United Utilities Group PLC
20 November 2019

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

Delivering responsibly in the North West for customers and other stakeholders

- Improving customer service while reducing average household bills by 10% in real terms since 2010
- Sector leading approach to affordability, supporting over 120,000 customers in vulnerable circumstances
- Delivering a £3.9bn AMP6 investment programme, creating long-term value for all our stakeholders
- Long track record of sharing outperformance with additional investment of £350m in AMP6
- Strong ESG credentials across a number of leading indices

Operational transformation over AMP6

- Our unique Systems Thinking approach has delivered a step change in performance
- Continuing strong performance expected to lift net wholesale ODI outperformance to around £50m
- Recognised by Ofwat as a strong performer for customer satisfaction – achieving upper quartile SIM scores
- On track to deliver totex outperformance of around £100m against our AMP6 scope

Strong financial performance

- Interim dividend in line with AMP6 growth policy
- Pension schemes fully funded on a self-sufficiency basis
- Robust capital structure providing resilience and future financial flexibility

Well prepared for AMP7

- Fast-track status has provided clarity to move forward with our implementation plans for 2020-2025
- £100m of £350m outperformance reinvestment for flying start already committed
- Locked-in efficiencies through network delivery transformation and selection of capital delivery partners
- Strong performance and outperformance reinvestment gives confidence heading into the next regulatory period

Key financials

	Six months ended	
	30 September 2019	30 September 2018
Revenue	£935.5m	£916.4m
Reported operating profit	£383.0m	£339.1m
Underlying operating profit[1]	£391.7m	£367.8m
Reported profit after tax	£158.6m	£212.5m
Underlying profit after tax[1]	£198.2m	£196.9m
Interim dividend per ordinary share (pence)	14.20p	13.76p
Net regulatory capital spend	£323.0m	£392.7m
RCV gearing[2,3]	62%	60%

[1] Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on pages 13 and 14
[2] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water's shadow RCV (outturn prices)
[3] RCV gearing has increased primarily reflecting the one-off impact of £103m of accelerated pension deficit repair contributions and a £55m lease liability recognised under IFRS16

Steve Mogford, Chief Executive Officer, said:

"Our customers are at the heart of everything we do – our customer satisfaction scores are consistently among the best in the water sector. Since 2010 we have reduced the average household bill by 10 per cent in real terms, while improving customer service and supporting thousands of vulnerable households.

"I'm pleased with the transformation we have achieved over recent years – we've delivered better levels of service for customers, a more resilient network and real gains in efficiency. Our focus on innovation, coupled with sustained investment, is helping us to deliver against a challenging set of performance targets, while also protecting and enhancing the environment and supporting our local communities.

"I'm also proud to work alongside such a highly motivated and engaged team of colleagues. We've built award-winning apprenticeship and graduate schemes, and underlined our commitment to offer opportunities to people from all backgrounds by becoming an accredited partner of The Social Mobility Pledge.

"We are well prepared for the next regulatory period and are already moving forward with our implementation plans. This, together with the sustainable improvements in performance, gives us confidence that we will continue to create long-term value for all our stakeholders."

For further information on the day, please contact:

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A presentation to investors and analysts starts at 9.00am on Wednesday 20 November 2019, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

The presentation can be accessed via a live webcast facility at the following link:
https://www.investis-live.com/united-utilities/5db86d9fef68be120009efdb/nnbn

The presentation can be accessed via a live listen only call facility by dialling:
UK toll: +44 (0)20 3936 2999
Passcode: 924832

The webcast will be available on demand from Thursday 21 November 2019 at the following link:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

This results announcement and the associated presentation will be available on the day at:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

OPERATIONAL OVERVIEW

We have transformed the operational performance of the business and are now one of the leading companies in the sector. Our performance is benefiting from our deeply embedded approach to innovation and the investment that we accelerated into the early years of the current regulatory period, supplemented by additional outperformance reinvestment. This has delivered sustainable improvements in service, resilience and efficiency and provides a strong platform for the next regulatory period.

- **Sustained improvement in customer satisfaction** – our performance against Ofwat's Service Incentive Mechanism (SIM) has improved significantly since its introduction at the start of AMP5. We now score in the upper quartile for the sector and finished third overall in 2018/19. This performance is mirrored across other indices and through awards and accreditations we receive for our great performance in customer service, collections and debt management, and complaint handling.

- **Innovation through Systems Thinking** – our innovative Systems Thinking approach is transforming the way that we run the business, our relationship with customers and our use of technology. By looking at the bigger picture and understanding how everything is connected, we are able to predict performance to deliver enhanced levels of service and resilience along with sustainable improvements in efficiency.

- **Operational transformation delivered responsibly** – we have transformed the operational performance of the business to be one of the leading companies in the sector. This has been achieved in a sustainable and responsible manner and supported by a strong balance sheet and resilient capital structure. We are therefore well placed to continue to deliver long-term value for all our stakeholders into the future.

- **Delivering shareholder value through regulatory outperformance** – we are confident of outperforming against all areas of the regulatory contract for AMP6. The low cost of debt we have already locked in places us in a strong position to deliver on our target of minimising our cost of debt compared with Ofwat's industry assumed cost for the 2015-20 period. We are confident of delivering our AMP6 scope for around £100 million less than the Final Determination totex assumption and a cumulative net outperformance of around £50 million against our Outcome Delivery Incentives (ODIs) for AMP6. By putting customers at the heart of everything we do, we have delivered strong performance on customer satisfaction and have outperformed on SIM in AMP6.

- **Sharing outperformance** – we have a long track record of sharing outperformance, with additional investment of £350 million for AMP6 and over £600 million across AMPs 5 and 6.

- **Strong environmental, social & governance (ESG) credentials** – we have achieved our World Class rating in the Dow Jones Sustainability Index for thirteen consecutive years, and perform well against a range of other ESG indices. We retained our self-assurance status with Ofwat for reporting, the highest category available and the only company in the sector to have held this status for three consecutive years. In July, we were delighted to be the first water company in the FTSE 100 to secure the Fair Tax Mark, recognising our responsible track record and consistent commitment to paying our fair share of tax and acting in an open and transparent manner in relation to our tax affairs.

- **Prepared for AMP7** – our fast-track status has provided us with clarity to move forward with our AMP7 implementation plans. We have appointed two capital delivery partners as preferred bidders for over £300 million of our AMP7 capital delivery programme and have already committed to the £100 million of additional outperformance reinvestment targeting AMP7 performance. This, together with our strong performance in AMP6, gives us confidence heading into AMP7.

FINANCIAL OVERVIEW

The group has delivered a strong set of financial results for the six months ended 30 September 2019.

- **Revenue** – revenue was up £19 million, at £936 million, largely reflecting our allowed regulatory revenue changes.

- **Operating profit** – underlying operating profit was up £24 million, at £392 million. This reflects the £19 million increase in revenue and a £13 million reduction in infrastructure renewals expenditure (IRE) partly offset by an £8 million increase in depreciation. Reported operating profit was up £44 million, at £383 million, impacted by the same movements as underlying operating profit as well as the impact of one off costs of £25 million associated with the extreme hot and dry weather incurred in the prior year.

- **Capex** – total net regulatory capital investment in the first half of the year was £323 million including £68 million of IRE. We are on track to deliver a total of around £700 million for the full year, including around £190 million of the £350 million additional investment of outperformance sharing which was not anticipated at the time of the PR14 settlement. Our five-year AMP6 regulatory capex programme is around £3.9 billion including this additional investment.

- **Profit before tax** – underlying profit before tax was up £4 million, at £244 million, largely reflecting the increase in underlying operating profit partly offset by an £11 million increase in the underlying net finance expense and a £6 million share of losses of joint ventures compared with a £3 million share of profits in the first half of last year. The increase in the underlying net finance expense was mainly due to the impact of higher RPI inflation on our index-linked debt. Reported profit before tax was £195 million, reflecting fair value movements and other adjusting items as outlined in the underlying profit measures tables on pages 13 and 14.

- **Profit after tax** – underlying profit after tax was up by £1 million, at £198 million. Reported profit after tax was lower at £159 million, mainly reflecting fair value movements.

- **Capital structure** – the group has a robust capital structure with gearing of 62 per cent as at 30 September 2019 (measured as group net debt to 'shadow' regulatory capital value, or RCV). Our shadow RCV adjusts for actual spend and was £11.9 billion as at 30 September 2019. This gearing level is comfortably within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has long-term credit ratings of A3 on stable outlook from Moody's, A- on negative outlook from Standard & Poor's and a senior debt rating of A- on stable outlook from Fitch.

- **Financing headroom** – the group benefits from headroom to cover its projected needs into 2021, enhanced by the recent raising of new finance. At 30 September 2019, the group had headroom of £716 million consisting of cash and undrawn committed funding, and having taken account of debt maturities due in the next 12 months. This headroom provides flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

- **Dividend** – the Board has proposed an interim dividend of 14.20 pence per ordinary share, an increase of 3.2 per cent, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

KEY PERFORMANCE INDICATORS

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

- the best service to customers;
- at the lowest sustainable cost;
- in a responsible manner.

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

Best service to customers

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

  Ofwat has now completed the four year measurement period in AMP6 for SIM. In the fourth and final year, we scored 87.6 points on a combined basis, incorporating both qualitative and quantitative assessments. This was our highest ever score and resulted in us finishing third out of 18 companies in the sector overall.

  Our four year average score across the AMP6 measurement period was 85.4 points resulting in us finishing seventh in the sector overall and reflecting our mid-ranking start to the period. Our performance in AMP6 is a further improvement on our AMP5 performance and as a consequence, we are eligible for a SIM outperformance payment of at least £6 million – we expect to be advised of the full amount in our PR19 Final Determination.

