United Utilities Group PLC
21 November 2018

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

Customers continue to be at the heart of everything we do

- Delivering customer service improvements through innovation and strong operational performance
- Top water and wastewater company on UKCSI and now expect an AMP6 SIM reward of £11m or more
- Providing the widest range of support for customers, doubling the number receiving help with affordability over AMP6

Sustained improvements in operational performance

- Systems Thinking unlocking innovation opportunities, underpinning long-term operational improvement
- Achieved industry leading environmental and water quality performance scores
- Sustained gains in efficiency delivering totex outperformance of £100m against our AMP6 scope
- Remain on track to deliver a cumulative AMP6 ODI reward

Strong plans for AMP7 and beyond

- Ambitious PR19 business plan delivering £1bn efficiencies, further reducing bills whilst improving service
- 10.5% real bill reduction and targeted support helping over 300,000 households out of water poverty
- Builds on our performance in AMP6 giving us confidence heading into AMP7 and beyond
- Delivers for customers and creates long-term value for all stakeholders

Strong financial performance

- Underlying operating profit of £367.8m (reported operating profit of £339.1m)
- Interim dividend in line with AMP6 growth policy
- Robust capital structure and strong pensions position providing resilience and future financial flexibility

Key financials

	Six months ended	
	30 September 2018	30 September 2017
Revenue	£916.4m	£876.0m
Reported operating profit	£339.1m	£341.8m
Underlying operating profit[1]	£367.8m	£344.0m
Reported profit after tax	£212.5m	£197.4m
Underlying profit after tax[1]	£196.9m	£160.1m
Interim dividend per ordinary share (pence)	13.76p	13.24p
Net regulatory capital spend	£392.7m	£394.4m
RCV gearing[2]	60%	61%

[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)

Steve Mogford, Chief Executive Officer, said:

"Customers are at the heart of everything we do. Our approach to affordability and vulnerability together with our sustained improvements in customer service position us as a leader in the sector. In the most recent UK Customer Satisfaction Index we were the most improved utility company and the highest ranked water and wastewater company. The Institute of Customer Service, which assesses excellence in customer service across all sectors, recently awarded us its top Service Mark with Distinction.

"Our approach to innovation and the use of advanced technology from around the world alongside our capital investment is delivering better service, greater resilience and improved efficiency. Fundamental to this is our pioneering Systems Thinking approach which continues to unlock innovation opportunities and is making a significant and positive difference to our sustainable, long-term performance.

"The significant progress we have made positions us well for the remainder of the current regulatory period and beyond. We have responded well to the challenges brought about by the impact of more variable weather and have created a platform for continuing strong operational performance. We will continue to provide a great service to our customers and create long-term value for all of 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 21 November 2018, 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/5bd2e7805bdb5510001efda5/omns

The presentation can be accessed via a live listen only call facility by dialling:
UK toll: + 44 20 3936 2999
Passcode: 703348

The webcast will be available on demand from Thursday 22 November 2018 at the following link:
https://www.unitedutilities.com/corporate/investors/

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

OPERATIONAL OVERVIEW

The benefits of our innovative Systems Thinking approach and use of technology are wide ranging and permeate all areas of the business. This is delivering sustainable and long-term improvements in operational performance and provides a strong platform for performance into AMP7.

- **Sustained improvement in customer satisfaction** – our performance against Ofwat's Service Incentive Mechanism (SIM) has improved significantly since the start of AMP6 and we now trend above the industry average for both quantitative and qualitative performance. This performance is mirrored in the UK Customer Satisfaction Index against which we are the leading water and wastewater company and the most improved utility company overall. We were delighted to achieve the Service Mark with Distinction from the Institute of Customer Service and were one of only a small group of companies across the country to achieve this.

- **Innovation through Systems Thinking** – our innovative Systems Thinking approach and use of data and technology is pervasive throughout the entire organisation. Through our Integrated Control Centre we are able to identify issues before they become problems and therefore minimise customer impact. This is delivering enhanced levels of service and resilience along with sustainable improvements in efficiency and contributes around £450 million of savings identified in our PR19 business plan.

- **Leading performance with integrity** – in July, we achieved Industry Leading Company status for the third consecutive year as measured through the Environment Agency's (EA) annual assessment. Our performance against the Drinking Water Inspectorate's (DWI) metrics continues to improve, and we are the leading water and wastewater company against the DWI's overall drinking water quality metric for 2017.

