends relating to the period comprise:			
Interim dividend	**88.3**	87.3	87.3

Final dividend	**-**	-	174.8
	88.3	87.3	262.1

Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	87.3
Final dividend	**174.8**	171.4	171.4
	174.8	171.4	258.7

The interim dividends for the six months ended 30 September 2016 and 30 September 2015, and the final dividend for the year ended 31 March 2016, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2016 and 30 September 2015, and the consolidated financial statements at 31 March 2016, because they were approved after the reporting date.

The interim dividend of 12.95 pence per ordinary share (2015: interim dividend of 12.81 pence per ordinary share, final dividend of 25.64 pence per ordinary share) is expected to be paid on 1 February 2017 to shareholders on the register at the close of business on 16 December 2016. The ex-dividend date for the interim dividend is 15 December 2017.

11. Retirement benefit surplus

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

	Six months ended 30 September 2016 %p.a.	**Six months ended 30 September 2015 %p.a.**	**Year ended 31 March 2016 %p.a.**
Discount rate	**2.3**	3.4	3.4
Pensionable salary growth and pension increases	**3.3**	3.0	3.2
Price inflation	**3.3**	3.0	3.2

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

	Six months ended 30 September 2016 £m	**Six months ended 30 September 2015 £m**	**Year ended 31 March 2016 £m**
Current service cost	**10.2**	11.4	22.3
Curtailments/settlements	**1.7**	0.3	1.1
Administrative expenses	**1.6**	1.3	2.7
Pension expense charged to operating profit	**13.5**	13.0	26.1
Net pension interest income (note 5)	**(4.8)**	(1.4)	(3.1)
Net pension expense charged before tax	**8.7**	11.6	23.0

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

	Six months ended 30 September	**Six months ended 30 September**	**Year ended 31 March 2016**

	2016 £m	2015 £m	£m
At the start of the period	**275.2**	79.2	79.2
Expense recognised in the income statement	**(8.7)**	(11.6)	(23.0)
Contributions paid	**32.1**	25.2	58.9
Remeasurement (losses)/gains gross of tax	**(83.8)**	33.4	160.1
At the end of the period	**214.8**	126.2	275.2

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

	30 September 2016 £m	30 September 2015 £m	31 March 2016 £m
Present value of defined benefit obligations	**(3,762.0)**	(2,834.7)	(2,970.4)
Fair value of schemes' assets	**3,976.8**	2,960.9	3,245.6
Net retirement benefit surplus	**214.8**	126.2	275.2

In the six month period ended 30 September 2016 the discount rate decreased by 1.1 per cent, which includes a 0.5 per cent decrease in credit spreads. The £83.8 million remeasurement loss has resulted from the impact of the decrease in credit spreads during the period, partially offset by outperformance on the schemes' assets. Further details on the approach to managing pension scheme risk are set out in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2016.

12. Borrowings

New borrowings raised during the six month period ended 30 September 2016 were as follows:

- On 9 June 2016 the group issued EUR 30.0 million fixed interest rate notes due June 2031.
- On 13 June 2016 the group issued HKD 600.0 million fixed interest rate notes due June 2031.
- On 15 June 2016 the group drew down the remaining £75.0 million against its existing £250.0 million term index-linked loan facility signed in March 2015 with the European Investment Bank. This loan is structured on an amortising basis with final repayment in June 2034.
- On 17 June 2016 the group drew down £75.0 million against its new £250.0 million term index-linked loan facility signed in April 2016 with the European Investment Bank. This loan is structured on an amortising basis with final repayment in June 2034.
- On 30 September 2016 the group issued £20.0 million index-linked notes due October 2028 and £26.5 million index-linked notes due September 2036.

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

13. Fair values of financial instruments

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

	30 September	2016	30 September	2015	31 March	2016
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Available for sale financial assets						
Investments	**9.1**	**9.1**	8.5	8.5	8.7	8.7
Financial assets at fair value through profit or loss						

Derivative financial assets - fair value hedge	**694.9**	**694.9**	509.7	509.7	583.8	583.8
Derivative financial assets - held for trading	**243.0**	**243.0**	153.6	153.6	181.8	181.8
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities - fair value hedge	**-**	**-**	(2.3)	(2.3)	-	-
Derivative financial liabilities - held for trading	**(335.0)**	**(335.0)**	(187.3)	(187.3)	(261.7)	(261.7)
Financial liabilities designated as fair value through profit or loss	**(379.6)**	**(379.6)**	(312.2)	(312.2)	(338.0)	(338.0)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(2,631.3)**	**(2,609.9)**	(2,211.1)	(2,253.2)	(2,293.0)	(2,373.0)
Other financial liabilities at amortised cost	**(5,567.4)**	**(4,327.4)**	(4,775.5)	(4,277.6)	(4,830.1)	(4,267.0)
	(7,966.3)	**(6,704.9)**	(6,816.6)	(6,360.8)	(6,948.5)	(6,465.4)

A decrease in underlying interest rates on index-linked debt during the period is the principal reason for the increase in the difference between the fair value and carrying value of the group's borrowings.