- **Outcome delivery incentives (ODIs)** – we have 19 wholesale financial ODIs, ten of which are structured to provide the potential to earn a reward for good performance or for us to be penalised for poor performance. The other nine wholesale financial ODIs are structured in order to protect customers in key areas and do not offer a reward for good performance, only a penalty for poor performance.

  We were pleased to deliver cumulative net outperformance of £21.4 million for the first four years of the current regulatory period, exceeding our initial expectations. Whilst a number of our ODI measures are susceptible to one-off events and, on the whole, our ODI targets get tougher each year, our strong performance to date coupled with continued targeted investment, alongside our Systems Thinking and innovative approach to the way we operate, gives us confidence that we will achieve cumulative net ODI outperformance over the 2015-20 period of around £50 million. This reflects a continuation of our strong performance into the final year of AMP6 together with an anticipated £22.5 million outperformance payment in relation to our West Cumbria project that is only secured when the final milestone is delivered in 2019/20.

Lowest sustainable cost

- **Financing outperformance** – the low cost of debt we have already locked in places us in a strong position to deliver significant financing outperformance for the 2015-20 regulatory period compared with the industry allowed cost.

- **Total expenditure (totex) performance** – our totex allowance for the 2015-2020 regulatory period represented a significant challenge compared with the costs originally submitted as part of our business plan. We have not only closed the gap to our allowance but we are also confident of outperforming that allowance by around £100 million. This has been achieved through a combination of driving efficiency into our capital programme and through Systems Thinking.

- **Household retail cost to serve** – we continue to deliver against a challenging benchmark set for AMP6. Our target is to minimise our costs compared with our revenue allowance. We are continuing with our strong focus on this target and will provide an update for 2019/20 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, as we consider it to be an important measure from a responsible business perspective. In 2018/19 we again met our regulatory leakage target of 463 megalitres per day and, absent a severe winter, we believe that we can meet it again in 2019/20.

- **Environmental performance** – in the Environment Agency's latest assessment, published in July 2019, we were awarded three stars (out of four) across a range of operational metrics. This is lower than our performance in the previous year where we were awarded the industry leading four star status for the third consecutive year. Our lower score in the most recent assessment was primarily the result of a slight deterioration of performance against the delivery of our National Environment Programme where two projects were delivered late. The two projects were delayed due to unforeseen issues with land purchase, planning difficulties and complex interactions with a flood risk scheme. We have since made good progress with delivery and we are now operating the relevant assets in line with their new Environmental Permit requirements. We also brought forward the delivery of two other major schemes to offset the environmental impact. Overall, our performance, earning industry leading four star status in three of the last four years is in line with our medium-term goal of being an upper quartile company on a consistent basis.

- **Corporate responsibility** – we have a strong focus on operating in a responsible manner and we are the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. For 2018/19, we achieved our World Class rating for the thirteenth consecutive year. We also demonstrate a very strong performance across a number of leading corporate responsibility indices and report these publicly on our website – for example, we have been named in the FTSE4Good Index every year for the last 17 years, and reconfirmed as part of the Euronext Vigeo Index UK 20.

FINANCIAL PERFORMANCE

United Utilities delivered a strong set of financial results for the six months ended 30 September 2019.

Revenue

Revenue was up £19 million, at £936 million, largely reflecting our allowed regulatory revenue changes.

Consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we are reducing revenue by £14 million in 2019/20 (outturn prices). This consists of two components; firstly reflecting actual volumes being higher than our original assumptions during AMP6, and secondly a reduction relating to the 2014/15 "AMP5 blind year", which is £5 million in 2019/20.

Operating profit

Underlying operating profit at £392 million was £24 million higher than the first half of last year. This reflects our allowed regulatory revenue changes and a £13 million decrease in IRE partly offset by an £8 million increase in depreciation. In relation to the remaining underlying costs, the impact of a credit in the prior year resulting from the settlement of an historical commercial claim has been offset by a property rates refund in the first half of this year and smaller net reductions across the rest of the cost base.

Reported operating profit increased by £44 million, to £383 million, reflecting the increase in underlying operating profit and a decrease in adjusted items. The only adjusted item impacting operating profit in the first half of 2019/20 is £9 million of restructuring costs. Adjusted items in the first half of last year amounted to £29 million, including £25 million of costs associated with the extreme hot and dry weather in the summer of 2018 and £4 million of restructuring costs.

Investment income and finance expense

The underlying net finance expense of £142 million for the first half of 2019/20 was £11 million higher than the first half of last year, driven by the higher RPI inflation on the group's index-linked debt, and the impact of new debt and interest rate swaps traded since September 2018.

Interest of £46 million on non index-linked debt was £7 million higher than the first half of last year, due to a higher level of debt following new issuances and associated interest rate swaps traded in the period, resulting in a higher level of interest payable. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £71 million, compared with a net charge of £67 million in the first half of last year. As at 30 September 2019, the group had approximately £3.5 billion of RPI-linked debt at an average real rate of 1.4 per cent, and £0.5 billion of CPI-linked debt at an average real rate of 0.2 per cent.

The higher RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 4.0 per cent being higher than the rate of 3.8 per cent for the six months ended 30 September 2018. The average underlying interest rate represents the underlying net finance expense divided by notional average net debt as defined in note 17 ('Net debt') of these condensed consolidated financial statements.

Reported net finance expense of £182 million was higher than the £83 million expense in the first half of 2018/19. This £99 million increase principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £44 million gain in the first half of 2018/19 to a £63 million loss in the first half of 2019/20.

The fair value loss in the first half of 2019/20 is due to losses on our derivatives hedging interest rates impacted by a decrease in market interest rates, partially offset by net interest receivable on derivatives and debt designated at fair value. Gains in the first half of the prior year were largely due to due to gains on our derivatives hedging interest rates impacted by an increase in market interest rates, and net interest receivable on derivatives and debt designated at fair value. The group uses swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows assumed by Ofwat at each price review. The group has fixed the substantial majority of its non index-linked debt for the 2015-20 regulatory period.

Profit before tax

Underlying profit before tax was £244 million, £4 million higher than the first half of last year. This reflects the £24 million increase in underlying operating profit, partly offset by the £11 million increase in underlying net finance expense and a £6 million share of losses of joint ventures compared with a £3 million profit in the first half of last year. At March 2019 we reported how our joint venture, Water Plus, had suffered a deterioration in its working capital position due to billing data issues stemming from the market opening in April 2017. These issues have continued to result in a challenging operating environment for Water Plus, resulting in a £9.3 million share of loss in the first half of the current year compared with a £0.7 million share loss in the first half of last year.

This underlying measure reflects the adjusted items, as outlined in the operating profit section above, and other items such as fair value movements in respect of debt and derivative instruments, as outlined in the underlying profit measures tables on pages 13 and 14.

Reported profit before tax decreased by £65 million to £195 million, largely reflecting the £44 million increase in reported operating profit more than offset by a £99 million increase in reported net finance expense including fair value movements.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to be the first water company in the FTSE 100 to secure the Fair Tax Mark in July this year.

In addition to corporation tax, the group makes further contributions to the public finances, typically of around £200 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes, other regulatory service fees such as water abstraction charges as well as employment taxes on behalf of our 5,000 strong workforce.

In the first half of 2019/20, we paid £49 million of corporation tax, which represents an effective cash tax rate on underlying profits of 20 per cent which is higher than the normal rate of around 11 per cent primarily due to paying four rather than the usual two quarterly tax instalments payments in the first half of 2019/20, as we transition to the new quarterly instalment regime. After adjusting for these one off additional payments, the key reconciling items to the headline rate of corporation tax (currently at 19 per cent) continue to be allowable tax deductions on capital investment and pension payments, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby facilitates more accurate medium-term cash tax rate forecasting.

As well as the payments, we also received a repayment of corporation tax of £16 million which relates to agreement of prior years' UK tax matters.

The current tax charge was £24 million in the first half of 2019/20, compared with £29 million in the corresponding period last year.

In the first half of 2019/20, the group recognised a deferred tax charge of £12 million in the income statement, compared with a charge of £18 million in the first half of the previous year.

The total tax charge recognised in the income statement for the first half of 2019/20 was £37 million, compared to a total tax charge of £47 million for the first half of last year. For both periods, the total underlying tax effective rate was in line with the headline rate (currently at 19 per cent) and, subject to any further legislative or tax practice changes, we would expect this to continue for the medium-term.

Profit after tax

Underlying profit after tax of £198 million was £1 million higher than the first half of last year, principally reflecting the £4 million increase in underlying profit before tax.

Reported profit after tax decreased by £54 million to £159 million, principally reflecting the £65 million decrease in the reported profit before tax.

Earnings per share

Underlying earnings per share increased from 28.9 pence to 29.1 pence. This underlying measure is derived from underlying profit after tax.

Basic earnings per share decreased from 31.2 pence to 23.3 pence, for the same reasons that caused the decrease in reported profit after tax.

Dividend per share

The Board has proposed an interim dividend of 14.20 pence per ordinary share in respect of the six months ended 30 September 2019. This is an increase of 3.2 per cent compared with the interim dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 3.2 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2019/20 financial year (i.e. the movement in RPI between November 2017 and November 2018).

The interim dividend is expected to be paid on 3 February 2020 to shareholders on the register at the close of business on 20 December 2019. The ex-dividend date is 19 December 2019.

Our dividend policy targets a growth rate of at least RPI inflation each year through to 2020, with further details set out below.