- **Delivering shareholder value through regulatory outperformance** – the low cost of debt we have already locked in places us in a strong position to deliver on our target of minimising our cost of debt compared to Ofwat's industry assumed cost for the 2015-20 period. Through Systems Thinking and the effective delivery of our investment plan, we are confident of delivering our AMP6 scope for £100 million less than the Final Determination totex assumption and a cumulative net reward against our Outcome Delivery Incentives (ODIs) for AMP6. Our strong performance on customer satisfaction now means we expect to be eligible for a SIM reward in AMP6 of £11 million or more.

- **Sharing outperformance** – sharing net outperformance through additional investment of £250 million. This is delivering industry leading, long-term resilience for the benefit of customers and helping to mitigate future bill increases.

- **Prolonged period of dry weather** – earlier this year, the UK experienced a prolonged period of extreme hot and dry weather resulting in exceptional demand from customers. To safeguard continuity of supplies to customers and protect our water resources, we expect to spend an additional £80 million during the current financial year. These measures together with the cooler and wetter weather in August avoided the need for any water restrictions. In the first half of the year, we have incurred £34 million of costs of which £9 million is capex, £7 million is infrastructure renewals expenditure (IRE) and £18 million is operating costs. The IRE and operating cost elements are excluded from the underlying results as shown in the underlying profit measure tables on pages 13 and 14. We expect the costs in the second half of the year to be predominantly capex.

- **Strong environmental, social & governance (ESG) credentials** – we have achieved our World Class rating in the Dow Jones Sustainability Index for the eleventh consecutive year, a very good achievement in light of the ever evolving standards. We have retained our self-assurance status with Ofwat for reporting and our best practice in the areas of affordability and vulnerability has received external recognition through several awards, many of which look beyond the water sector.

- **Strong plans for AMP7 and beyond** – in September, we submitted our business plan for AMP7 that delivers for customers and is aligned with the key PR19 themes. Our plan has benefited from extensive engagement with customers and other stakeholders in our region and we are confident that it is a high quality and ambitious plan, rich in content, with a compelling proposition of bill reductions and service improvements.

FINANCIAL OVERVIEW

The group has delivered a good set of financial results for the six months ended 30 September 2018.

- **Revenue** – revenue was up £40 million, at £916 million, largely reflecting our allowed regulatory revenue changes.

- **Operating profit** – underlying operating profit was up £24 million, at £368 million. This reflects the £40 million increase in revenue partly offset by an £11 million increase in IRE and a £6 million increase in depreciation. Reported operating profit was down £3 million, at £339 million, impacted by the same movements as underlying operating profit as well as one off costs of £25 million associated with the extreme hot and dry weather earlier this year.

- **Capex** – total net regulatory capital investment in the first half of the year was £393 million including IRE and the additional capex associated with the extreme hot and dry weather earlier this year. We are on track to deliver a total of around £830 million of regulatory capex for the full year. This includes around £70 million of the additional £250 million of investment to improve resilience for customers and the capex and IRE associated with the extreme hot and dry weather, neither of which were anticipated at the time of the PR14 settlement. Our five-year regulatory capex programme is around £3.8 billion including this additional investment.

- **Profit before tax** – underlying profit before tax was up £46 million, at £240 million, largely reflecting the increase in underlying operating profit and a £24 million decrease in the underlying net finance expense. The decrease in the underlying net finance expense was mainly due to the impact of lower RPI inflation on our index-linked debt. Reported profit before tax was £260 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 £37 million, at £197 million. Reported profit after tax was higher at £212 million, mainly reflecting fair value movements.

- **Capital structure** – the group has a robust capital structure with gearing of 60 per cent as at 30 September 2018 (measured as group net debt to 'shadow' regulatory capital value, or RCV). Our shadow RCV adjusts for actual spend and was £11.5 billion as at 30 September 2018. This gearing level is comfortably within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating. United Utilities Water Limited (UUW) has long-term credit ratings of A3 from Moody's and A- from Standard & Poor's, both on stable outlook.

- **Financing headroom** – the group benefits from headroom to cover its projected needs into 2020, enhanced by the recent raising of new finance. At 30 September 2018, the group had headroom of £426 million consisting of cash and committed funding. 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 13.76 pence per ordinary share, an increase of 3.9 per cent, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

KEY PERFORMANCE INDICATORS

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

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

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

Best service to customers

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

  Qualitative: Ofwat has undertaken two surveys in the first half of the year. In the first survey we scored 4.49 points, compared with 4.36 points in the first survey of 2017/18 (higher score is better). In the second survey we scored 4.50 points, compared with 4.44 points in the second survey of 2017/18. We are trending above the industry average of 4.35 points, with customers rating us highly for billing and wastewater services.