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 'Fair value measurement' hierarchy of £2,162.4 million (30 September 2015: £1,927.8 million, 31 March 2016: £2,149.5 million) for financial liabilities in fair value hedge relationships and £1,669.0 million (30 September 2015: £1,126.5 million, 31 March 2016: £1,309.9 million) for other financial liabilities at amortised cost.

The £372.0 million increase (30 September 2015: £214.8 million reduction, 31 March 2016: £1,213.5 million reduction) in 'level 1' fair value liability measurements is largely due to the increase in fair values at 30 September 2016. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data which are classified as 'level 2' valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2016.

14. Net debt

	Six months ended 30 September 2016 £m	**Re-presented* Six months ended 30 September 2015 £m**	**Year ended 31 March 2016 £m**
At start of the period	**6,260.5**	5,924.0	5,924.0
Net capital expenditure	**329.7**	317.6	681.6
Dividends (note 10)	**174.8**	171.4	258.7
Interest	**75.8**	64.9	166.8
Loans to joint ventures	**46.0**	-	-
Inflation uplift on index-linked debt (note 6)	**45.4**	23.8	37.9
Fair value movements	**34.9**	(54.6)	42.4
Tax	**21.9**	26.7	53.1
Other	**5.0**	0.7	1.5
Cash generated from operations (note 15)	**(517.4)**	(461.6)	(905.5)
At end of the period	**6,476.6**	6,012.9	6,260.5

*The comparatives have been re-presented to include additional categories for amounts previously included within other.

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

Fair value movements includes net fair value losses on debt and derivative instruments of £54.8 million (30 September 2015: £36.9 million gain, 31 March 2016: £26.3 million loss) less net payments on swaps and debt designated at fair value of £19.9 million (30 September 2015: £17.7 million net payment, 31 March 2016: £16.1 million net receipt).

15. Cash generated from operations

	Six months ended 30 September 2016 £m	**Six months ended 30 September 2015 £m**	**Year ended 31 March 2016 £m**
Operating profit	**303.6**	278.3	567.9
Adjustments for:			
Depreciation of property, plant and equipment	**164.5**	170.3	332.5
Amortisation of intangible assets	**13.5**	14.8	31.2
Impairment of property, plant and equipment	**-**	-	11.4
Impairment of assets classified as available for sale	**-**	-	2.7
Loss on disposal of property, plant and equipment	**1.9**	2.6	5.4
Amortisation of deferred grants and contributions	**(3.1)**	(3.3)	(6.9)
Equity-settled share-based payments charge	**1.1**	1.2	2.3
Other non-cash movements	**(1.4)**	(2.4)	(3.8)
Changes in working capital:			
Decrease in inventories	**0.1**	2.1	11.2
Decrease/(increase) in trade and other receivables	**43.6**	(26.5)	(14.1)
Increase/(decrease) in trade and other payables	**8.7**	30.7	(4.1)
Increase in provisions	**3.5**	6.0	2.6
Pension contributions paid less pension expense charged to operating profit	**(18.6)**	(12.2)	(32.8)
Cash generated from operations	**517.4**	461.6	905.5

16. Commitments and contingent liabilities

At 30 September 2016 there were commitments for future capital expenditure contracted but not provided for of £425.8 million (30 September 2015: £450.7 million, 31 March 2016: £447.3 million).

Details of the group's contingent liabilities were disclosed in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2016. There have been no significant developments relating to contingent liabilities in the period ended 30 September 2016.

17. Related party transactions

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

	Six months ended	**Six months ended**	**Year ended 31 March**

	30 September 2016 £m	30 September 2015 £m	2016 £m
Sales of services	**167.9**	0.5	1.2
Purchases of goods and services	**0.3**	0.4	0.7
Amounts owed by related parties	**111.4**	2.8	2.9
Amounts owed to related parties	**1.8**	-	-

Sales of services to related parties during the year mainly represent non-household wholesale charges and were on the group's normal trading terms.

At 30 September 2016 amounts owed by joint ventures were £111.4 million, comprising £49.1 million of trade balances settled in accordance with normal credit terms and £62.3 million of unsecured loans maturing within 15 months. Included within these amounts was £46.0 million owed by Water Plus in respect of amounts drawn down on a £75.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC. No expense or allowance has been recognised for bad or doubtful receivables in respect of the amounts owed by related parties.

In addition, the group has issued other guarantees of £5.2 million (30 September 2015: £2.7 million, 31 March 2016: £4.7 million) in support of its joint ventures.

18. Events after the reporting period

There were no events arising after the reporting date that required recognition or disclosure in the condensed consolidated financial statements for the period ended 30 September 2016.

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 UK Financial Conduct Authority.

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

Dr John McAdam
Steve Mogford
Stephen A Carter
Mark Clare

Alison Goligher
Russ Houlden
Brian May
Sara Weller

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

………………………………………	………………………………………
Steve Mogford	Russ Houlden
22 November 2016	22 November 2016
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 2016 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
St Peter's Square
Manchester
M2 3AE
22 November 2016