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

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

- ***Distributable reserves*** – as at 30 September 2019, the company had distributable reserves of £3,124 million. The total external dividends relating to the 2018/19 financial year amounted to £282 million. The company's distributable reserves support over 11 times this annual dividend.

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

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

- ***Financial stability*** – the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which Ofwat sets an assumed return component of the company's revenue controls. RCV gearing is useful in assessing a company's financial stability in the UK water industry, and is one of the key credit metrics that the credit rating agencies focus on. United Utilities has had a relatively stable RCV gearing level over the last ten years, always comfortably within its target range of 55 per cent to 65 per cent, supporting a solid A3 credit rating for UUW with Moody's. RCV gearing at 30 September 2019 was 62 per cent and the movement in net debt is outlined in the cash flow section below.

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

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

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

- ***Policy sustainability***

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

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

Other comprehensive income

During the period other comprehensive income included the effect of a change in the rate at which deferred tax liabilities arising on the group's defined benefit pension schemes are measured. See note 8 of the condensed consolidated financial statements for further details.

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2019 was £364 million, compared with £438 million in the first half of last year. The £74 million reduction is largely attributable to the accelerated payment in April 2019 of £103 million of the agreed deficit recovery contributions in relation to the group's defined benefit pension schemes.

The group's net capital expenditure was £321 million, principally in the regulated water and wastewater investment programmes. This excludes IRE which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex includes IRE and is based on the capital work that is done in the period, rather than actual cash spent.

Net debt including derivatives at 30 September 2019 was £7,346 million, compared with £7,067 million at 31 March 2019. This £279 million increase reflects regulatory capital expenditure, payments of dividends, interest and tax, the prepayment of £103 million of pension deficit recovery contributions, the impact of IFRS16 which results in the recognition of a £55 million lease liability included within net debt and the inflationary uplift on index-linked debt, partly offset by operating cash flows.

Fair value of debt

The group's gross borrowings at 30 September 2019 had a carrying value of £8,513 million. The fair value of these borrowings was £9,987 million. This £1,474 million difference principally reflects the significant fall in real interest rates, compared with the rates at the time we raised a portion of the group's index-linked debt.

Debt financing and interest rate management

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 30 September 2019. This is slightly higher than the 61 per cent we reported as at 31 March 2019 and remains comfortably within our target range of 55 per cent to 65 per cent.

UUW's senior unsecured debt obligations are rated A3 on stable outlook from Moody's Investor Service Limited (Moody's), A- on negative outlook from S&P Global Ratings Europe Limited (S&P) and A- on stable outlook from Fitch Ratings Ltd (Fitch). United Utilities PLC's (UU PLC's) senior unsecured debt obligations are rated Baa1 on stable outlook from Moody's, BBB on negative outlook from S&P and A- on stable outlook from Fitch.

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 2019 amounted to £622 million. Over 2015-20 we had a financing requirement totalling around £2.5 billion to cover refinancing and incremental debt, supporting our five-year investment programme, and we have raised all of this requirement.

In June 2019, UUW's financing subsidiary, United Utilities Water Finance PLC (UUWF), raised £250 million fixed rate notes in the public bond market with a 14-year maturity.

UUW remains one of the sector leaders in the issuance of CPI-linked debt having previously created CPI-linkage in its debt portfolio of £365 million, in response to Ofwat's decision to transition away from RPI inflation linkage. In July 2019, the CPI-linkage was increased to around £465 million through UUWF increasing the amount outstanding on a public bond with a maturity date in February 2031 by an additional £100 million, and simultaneously swapping the cash flows to CPI-linkage.

In addition, since March 2019, the group has signed £50 million of new committed bank facilities, renewed a further £50 million for an initial five-year term and extended a further £50 million by one year out to 2024. The group has headroom to cover its financing needs into 2021.

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 2019, approximately 48 per cent of the group's net debt was in RPI-linked form, representing around 30 per cent of UUW's RCV, with an average real interest rate of 1.4 per cent. A further 6 per cent of the group's net debt was in CPI-linked form, representing around 4 per cent of UUW's RCV, with an average real interest rate of 0.2 per cent. The long-term nature of this funding also provides a good match to the group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is just under 20 years.

Our inflation hedging policy is to target around 50 per cent of net debt to be maintained in index-linked form reflecting a balanced assessment across a range of factors.

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. Historically, this was 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 nominal debt for the current financial year, locking in an average annual interest rate of around 2.9 per cent nominal (inclusive of credit spreads).

Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020-25 regulatory period, we will retain the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but we will no longer supplement this with the additional 'top up' hedge at the start of each new regulatory period.

The adoption of the new leasing standard, IFRS 16, during the period, has resulted in an increase in statutory net debt of £55 million as a result of lease liabilities being brought onto the balance sheet. As corresponding right-of-use assets have also been brought onto the balance sheet, the group's net asset position has not been materially impacted by the adoption of the new standard. Ofwat have indicated that they will allow for an uplift to the RCV in recognition of the new standard's impact, meaning that gearing is not expected to be significantly impacted in the longer term.

Liquidity

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

Available headroom at 30 September 2019 was £716 million, consisting of cash, short-term deposits and committed bank facilities, net of short-term debt as well as committed facilities and term debt falling due within 12 months.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. United Utilities' cash is held in the form of short-term money market deposits with prime commercial banks.

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

Pensions

As at 30 September 2019, the group had an IAS 19 net defined benefit pension surplus of £699 million, compared with a net pension surplus of £484 million at 31 March 2019. This £215 million increase is as a result of a significant fall in gilt yields in the period and the acceleration of £103 million of deficit repair contributions to the group's defined benefit schemes. These payments represent the final acceleration of deficit repair contributions set out in the schedules of contributions agreed with the schemes' trustees as part of the 31 March 2018 valuation process, and reduce the pension scheme deficit repair contributions due from the company down to £nil. The scheme specific funding basis does not suffer from volatility due to credit spread movements, as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements have therefore not had a material impact on the pensions position calculated on a scheme specific funding basis.

Further detail on pensions is provided in note 13 ('Retirement benefit surplus') of these condensed consolidated financial statements.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported under International Financial Reporting Standards (IFRSs) as adopted by the European Union in the group's consolidated income statement, which can be found on page 18. As such, they represent non-GAAP measures.

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

Adjusted item	Rationale
Dry weather event	An extreme period of hot and dry weather during the summer of 2018 led to significant strain being placed on our water resources and network and as a result our reservoir levels ran extremely low. Activities were carried out to safeguard supplies, generating significant costs which would not have been incurred under normal conditions. Given the severity of this unusually dry weather, this event is not considered part of the normal course of business.
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value losses/(gains) on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro-economic factors which are outside the control of management, and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believe it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for the former, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believe it is useful to adjust for this to provide a more representative view of performance which is better aligned to the return on capital it earns through revenue.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believe it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
Tax in respect of adjustments to underlying profit before tax	Management adjust for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Operating profit	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m
Operating profit per published results	**383.0**	**339.1**
Dry weather	-	25.0
Restructuring costs	8.7	3.7
Underlying operating profit	**391.7**	**367.8**

Net finance expense	£m	£m
Finance expense	(193.9)	(90.7)
Investment income	11.7	7.8
Net finance expense per published results	**(182.2)**	**(82.9)**
Adjustments:		
Net fair value losses/(gains) on debt and derivative instruments	62.6	(43.7)
Interest on swaps and debt under fair value option	10.1	18.7
Net pension interest income	(6.8)	(4.5)
Adjustment for capitalised borrowing costs	(25.7)	(18.5)
Underlying net finance expense	**(142.0)**	**(130.9)**

Profit before tax	£m	£m
Share of (losses)/profits of joint ventures	**(5.7)**	**3.4**
Profit before tax per published results	**195.1**	**259.6**
Adjustments:		
Dry weather	-	25.0
Restructuring costs	8.7	3.7
Net fair value losses/(gains) on debt and derivative instruments	62.6	(43.7)
Interest on swaps and debt under fair value option	10.1	18.7
Net pension interest income	(6.8)	(4.5)
Capitalised borrowing costs	(25.7)	(18.5)
Underlying profit before tax	**244.0**	**240.3**

Profit after tax	£m	£m
Underlying profit before tax	244.0	240.3
Reported tax charge	(36.5)	(47.1)
Tax in respect of adjustments to underlying profit before tax	(9.3)	3.7
Underlying profit after tax	**198.2**	**196.9**

Earnings per share	£m	£m
Profit after tax per published results (a)	158.6	212.5
Underlying profit after tax (b)	198.2	196.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	23.3p	31.2p
Underlying earnings per share, in pence (b/c)	29.1p	28.9p
Interim dividend per share	14.20p	13.76p

PRINCIPAL RISKS AND UNCERTAINTIES

In delivering our group-wide activity we are faced with a range of risks which can threaten the quality of the services we provide, introduce delays and ultimately increase cost and damage the reputation of the group. We anticipate and mitigate these risks through an embedded risk management framework which includes:

- A consistent and reliable enterprise-wide risk management process;
- A governance and reporting structure which enables the board to oversee and direct the control of risk;
- Definition of risk appetite by the board with an overarching general risk appetite supplemented where appropriate by specific risk appetites for certain risks;
- An ISO 31000:2018 aligned assessment and mitigation process; and
- Policies, practical guidance and training programmes to enable our people to identify, quantify and manage risk effectively.

Our risk identification and management activities are continuous and ongoing, with each functional and operational area responsible for assessing, articulating and controlling relevant risks.