  Quantitative: the quantitative assessment measures customer contacts, and performance is assessed on both an absolute and relative basis. Whilst relative performance can only be assessed in full following the end of each financial year, when the other companies publish their respective results, on absolute performance for the first half of 2018/19, we achieved a score of 39 points, a slight deterioration from the first half of 2017/18 when our score was 34 points (lower score is better). The deterioration is largely due to the extreme hot and dry weather and resultant customer contacts that we experienced earlier this year. Despite this, our quantitative performance for the first half of 2018/19 still compares favourably to the companies that do data share for which the average performance was 45 points.

- **Outcome delivery incentives (ODIs)** – we have 19 wholesale financial ODIs with only ten providing the potential to earn a reward in the 2015-20 regulatory period.

  We were pleased to deliver a cumulative net reward of £2.2 million for the first three years of the current regulatory period, exceeding our initial expectations. Whilst a number of our ODI measures are susceptible to one-off events and, on the whole, our ODI targets get tougher each year, our progress in the first half of 2018/19 gives us confidence in delivering our target of a cumulative net ODI outcome over the 2015-20 period of between zero and a £30 million reward.

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** – the totex assumed at PR14 for the 2015-20 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 the PR14 assumption but we are also confident of delivering our AMP6 scope for £100 million less than assumed in our Final Determination at PR14. 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 allowed revenue cap. We are continuing with our strong focus on this target and will provide an update for 2018/19 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 2017/18 we again met our regulatory leakage target of 463 megalitres per day, and despite the extreme weather conditions experienced in the first half of 2018/19, we believe that we can meet it again.

- **Environmental performance** – on the Environment Agency's latest annual assessment, published in July 2018, we were awarded Industry Leading Company status across the range of operational metrics for the third successive year. This indicates we were in joint first position amongst the nine water and sewerage companies assessed, and aligns with our medium-term goal of being an upper quartile company on a consistent basis.

- **Corporate responsibility** – United Utilities has a strong focus on operating in a responsible manner and is the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. In 2018/19, United Utilities achieved its World Class rating for the eleventh consecutive year. In addition, United Utilities has been named in the FTSE4Good Index every year for the last 16 years, and has been named as part of the Euronext Vigeo Index UK 20 as of June 2018.

FINANCIAL PERFORMANCE

United Utilities delivered a good set of financial results for the six months ended 30 September 2018.

Revenue

Revenue was up £40 million, at £916 million, largely reflecting our allowed regulatory revenue changes.

Consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we will be reducing revenue by £8 million in 2018/19 and 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 reductions relating to the 2014/15 "AMP5 blind year", which are £4 million in 2018/19 and £5 million in 2019/20.

Operating profit

Underlying operating profit at £368 million was £24 million higher than the first half of last year. This reflects our allowed regulatory revenue changes partly offset by an £11 million increase in IRE and a £6 million increase in depreciation. Other small, mainly inflationary increases in operating costs have been offset by a £10 million credit resulting from the settlement of an historical commercial claim compensating for costs that have been incurred in previous years.

Reported operating profit decreased by £3 million, to £339 million, reflecting the increase in underlying operating profit being more than offset by an increase in adjusted items. Adjusted items for the first half of 2018/19 included £25 million of costs associated with the extreme hot and dry weather earlier this year and £4 million of restructuring costs. Adjusted items in the first half of last year amounted to £2 million, including £1 million of restructuring costs and £1 million of market reform costs.

Investment income and finance expense

The underlying net finance expense of £131 million for the first half of 2018/19 was £24 million lower than the first half of last year, mainly due to the impact of lower RPI inflation on the group's index-linked debt, particularly on the portion of index-linked debt with a three-month lag.

Interest on non index-linked debt of £40 million was £8 million lower than the first half of last year, due to the lower rates locked in on our interest rate swaps. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £67 million, compared with a net charge of £83 million in the first half of last year. As at 30 September 2018, the group had approximately £3.8 billion of index-linked debt at an average real rate of 1.3 per cent.