This includes horizon scanning of the internal and external business environment, to identify and review new and emerging risks that could lead to a future impact or emerging circumstances of existing risk that could affect the exposure in the short to medium term.

Risk events are assessed in their current state for the likelihood of occurrence based on the level of threat and the vulnerability of controls, together with the financial and reputational impacts should the identified events materialise. Where we are not satisfied that the current state is consistent with our general risk appetite, or where it could present an unacceptable risk in relation to a specific risk appetite, we determine an appropriate risk exposure as a target state and develop further mitigating controls to deliver this position within an appropriate time frame.

In order to maintain adequate oversight of risk, there are various steering groups and governance forums that focus on individual risks which then escalate and share progress to the group audit and risk board either directly or via the operational risk and resilience board.

A complete oversight of our enterprise wide profile is presented every six months to the group board to highlight the nature and extent of the current risk exposure with focus on the most significant risks relative to the group's principal risks. These principal risks were set out on pages 72-75 of the 2019 United Utilities Group PLC Annual Report and Financial Statements and are: (1) Political and regulatory; (2) Conduct and Compliance; (3) Water service; (4) Wastewater service; (5) Retail and commercial; (6) Financial; (7) Supply Chain and Programme delivery; (8) Resource; (9) Security; and (10) Health, safety and environmental. They 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 nature and the extent of exposure is highlighted together with the extent of management/mitigation. To ensure relevance with the current environment, issues or areas of uncertainty are also illustrated.

Reports to the board highlight major risks based on 1) the highest impact business risks across the group and 2) the highest impact operational risks. These comprise the 10 highest scoring risks assessed on the basis of likelihood and financial impact for each of the two categories. In addition, the report covers risks which were scored highly for the severity of their impacts in their current state (net of control effectiveness) but remote on likelihood. The board report also highlights risks where there could be significant reputational impact or which relate to significant new or emerging risks or issues, but which are not encompassed within the other reported categories.

Our approach is in accordance with the UK Corporate Governance Code and incorporates reporting to the group board for every full and half year statutory accounting period. This enables the board to:

- Determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- 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.

Key developments

Ofwat's Initial Assessment of Plans (IAP) following the price review submission recognised our leading approach to risk and resilience. Our approach is a combination of top down assessment, where we consider the impacts on strategic delivery, and a bottom up assessment where we consider localised operational performance, asset health and operational hazards. We have an established approach for the two elements, but continue to drive improved maturity through various initiatives which focus on improved appreciation of related data and information to understand our long-term risk profile, to support decision making and to deliver a cost-effective and proportionate risk management response which drives resilience.

These initiatives include:

- Continuation of our focus on cross-business consideration of strategic and tactical risks, for example an in-depth cyber risk assessment that took place throughout the year and Brexit contingency planning as covered below;
- Improvement of our maturity in relation to risk appetite – we have commenced reporting against a general risk appetite boundary and, where appropriate, specific risk appetite boundaries enabling more targeted discussions over the last year (an approach we intend to continue to develop and embed);
- Development of the assessment and reporting of the full distribution of impacts, including possible maximum and minimum outcomes as well as more likely occurrences. This supports our focus on long-term resilience and tests our response and recovery plans and expectations;
- Ongoing development of our operational risk and asset planning process to prioritise investment and operational management through the identification of risks and issues and monitoring of strategic performance requirements; and
- An assurance-based strategy within the engineering and programme management team introducing programme and portfolio risk responsibilities and improving capability by focusing on reliable risk information, ownership and learning from risk events.

Profile features

Our risk profile, which currently consists of around 100 event-based risks, is enterprise wide, covering risk across the entire group and considering both internal and external drivers. By their nature, these risks will include many combinations of high to low likelihood and high to low impact.

Political and regulatory risk and uncertainty feature prominently within the profile, notably with the outcome of PR19 being delivered this calendar year. The possibility of 'renationalisation' is a key area of uncertainty as is the opening up to competition of upstream markets (including the current focus on possible competition in bioresources and water abstraction) and the potential for competition covering domestic retail activities.

Our operations continue to be substantially UK-based, but the potential impacts of Brexit remain under review and have been reported to the group board. In common with other UK companies, a significant issue is the uncertainty surrounding the effects of any Brexit deal that the UK Government may ultimately deliver and the possibility of a no-deal Brexit. Our review has considered the availability of European funding, the availability of critical goods (including chemicals and spare parts) through our supply chain, the price of goods and services due to tariff changes, exchange rate changes and potential inflationary shifts outside current predicted parameters, the effect to the labour resource of both the company and our delivery partners and our ability to collect cash were there to be an economic downturn. For each of these consequences, the impact assessment considers a range of possible scenarios and we have developed a contingency plan (in collaboration with key stakeholders including Water UK and Defra) which has involved discussing the implications of Brexit, including the no-deal scenario, with our key suppliers and capital delivery partners, as well as considering mitigation measures such as stockpiling and using alternative suppliers, a large proportion of which is already built into our multi-party frameworks.

Following the launch of non-household retail competition in April 2017, we have continued to monitor our operations in the market to review compliance risks and to ensure that we continue to operate in a manner that complements and promotes the 'level playing field'.

From an operational risk perspective, the potential for penalties against Ofwat's outcome delivery incentive mechanism and/or environmental fines continue to be key features of evolving exposure. Reputationally, our core operations/service provision (notably water service) and health, safety and environmental risks have the highest focus for monitoring and reviewing control effectiveness based on the potential impact should the risk event occur.

We continue to adapt to and plan for climate change and its significant and permanent impacts on the water cycle, our operations and the broader operating environment. This includes consideration of the long-term sustainability of water and wastewater services such as water abstraction, drinking water supply and treatment capability, drainage and sewer capacity, wastewater treatment and its discharge efficiency and effectiveness. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) support and reinforce the need to consider climate related risks and uncertainties. These continue to be factored into risk management and the likely effects of future changes are a critical consideration in our long and medium-term risk, operational and financial planning. Our water service and wastewater service risks also reflect current key risks including the potential for extreme weather and climate change.

Emerging risks and issues

We monitor the internal and external business environment, to identify and review new and emerging risks to our strategy or operations and emerging circumstances of existing risk that could affect our risk exposure in the short to medium term. If new and emerging risks or circumstances are too far into the future or we lack sufficient detail to make a reliable quantification, they are summarised as a watching brief and reported to the corporate responsibility committee and to the board in the six-monthly reporting cycle. New and emerging risks of note are climate change, water scarcity, plastics and biosolids.

Material litigation

The group robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible. Litigation of a material nature is regularly reported to the group board.

Beyond that reported in previous years on the Argentina multiparty 'class action' and the Manchester Ship Canal Company matters (to which there have been no material developments), there is nothing specific to report on material litigation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

LEI 2138002IEYQAOC88ZJ59
Classification – Half Year Results

Consolidated income statement

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Revenue (note 3)	**935.5**	916.4	1,818.5
Employee benefits expense (note 4)	**(82.0)**	(80.0)	(169.6)
Other operating costs (note 5)	**(205.2)**	(220.7)	(449.3)
Other income	**2.0**	2.0	3.6
Depreciation and amortisation expense	**(199.3)**	(191.0)	(393.2)
Infrastructure renewals expenditure	**(68.0)**	(87.6)	(175.1)
Total operating expenses	**(552.5)**	(577.3)	(1,183.6)
Operating profit	**383.0**	339.1	634.9
Investment income (note 6)	**11.7**	7.8	17.1
Finance expense (note 7)	**(193.9)**	(90.7)	(222.5)
Investment income and finance expense	**(182.2)**	(82.9)	(205.4)
Share of profits/(losses) of joint ventures (note 11)	**(5.7)**	3.4	6.7
Profit before tax	**195.1**	259.6	436.2
Current tax charge	**(24.1)**	(28.9)	(38.8)
Deferred tax charge	**(12.4)**	(18.2)	(34.0)
Tax (note 8)	**(36.5)**	(47.1)	(72.8)
Profit after tax	**158.6**	212.5	363.4

All of the results shown above relate to continuing operations.

Earnings per share (note 9)			
Basic	**23.3p**	31.2p	53.3p
Diluted	**23.2p**	31.1p	53.2p
Dividend per ordinary share (note 10)	**14.20p**	13.76p	41.28p

Consolidated statement of comprehensive income

	Six months ended 30 September 2019 £m	Re-presented* Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Profit after tax	**158.6**	212.5	363.4
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness	**1.5**	13.3	0.4
Tax on items taken directly to equity (note 8)	**(0.3)**	(2.3)	(0.1)
Foreign exchange adjustments	**1.7**	0.7	(0.8)
Other comprehensive income that may be reclassified to profit or loss	**2.9**	11.7	(0.5)
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit pension schemes (note 13)	**105.9**	(43.3)	73.0
Change in credit assumptions for debt reported at fair value through profit or loss	**5.7**	2.6	6.6
Cost of hedging – cross currency basis spread adjustment	**1.5**	0.1	(2.2)
Tax on items taken directly to equity (note 8)	**(145.1)**	7.4	(13.1)
Other comprehensive income that will not be reclassified to profit or loss	**(32.0)**	(33.2)	64.3
Total comprehensive income	**129.5**	191.0	427.2

*These comparatives have been re-presented to better reflect the impact of adopting IFRS 9 and IFRS 15. (See note 1 for further details).

Consolidated statement of financial position

	30 September 2019 £m	Re-presented* 30 September 2018 £m	31 March 2019 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**11,359.1**	10,944.3	11,153.4
Intangible assets	**196.1**	212.0	202.7
Interests in joint ventures (note 11)	**69.8**	77.0	79.0
Non-current assets held for sale (note 12)	**11.7**	-	-
Investments	**0.1**	11.5	11.5
Trade and other receivables	**138.3**	143.4	148.1
Retirement benefit surplus (note 13)	**698.7**	326.3	483.9
Derivative financial instruments	**601.1**	443.7	387.8
	13,074.9	12,158.2	12,466.4
Current assets			
Inventories	**16.2**	14.3	14.9
Trade and other receivables	**264.8**	284.9	249.5
Current tax asset	**25.5**	6.3	16.4
Cash and short-term deposits	**621.6**	259.6	339.3
Derivative financial instruments	**94.7**	163.6	101.3
	1,022.8	728.7	721.4
Total assets	**14,097.7**	12,886.9	13,187.8
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(736.2)**	(667.8)	(697.3)
Borrowings (note 14)	**(7,782.0)**	(7,143.7)	(7,115.6)
Deferred tax liabilities	**(1,303.7)**	(1,113.3)	(1,146.0)
Derivative financial instruments	**(137.4)**	(70.5)	(66.1)
	(9,959.3)	(8,995.3)	(9,025.0)
Current liabilities			
Trade and other payables	**(323.8)**	(338.5)	(321.2)
Borrowings (note 14)	**(730.5)**	(563.1)	(700.2)
Provisions	**(19.4)**	(19.5)	(16.8)
Derivative financial instruments	**(13.8)**	(3.7)	(13.8)
	(1,087.5)	(924.8)	(1,052.0)
Total liabilities	**(11,046.8)**	(9,920.1)	(10,077.0)
Total net assets	**3,050.9**	2,966.8	3,110.8
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Other reserves (note 18)	**342.4**	352.4	338.3
Retained earnings	**2,205.8**	2,111.7	2,269.8
Shareholders' equity	**3,050.9**	2,966.8	3,110.8

*These comparatives have been re-presented to better reflect the impact of adopting IFRS 9 and IFRS 15. (See note 1 for further details).

Consolidated statement of changes in equity

Six months ended 30 September 2019

	Share capital £m	Share premium account £m	(1)Other reserves £m	Retained earnings £m	Total £m
At 1 April 2019	499.8	2.9	338.3	2,269.8	3,110.8
Profit after tax	-	-	-	158.6	158.6
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	105.9	105.9
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	5.7	5.7
Cash flow hedge effectiveness	-	-	1.5	-	1.5
Cost of hedging – cross currency basis spread adjustment	-	-	1.5	-	1.5
Tax on items taken directly to equity (note 8)	-	-	(0.6)	(144.8)	(145.4)
Foreign exchange adjustments	-	-	1.7	-	1.7
Total comprehensive income	-	-	4.1	125.4	129.5
Dividends (note 10)	-	-	-	(187.7)	(187.7)
Equity-settled share-based payments	-	-	-	0.2	0.2
Exercise of share options – purchase of shares	-	-	-	(1.9)	(1.9)
At 30 September 2019	**499.8**	**2.9**	**342.4**	**2,205.8**	**3,050.9**

Six months ended 30 September 2018

Re-presented*	Share capital £m	Share premium account £m	(1)Other reserves £m	Retained earnings £m	Total £m
At 31 March 2018	499.8	2.9	327.9	2,120.3	2,950.9
Adjustment on initial adoption of IFRS 9	-	-	12.7	(12.7)	-
Adjustment on initial adoption of IFRS 15	-	-	-	5.9	5.9
At 1 April 2018	499.8	2.9	340.6	2,113.5	2,956.8
Profit after tax	-	-	-	212.5	212.5
Other comprehensive income/(expense)					
Remeasurement losses on defined benefit pension schemes (note 13)	-	-	-	(43.3)	(43.3)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	2.6	2.6
Cash flow hedge effectiveness	-	-	13.3	-	13.3
Cost of hedging – cross currency basis spread adjustment	-	-	0.1	-	0.1
Tax on items taken directly to equity (note 8)	-	-	(2.3)	7.4	5.1
Foreign exchange adjustments	-	-	0.7	-	0.7
Total comprehensive income	-	-	11.8	179.2	191.0
Dividends (note 10)	-	-	-	(180.6)	(180.6)
Equity-settled share-based payments	-	-	-	1.6	1.6
Exercise of share options – purchase of shares	-	-	-	(2.0)	(2.0)
At 30 September 2018	**499.8**	**2.9**	**352.4**	**2,111.7**	**2,966.8**

*These comparatives have been re-presented to better reflect the impact of adopting IFRS 9 and IFRS 15. (See note 1 for further details).

Year ended 31 March 2019

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 31 March 2018	499.8	2.9	327.9	2,120.3	2,950.9
Adjustment on initial adoption of IFRS 9	-	-	12.7	(12.7)	-
Adjustment on initial adoption of IFRS 15	-	-	-	5.9	5.9
At 1 April 2018	499.8	2.9	340.6	2,113.5	2,956.8
Profit after tax	-	-	-	363.4	363.4
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	73.0	73.0
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	6.6	6.6
Cash flow hedge effectiveness	-	-	0.4	-	0.4
Cost of hedging – cross currency basis spread adjustment	-	-	(2.2)	-	(2.2)
Tax on items taken directly to equity (note 8)	-	-	0.3	(13.5)	(13.2)
Foreign exchange adjustments	-	-	(0.8)	-	(0.8)
Total comprehensive income	-	-	(2.3)	429.5	427.2
Dividends (note 10)	-	-	-	(274.4)	(274.4)
Equity-settled share-based payments	-	-	-	4.0	4.0
Exercise of share options – purchase of shares	-	-	-	(2.8)	(2.8)
At 31 March 2019	**499.8**	**2.9**	**338.3**	**2,269.8**	**3,110.8**

[1]Other reserves comprise the group's cumulative exchange reserve, merger reserve, cost of hedging reserve, and cash flow hedging reserve. The cost of hedging and cash flow hedging reserves were included as separate components of equity for the first time in the year ended 31 March 2019 as a result of the group's adoption of IFRS 9 *'Financial Instruments'*.

Further detail of movements in these reserves is included in note 18.

Consolidated statement of cash flows

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Operating activities			
Cash generated from operations (note 16)	**465.2**	507.1	995.5
Interest paid	**(72.4)**	(66.2)	(143.0)
Interest received and similar income	**4.5**	3.3	7.3
Tax paid	**(49.0)**	(6.0)	(27.5)
Tax received	**15.8**	-	-
Net cash generated from operating activities	**364.1**	438.2	832.3
Investing activities			
Purchase of property, plant and equipment	**(328.0)**	(302.6)	(622.3)
Purchase of intangible assets	**(13.1)**	(13.3)	(39.9)
Proceeds from sale of property, plant and equipment	**0.3**	1.2	2.1
Grants and contributions received	**19.5**	17.2	35.2
Loans to joint ventures	**9.9**	(6.0)	(6.0)
Dividends received from joint ventures	**4.9**	2.3	2.2
Proceeds from investments	**0.5**	0.6	1.0
Net cash used in investing activities	**(306.0)**	(300.6)	(627.7)
Financing activities			
Proceeds from borrowings	**475.2**	120.7	568.4
Repayment of borrowings	**(64.2)**	(337.5)	(668.6)
Dividends paid to equity holders of the company (note 10)	**(187.7)**	(180.6)	(274.4)
Exercise of share options – purchase of shares	**(1.9)**	(2.0)	(2.8)
Net cash generated from/(used in) financing activities	**221.4**	(399.4)	(377.4)
Net increase/(decrease) in cash and cash equivalents	**279.5**	(261.8)	(172.8)
Cash and cash equivalents at beginning of the period	**324.6**	497.4	497.4
Cash and cash equivalents at end of the period	**604.1**	235.6	324.6

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2019 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 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 2019.

The comparative figures for the year ended 31 March 2019 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The comparative figures included in the consolidated statement of comprehensive income, consolidated statement of financial position, and consolidated statement of changes in equity for the six months ended 30 September 2018 have been re-presented to better reflect the impact of adopting IFRS 9 *'Financial Instruments'* and IFRS 15 *'Revenue from Contracts with Customers'* and ensure consistency with the 31 March 2019 audited financial statements. This has resulted in a £13.9 million cost of hedging reserve being recorded at 30 September 2018, of which £13.8 million relates to a reclassification from retained earnings to the cost of hedging reserve at 1 April 2018 on adoption of IFRS 9, and £0.1 million relates to basis spread adjustments during the six months ended 30 September 2018. Further details of this cost of hedging reserve are included in note 18. In addition to this, the impact of a £3.3 million reduction in deferred tax liabilities on adoption of IFRS 15 has been reflected in the re-presented consolidated statement of financial position and consolidated statement of changes in equity for the six months ended 30 September 2018.

The accounting policies, presentation and methods of computation are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2019 with the exception of the adoption of IFRS 16 '*Leases'*. Adoption of this standard is in line with expectations set out in the March 2019 group financial statements.

Impact of newly adopted standards

*IFRS 16 '*Leases*'*

The group adopted IFRS 16 on 1 April 2019, applying the modified retrospective transitional approach permitted by the standard in which both the right-of-use assets and lease liabilities brought onto the balance sheet were based on the present value of future lease payments at the adoption date calculated using the appropriate discount rate at 1 April 2019. Prior year comparatives have not been restated. The group has utilised the practical expedient permitted by the standard whereby a single discount rate has been applied to portfolios of leases with reasonably similar characteristics. Following initial adoption of the standard, lease liabilities and right-of-use assets for new leases are based on the appropriate discount rate at the date the new contract is entered into.

The value of right-of-use assets and lease liabilities brought onto the balance sheet on 1 April was £54.4 million; there was no effect on retained earnings at the adoption date. The income statement charge during the period to 30 September 2019 has been £1.8 million, split between £1.0 million of depreciation of the right-of-use assets and £0.8 million in relation to the finance charge recognised on the lease liabilities. This compares with £1.6 million of operating lease expenses that would have been recognised under IAS 17. Although the adoption of IFRS 16 has directly impacted the profit for the group during the period, the modest £0.2m impact means that the earnings per share and diluted earnings per share of the group would have been unchanged had IFRS 16 not been adopted. There has been no net cash flow impact arising from the application of the new standard.

At 30 September 2019 the value of right-of-use assets included within property, plant and equipment was £54.4 million and the value of lease liabilities included within borrowings was £54.5 million, of which £51.4 million was classified as non-current and £3.1 million was classified as current.

As part of the group's transition to IFRS 16 an exercise was carried out to assess whether contracts it has entered into are, or contain, leases as defined by the new standard. This has resulted in some differences between the population of contracts identified as containing leases under previous accounting standards, and for which operating lease commitments were disclosed at 31 March 2019, and the population of contracts deemed to contain leases under IFRS 16. Had all operating lease commitments disclosed under previous accounting standards at 31 March 2019 been recognised as leases under IFRS 16, by discounting future lease payments using the group's weighted average incremental borrowing rate applied to lease liabilities of 3.09 per cent, the right-of-use assets and lease liabilities brought onto the balance sheet would have been £18.0 million higher. Expenses relating to those contracts that do not contain leases within the scope of IFRS 16 continue to be recognised as operating expenses in the income statement over the terms of the agreements.

The typical items that the group leases include land, buildings, and vehicles. The value of both right-of-use assets and lease liabilities is based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 '*Property, Plant and Equipment*' and the liability increased for the accretion of interest (being the unwinding of the discounting applied to the future lease payments) and reduced by lease payments. The group does not act as a lessor.

The key judgements associated with applying this standard relate to the identification and classification of contracts containing a lease within the scope of IFRS 16, and the discount rate to use in calculating the present value of future lease payments on which the reported lease liability and right-of-use asset is based when it is not implicit in the lease contract.

Due to the nature of the group's operations, many of the current leases have long remaining terms, which causes the discount rate to be a key factor in determining the value of the lease liability. When the interest rate is not implicit in the lease, which is the case for materially all of the group's leases recognised under IFRS 16, the discount rate used is based on the relevant group company's nominal incremental borrowing rate adjusted for the payment profile and term of each lease.

The group has applied recognition exemptions permitted by the standard in relation to short-term leases and leases of low-value items.

The adoption of IFRS 16 has not impacted the group's ability to comply with any banking or financing covenants.

New and revised standards not yet effective

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019 the IASB published amendments to IFRS 9 *'Financial Instruments'*, IAS 39 *'Financial Instruments: Recognition and Measurement'* and IFRS 7 *'Financial Instruments: Disclosures'* in respect of interest rate benchmark reform, which are effective for annual periods beginning on or after 1 January 2020. These amendments provide temporary exceptions from applying specific hedge accounting requirements where a hedging relationship is directly affected by interest rate benchmark reform, being the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate.

As the group has a significant proportion of debt and derivative financial instruments designated in fair value hedge relationships that are linked to LIBOR, which is expected to be replaced by an alternative interest rate benchmark after 2021, these amendments will be applicable to the group's hedge accounting. The temporary exceptions provided for in the amendments mean that no changes to the group's hedge accounting are expected to the extent that they are impacted by interest rate benchmark reform.

The group's treasury function is actively considering and preparing for the potential implications of interest rate benchmark reform in anticipation of any changes.

Going concern

The directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of approval of the condensed financial statements, and have therefore assessed that the going concern basis of accounting is appropriate in preparing the condensed financial statements and that there are no material uncertainties to disclose. In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group, taking account of the group's financial projections together with its liquidity position with regards to available cash and undrawn committed borrowing facilities, as well as consideration of the group's capital adequacy. The board has also 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, none of which have changed significantly from the position as at 31 March 2019.

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 group's performance is measured against financial and operational key performance indicators, 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. Revenue

	30 September 2019 £m	**30 September 2018 £m**	**31 March 2019 £m**
Wholesale water charges	**398.4**	383.4	767.4
Wholesale wastewater charges	**465.4**	460.7	905.8
Residential retail charges	**44.7**	45.9	86.7
Other	**27.0**	26.4	58.6
	935.5	916.4	1,818.5

4. Employee benefits expense

Included within employee benefits expense were £8.7 million (30 September 2018: £3.7 million, 31 March 2019: £7.2 million) of restructuring costs.

Included within employee costs for the year ended 31 March 2019 were £1.4 million of costs incurred in relation to the group's response to a severe dry weather event experienced in that year. Of these, £0.9 million was incurred in the six months ended 30 September 2018. In addition, £6.6 million of costs associated with the equalisation of Guaranteed Minimum Pension (GMP) benefits were recognised in the second half of the year ended 31 March 2019.

5. Other operating costs

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Hired and contracted services	**47.2**	57.2	112.2
Property rates	**39.3**	45.6	94.7
Materials	**36.9**	41.2	77.8
Power	**36.6**	34.1	72.8
Regulatory fees	**14.1**	17.3	32.5
Charge for bad and doubtful receivables	**11.8**	13.2	26.5
Loss on disposal of property, plant and equipment	**2.1**	0.4	3.9
Cost of properties disposed	**-**	2.9	4.7
Settlement of commercial claims	**-**	(9.9)	(9.9)
Other expenses	**17.2**	18.7	34.1
	205.2	220.7	449.3

Property rates expenses in the six months ended 30 September 2019 include the impact of a £9.2 million reduction agreed with HMRC resulting from a revision to the rateable values of certain properties. This reduction ensures that the cumulative property rates paid by the group are appropriately recorded. Of this, £8.1 million was received as a refund in the current year for rates paid in previous years, and £1.1 million was recognised as a reduction of current year property rates.

During the year ended 31 March 2019, as a result of the group's response to a severe dry weather event, there were £36.1 million of expenses incurred, comprising £24.2 million of other operating costs, £10.5 million of infrastructure renewals expenditure, and £1.4 million of employee costs (see note 4). Of these, other operating costs of £17.3 million, infrastructure renewals expenditure of £6.8 million, and employee costs of £0.9 million were incurred during the six months to 30 September 2018.

Total other operating costs are stated net of £nil (30 September 2018 and 31 March 2018: £0.2 million) costs recharged to Water Plus at nil margin under transitional service agreements.

6. Investment income

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Interest receivable	**4.9**	3.3	7.6
Net pension interest income (note 13)	**6.8**	4.5	9.5
	11.7	7.8	17.1

7. Finance expense

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Interest payable	**131.3**	134.4	232.0
Net fair value (losses)/gains on debt and derivative instruments	**62.6**	(43.7)	(9.5)
	193.9	90.7	222.5

7. Finance expense (continued)

Interest payable is stated net of £25.7 million (30 September 2018: £18.5 million, 31 March 2019: £37.4 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 £70.9 million (30 September 2018: £67.1 million, 31 March 2019: £98.3 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 £10.1 million income (30 September 2018: £18.7 million, 31 March 2019: £30.6 million) due to net interest on derivatives and debt designated at fair value.

8. Tax

The total effective tax rate for the current and prior period was in line with the headline rate of 19 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 capital investment, pension contributions, and unrealised gains and losses on treasury derivatives.

The tax adjustments taken to equity primarily relate to remeasurement movements on the group's defined benefit pension schemes arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent. This change in rate reflects a revised judgement as to the most likely method by which the defined benefit pension surplus would be realised. Whereas previously it was assumed that the surplus could be realised through a reduction in future contributions, management now consider that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

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 2019 for the purpose of the basic earnings per share was 681.9 million (30 September 2018 and 31 March 2019: 681.9 million) and for the diluted earnings per share was 683.2 million (30 September 2018: 683.0 million, 31 March 2019: 683.4 million).

10. Dividends

	Six months ended 30 September 2019 £m	**Six months ended 30 September 2018 £m**	**Year ended 31 March 2019 £m**
Dividends relating to the period comprise:			
Interim dividend	**96.8**	93.8	93.8
Final dividend	**-**	-	187.7
	96.8	93.8	281.5
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	93.8
Final dividend	**187.7**	180.6	180.6
	187.7	180.6	274.4

The interim dividends for the six months ended 30 September 2019 and 30 September 2018, and the final dividend for the year ended 31 March 2019, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2019 and 30 September 2018, and the consolidated financial statements at 31 March 2019, because they were approved after the reporting date.

10. Dividends (continued)

The interim dividend of 14.20 pence per ordinary share (2018: interim dividend of 13.76 pence per ordinary share, final dividend of 27.52 pence per ordinary share) is expected to be paid on 1 February 2020 to shareholders on the register at the close of business on 20 December 2019. The ex-dividend date for the interim dividend is 19 December 2019.

11. Joint ventures

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
At the start of the period	**79.0**	75.2	75.2
Share of (losses)/profits of joint ventures	**(5.7)**	3.4	6.7
Dividends received from joint ventures	**(4.7)**	(2.3)	(2.2)
Currency translation differences	**1.2**	0.7	(0.7)
At the end of the period	**69.8**	77.0	79.0

The group's interests in joint ventures mainly comprise its interests in Water Plus Group Limited (Water Plus) and AS Tallinna Vesi (Tallinn Water). Water Plus is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement. Joint management of Tallinn Water is based on a shareholders' agreement.

As reported in the group's latest annual report, Water Plus has suffered a deterioration in its working capital position due to billing data issues stemming from the opening of the non-household retail market in April 2017. These issues have continued to result in a challenging operating environment for Water Plus, resulting in a £9.3 million share of loss in the six months to 30 September 2019. Given the challenging operating environment, the group has reviewed its impairment assessment of Water Plus and concluded that its recoverable amount at 30 September 2019 remains in excess of its carrying value, although with reduced headroom.

Tallinn Water has disclosed in its latest financial statements that there could be possible third party claims of up to EUR 28.6 million (31 March 2019: EUR 28.6 million) over and above those for which a provision has been recognised in its financial statements. If these additional claims were to materialise in the future this would impact the group's share of profits of the joint venture and therefore the joint venture's carrying value under the equity method of accounting.

Details of transactions between the group and its joint ventures are disclosed in note 20.

12. Non-current assets held for sale

During the period ended 30 September 2019 the group's overseas investment in the Muharraq sewerage treatment plant (STP) was reclassified from investments to non-current assets held for sale on reaching an agreement to sell the asset. Consideration for the disposal is expected to be equal to the fair value at which the asset is carried. As the investment had previously been classified as a financial asset measured at fair value through profit or loss, no adjustment to its carrying amount was required on its transfer to non-current assets held for sale.

Movements on the Muharraq STP asset in the current and prior periods, when it was recognised within investments, were as follows:

	Six months ended 30 September 2019 £m	**Six months ended 30 September 2018 £m**	**Year ended 31 March 2019 £m**
At the start of the period	**11.4**	7.0	7.0
Change in fair value	**0.2**	4.1	4.4
Reduction in investment stake	**(0.5)**	(0.6)	(1.0)
Currency translation differences	**0.6**	0.9	1.0
At the end of the period	**11.7**	11.4	11.4

13. 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 2019 % p.a.	**Six months ended 30 September 2018 % p.a.**	**Year ended 31 March 2019 % p.a.**
Discount rate	**1.80**	2.90	2.40
Pensionable salary growth and pension increases	**3.25**	3.45	3.45
Price inflation - RPI	**3.25**	3.45	3.45
Price inflation - CPI	**1.95**	2.05	2.05

The discount rate is consistent with a high quality corporate bond rate with 1.80 per cent being equivalent to gilts + 90 basis points (31 March 2019: 2.40 per cent being equivalent to gilts + 90 basis points, September 2018: 2.90 per cent being equivalent to gilts + 105 basis points).

At both 30 September 2019 and 31 March 2019, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively, and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively (September 2018: 108 per cent for males and 102 per cent for females), reflecting actual mortality experience. At both 30 September 2019 and 31 March 2019, mortality in retirement is based on CMI 2018 (30 September 2018: CMI 2017) long-term improvement factors, with a long-term annual rate of improvement of 1.50 per cent (30 September 2018: 1.75 per cent).

13. Retirement benefit surplus (continued)

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Current service cost	**3.1**	2.8	6.2
Curtailments/settlements	**3.3**	1.4	9.0
Administrative expenses	**0.7**	1.2	2.8
Pension expense charged to operating profit	**7.1**	5.4	18.0
Net pension interest income credited to investment income (note 6)	**(6.8)**	(4.5)	(9.5)
Net pension expense charged before tax	**0.3**	0.9	8.5

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 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
At the start of the period	**483.9**	344.2	344.2
Expense recognised in the income statement	**(0.3)**	(0.9)	(8.5)
Contributions less unregistered pension promise payments	**109.2**	26.3	75.2
Remeasurement gains/(losses) gross of tax	**105.9**	(43.3)	73.0
At the end of the period	**698.7**	326.3	483.9

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

	30 September 2019 £m	30 September 2018 £m	31 March 2019 £m
Present value of defined benefit obligations	**(3,671.4)**	(3,340.9)	(3,425.2)
Fair value of schemes' assets	**4,370.1**	3,667.2	3,909.1
Net retirement benefit surplus	**698.7**	326.3	483.9

The £105.9 million remeasurement gain is mainly due to a significant reduction in the discount rate resulting primarily from a fall in gilt yields. This results in an increase in the defined benefit surplus on an IAS 19 accounting basis due to the technical scheme liabilities, which are subject to hedging under the Asset-Liability matching strategy, being higher than the IAS 19 liabilities.

Further details on the approach to managing pension scheme risk are set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2019.

In April 2019 accelerated deficit repair contributions of £97.6 million and £5.4 million were made to the UUPS and ESPS respectively. These payments represent the final acceleration of deficit repair contributions set out in the schedules of contributions agreed with the schemes' trustees as part of the 31 March 2018 valuation process, and reduce the pension scheme deficit contributions due from the company down to £nil.

13. Retirement benefit surplus (continued)

As the 2018 valuation basis was consistent with a long-term target for self-sufficiency, the expectation is that there should be minimal ongoing reliance on the company by the pension schemes.

During the prior period, the majority of active members in the defined benefit sections of the UUPS transitioned to a hybrid section comprising a capped defined benefit element and a top up defined contribution component. Pension benefits under the defined benefit element of the new UUPS hybrid section that became effective for pensionable service from 1 April 2018 are linked to CPI rather than RPI.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuation as at 31 March 2018 for both the group's ESPS and UUPS schemes.

On 26 October 2018 the High Court issued its ruling in a landmark case involving Lloyds Banking Group on GMP. The implication of the ruling is that GMP will be equalised for males and females. The impact of GMP equalisation in the prior year under the chosen C2 method of calculation was £5.5 million (0.2% of liability) for the UUPS and £1.1 million (0.3% of liability) for the ESPS, resulting in an overall increase in the pension liability at 31 March 2019 of £6.6 million as a result of additional benefits being recognised, with a corresponding amount recorded in past service costs in the income statement. Any future true up costs will be accounted for in OCI as a change in management estimate.

Defined contribution schemes

During the period, the group made £10.9 million (30 September 2018: £12.4 million, 31 March 2019: £23.0 million) of contributions to defined contribution schemes which are included in employee benefits expense.

14. Borrowings

New borrowings raised during the six month period ended 30 September 2019, all of which relate to notes issued through private placement under the Euro medium-term note programme, were as follows:

- On 17 April 2019, the group borrowed £100 million, CPI-linked, due April 2029.
- On 3 July 2019 the group issued £250 million fixed rate notes due July 2033.
- On 17 July 2019 the group issued £100 million fixed rates notes in addition to the £250 million fixed rates notes issued in February 2019. These notes are due February 2031 with a coupon rate of 2.625%.

Borrowings at 30 September 2019 include £54.5 million in relation to lease liabilities recognised for the first time as a result of the adoption of IFRS 16 *'Leases'* during the period, of which £51.4 million was classified as non-current and £3.1 million were classified as current.

15. Fair values of financial instruments

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

	30 September 2019 Fair value £m	30 September 2019 Carrying value £m	30 September 2018 Fair value £m	30 September 2018 Carrying value £m	31 March 2019 Fair value £m	31 March 2019 Carrying value £m
Financial assets at fair value through profit or loss						
Derivative financial assets – fair value hedge	**491.6**	**491.6**	419.5	419.5	329.4	329.4
Derivative financial assets – held for trading	**202.2**	**202.2**	187.8	187.8	158.5	158.5
Derivative financial assets – cash flow hedge	**2.0**	**2.0**	-	-	1.2	1.2
Investments[1]	**0.1**	**0.1**	11.5	11.5	11.5	11.5
Non-current assets held for sale[1]	**11.7**	**11.7**	-	-	-	-
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities – fair value hedge	**-**	**-**	(11.6)	(11.6)	(2.3)	(2.3)
Derivative financial liabilities – held for trading	**(150.3)**	**(150.3)**	(62.6)	(62.6)	(75.9)	(75.9)
Derivative financial liabilities – cash flow hedge	**(0.9)**	**(0.9)**	-	-	(1.7)	(1.7)
Financial liabilities designated at fair value through profit or loss	**(409.6)**	**(409.6)**	(360.1)	(360.1)	(373.9)	(373.9)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(3,025.3)**	**(2,983.8)**	(2,651.6)	(2,618.7)	(2,749.3)	(2,765.8)
Other financial liabilities at amortised cost	**(6,498.2)**	**(5,064.6)**	(5,667.8)	(4,728.0)	(5,781.9)	(4,676.1)
	(9,376.7)	**(7,901.6)**	(8,134.9)	(7,162.2)	(8,484.4)	(7,395.1)

[1]Prior to the adoption of IFRS 9 *'Financial Instruments'* on 1 April 2018, investments were classified as available for sale financial assets in accordance with IAS 39 *'Financial Instruments: Recognition and Measurement'*. In the current year, investments relating to Muharraq STP have been reclassified as non-current assets held for sale (see note 12).

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 compared with the position at 31 March 2019.

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurement under the IFRS 13 *'Fair Value Measurement'* hierarchy of £2,627.6 million (30 September 2018: £2,338.5 million, 31 March 2019: £2,316.9 million) for financial liabilities in fair value hedge relationships and £540.0 million (30 September 2018: £1,801.8 million, 31 March 2019: £680.9 million) for other financial liabilities at amortised cost.

The £169.8 million increase (30 September 2018: £477.7 million decrease, 31 March 2019: £1,620.2 million decrease) in 'level 1' fair value liability measurements is largely due to an increase in the observable quoted bond prices in active markets at 30 September 2019. 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 2019.

16. Cash generated from operations

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Operating profit	**383.0**	339.1	634.9
Adjustments for:			
Depreciation of property, plant and equipment	**179.4**	174.0	357.3
Amortisation of intangible assets	**19.9**	17.0	35.9
Loss on disposal of property, plant and equipment	**2.1**	0.4	3.9
Amortisation of deferred grants and contributions	**(6.6)**	(3.0)	(12.9)
Equity-settled share-based payments charge	**0.2**	1.6	4.0
Other non-cash movements	**-**	(3.5)	-
Changes in working capital:			
(Increase)/Decrease in inventories	**(1.3)**	2.5	1.9
(Increase)/Decrease in trade and other receivables	**(16.0)**	(20.6)	11.7
Increase/(Decrease) in trade and other payables	**3.9**	23.1	21.3
Increase/(Decrease) in provisions	**2.6**	(2.6)	(5.3)
Pension contributions paid less pension expense charged to operating profit	**(102.0)**	(20.9)	(57.2)
Cash generated from operations	**465.2**	507.1	995.5

17. Net debt

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
At the start of the period	**7,067.3**	6,867.8	6,867.8
Net capital expenditure	**321.3**	297.5	624.9
Dividends (note 10)	**187.7**	180.6	274.4
Inflation uplift on index-linked debt (note 7)	**70.9**	67.1	98.3
Interest	**67.9**	62.9	135.7
Non-cash movements in lease liabilities*	**54.5**	-	-
Tax	**33.2**	6.0	27.5
Fair value movements	**21.4**	(69.2)	27.3
Loans to joint ventures	**(9.9)**	6.0	6.0
Other	**(2.8)**	2.5	0.9
Cash generated from operations (note 16)	**(465.2)**	(507.1)	(995.5)
At the end of the period	**7,346.3**	6,914.1	7,067.3

*As a result of the adoption of IFRS 16 *'Leases',* the group recognised lease liabilities on the balance sheet for the first time during the period ending 30 September 2019.

Net debt comprises borrowings, net of cash and short-term deposits and derivatives. As such, movements in net debt during the period reflected in the above reconciliation are impacted by net cash generated from financing activities as disclosed in the consolidated statement of cash flows.

17. Net Debt (continued)

Fair value movements includes net fair value losses on debt and derivative instruments of £62.6 million (30 September 2018: £43.7 million gain, 31 March 2019: £9.5 million gain) recognised in the income statement, and £8.8 of million gains (30 September 2018: £16.0 million, 31 March 2019: £4.8 million) recognised through 'other comprehensive income'. This is offset by net receipts on swaps and debt designated at fair value of £33.1 million (30 September 2018: £12.2 million net payment, 31 March 2019: £40.6 million net receipt) and foreign exchange gains on investments measured at fair value through profit or loss of £0.6 million (31 March 2019: £1.0 million).

In the prior period the group received £31.7 million in settlement of certain cross-currency interest rate swap liabilities as part of an exercise to manage the mandatory breaks included within the swap contracts. The receipt is included within 'Proceeds from borrowings' in the statement of cash flows.

Notional net debt totals £7,206.3 million as at 30 September 2019 (30 September 2018: £6,935.2 million, 31 March 2019: £6,995.9 million). Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and short-term deposits, taking: the face value issued of any nominal sterling debt; the inflation accreted principal of the group's index-linked debt; and the sterling principal amount of the cross-currency swaps relating to the group's foreign currency debt.

18. Other reserves

Six months ended 30 September 2019

	Cumulative exchange reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2019	(3.7)	329.7	12.0	0.3	338.3
Changes in fair value recognised in other comprehensive income	-	-	1.5	(0.4)	1.1
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	1.9	1.9
Tax on items taken directly to equity (note 8)	-	-	(0.3)	(0.3)	(0.6)
Foreign exchange adjustments	1.7	-	-	-	1.7
At 30 September 2019	**(2.1)**	**329.7**	**13.2**	**1.5**	**342.4**

Six months ended 30 September 2018

	Cumulative exchange reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 31 March 2018	(1.8)	329.7	-	-	329.7
Adjustment on initial application of IFRS 9	(1.1)	-	13.8	-	12.7
At 1 April 2018	(2.9)	329.7	13.8	-	340.6
Changes in fair value recognised in other comprehensive income	-	-	0.1	13.9	14.0
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	(0.6)	(0.6)
Tax on items taken directly to equity (note 8)	-	-	-	(2.3)	(2.3)
Foreign exchange adjustments	0.7	-	-	-	0.7
At 30 September 2018	**(2.2)**	**329.7**	**13.9**	**11.0**	**352.4**

18. Other reserves (continued)

Year ended 30 March 2019

	Cumulative exchange reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 31 March 2018	(1.8)	329.7	-	-	329.7
Adjustment on initial application of IFRS 9	(1.1)	-	13.8	-	12.7
At 1 April 2018	(2.9)	329.7	13.8	-	340.6
Changes in fair value recognised in other comprehensive income	-	-	(2.2)	3.5	1.3
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	(3.1)	(3.1)
Tax on items taken directly to equity (note 8)	-	-	0.4	(0.1)	0.3
Foreign exchange adjustments	(0.8)	-	-	-	(0.8)
At 31 March 2019	**(3.7)**	**329.7**	**12.0**	**0.3**	**338.3**

The merger reserve arose in the year ended 31 March 2009 on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition of United Utilities PLC by United Utilities Group PLC.

On adoption of IFRS 9 on 1 April 2018, the group recognised the cost of hedging reserve as a new component of equity. This reserve reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments.

On adoption of IFRS 9, the group designated a number of swaps hedging non-financial risks in cash flow hedge relationships in order to give a more representative view of operating costs. Fair value movements relating to the effective part of these swaps are recognised in other comprehensive income and accumulated in the cash flow hedging reserve.

19. Commitments and contingent liabilities

At 30 September 2019 there were commitments for future capital expenditure contracted but not provided for of £249.8 million (30 September 2018: £372.5 million, 31 March 2019: £302.2 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 2019. There have been no significant developments relating to contingent liabilities in the year.

The group has determined that the possibility of any outflow in respect of performance guarantees issued is remote and, as such, no contingent liabilities in respect of these are disclosed (30 September 2018 and 31 March 2019: none).

Tallinn Water, one of the group’s joint ventures (see note 11), has disclosed that there could be possible third party claims of up to EUR 28.6 million (31 March 2019: EUR 28.6 million) over and above those for which a provision has been recognised in its financial statements. While this is not a contingent liability of the group due to the way in which joint ventures are accounted for under the equity method of accounting, if these additional claims were to materialise in the future this would impact the group’s share of profits of the joint venture and therefore the joint venture’s carrying value in the period in which this occurs.

20. Related party transactions

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

	Six months ended 30 September 2019 £m	Six months ended 30 September 2018 £m	Year ended 31 March 2019 £m
Sales of services	**221.8**	234.6	455.8
Charitable contributions advanced to related parties	**0.3**	0.2	0.5
Purchases of goods and services	**-**	0.2	0.1
Costs recharged at nil margin under transitional service agreements	**-**	0.2	0.2
Interest income and fees recognised on loans to related parties	**1.7**	1.9	4.3
Amounts owed by related parties	**172.6**	183.0	182.9
Amounts owed to related parties	**-**	-	0.6

Sales of services to related parties during the period mainly represent non-household wholesale charges to Water Plus Group Limited (Water Plus), a joint venture in which the group holds a 50 per cent stake alongside Severn Trent PLC, billed and accrued during the period. These transactions were on the group's normal trading terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

Charitable contributions advanced to related parties during the year relate to amounts paid to Rivington Heritage Trust, a charitable company limited by guarantee for which United Utilities Water Limited is one of three guarantors.

At 30 September 2019 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £172.6 million (30 September 2018: £183.0 million, 31 March 2019: £182.9 million), comprising £38.9 million (30 September 2018: £39.6 million, 31 March 2019: £39.4 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £133.7 million (30 September 2018: £143.4 million, 31 March 2019: £143.5 million) relating to loans. Included within these loans receivable were the following amounts owed by Water Plus:

- £100.0 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2020, bearing a floating interest rate of LIBOR plus a credit margin;
- £9.8 million receivable being the fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027. This is an interest-free shareholder loan with a total amount outstanding at 30 September 2019 of £12.5 million, comprising the £9.8 million receivable held at fair value, and £2.7 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures; and
- £22.5 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2020, bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million (30 September 2018: £1.4 million, 31 March 2019: £1.4 million) of non-current receivables was owed by other related parties at 30 September 2019.

No expense or allowance has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (30 September 2018 and 31 March 2019: £nil).

20. Related party transactions (continued)

During the period, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £58.1 million, of which £35.1 million related to guarantees to United Utilities Water Limited.

At 30 September 2019, amounts owed to joint ventures were £nil (30 September 2018: £nil, 31 March 2019: £0.6 million). Amounts outstanding are unsecured and settle in accordance with normal credit terms.

21. Events after the reporting period

There were no material events after the reporting date that required recognition or disclosure in the condensed financial statements for the period ended 30 September 2019.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

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

Dr John McAdam
Steve Mogford
Stephen Carter
Mark Clare
Alison Goligher
Sir David Higgins
Russ Houlden
Brian May
Paulette Rowe
Sara Weller

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

………………………..	……………………….
Steve Mogford	Russ Houlden
19 November 2019	19 November 2019
Chief Executive Officer	Chief Financial Officer

INDEPENDENT REVIEW REPORT TO UNITED UTILITIES GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

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

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

William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
19 November 2019