The lower RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 3.8 per cent being lower than the rate of 4.8 per cent for the six months ended 30 September 2017. 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 £83 million was lower than the £105 million expense in the first half of 2017/18. This £22 million decrease principally reflects the lower indexation charge for the period and a change in the fair value gains and losses on debt and derivative instruments, from a £35 million gain in the first half of 2017/18 to a £44 million gain in the first half of 2018/19.

The fair value gain in the first half of 2018/19 is due to gains on our derivatives hedging interest rates impacted by an increase in market interest rates, and a net interest receivable on derivatives and debt designated at fair value. Gains in the first half of the prior year were also largely due to due to gains on our derivatives hedging interest rates impacted by an increase in market interest rates, partially offset by a loss on our fair value option debt and associated swaps. 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 £240 million, £46 million higher than the first half of last year, largely reflecting the £24 million increase in underlying operating profit, and the £24 million decrease in underlying net finance expense. This underlying measure reflects the adjusted items, as outlined in the operating profit section above, and other items such as fair value movements in respect of debt and derivative instruments, as outlined in the underlying profit measures tables on pages 13 and 14.

Reported profit before tax increased by £17 million to £260 million, reflecting the £3 million reduction in reported operating profit more than offset by a £22 million decrease in reported net finance expense including fair value movements.

Tax

In addition to corporation tax, the group makes further contributions to the public finances, typically of around £210 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 its 5,000 strong workforce.

In the first half of 2018/19, we paid £6 million of corporation tax, which represents an effective cash tax rate on underlying profits of 3 per cent which is less than normal. Our normal effective cash tax rate on underlying profits is around 11 per cent with the key reconciling items to the headline rate of corporation tax (currently at 19 per cent) being 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. For the first half of 2018/19, the effective rate is further reduced as a result of the phasing of quarterly tax payments and also the impact of increased underlying profits as the relevant quarterly payments relate to 2017/18 whereas the underlying profits relate to 2018/19. This phasing of tax payments will not be an issue going forward as from next year the quarterly instalment tax payment rules are being amended to ensure that payments become aligned with financial years.

For the 2018/19 full year we would expect the effective cash tax rate to be around 6 per cent and for the following year we would expect the effective cash tax rate to rise to around 20 per cent reflecting six quarterly instalment tax payments as we transition to the new payment regime together with the forecast impact of the recent changes to the capital allowances rules announced in last month's Chancellors Budget, including the reduction in the rate of allowance for the majority of the company's infrastructure spend from 8 per cent to 6 per cent, from 2019/20 onwards. 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.

The current tax charge was £29 million in the first half of 2018/19, compared with £24 million in the corresponding period last year.

In the first half of 2018/19, the group recognised a deferred tax charge of £18 million, compared with a charge of £21 million in the first half of the previous year.

The total tax charge for the first half of 2018/19 was £47 million, compared to a total tax charge of £45 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 £197 million was £37 million higher than the first half of last year, principally reflecting the £46 million increase in underlying profit before tax.

The approach used to derive underlying profit after tax is not consistent across the industry with the most significant difference relating to the treatment of deferred tax. Our underlying profit after tax includes the impact of an £18 million deferred tax charge whereas some of our peers exclude the impact of deferred tax. We are considering the merits of also excluding the impact of deferred tax and will provide a further update at our full year results in May. Had we excluded the impact of deferred tax for the first half 2018/19, our underlying profit after tax would be £215 million.

Reported profit after tax at £212 million was higher than the £197 million in the first half of the previous year, reflecting the £17 million increase in the reported profit before tax.

Earnings per share

Underlying earnings per share increased from 23.5 pence to 28.9 pence. This underlying measure is derived from underlying profit after tax.

As noted above, there is a difference across the sector in the treatment of deferred tax in deriving underlying profit after tax. Had we excluded the impact of deferred tax for the first half of 2018/19, our underlying earnings per share would have been 31.5 pence.

Basic earnings per share increased from 28.9 pence to 31.2 pence, for the same reasons that caused the increase in reported profit after tax.

Dividend per share

The Board has proposed an interim dividend of 13.76 pence per ordinary share in respect of the six months ended 30 September 2018. This is an increase of 3.9 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 3.9 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2018/19 financial year (i.e. the movement in RPI between November 2016 and November 2017).

The interim dividend is expected to be paid on 1 February 2019 to shareholders on the register at the close of business on 21 December 2018. The ex-dividend date is 20 December 2018.

In line with best practice guidance, our enhanced dividend policy disclosure is outlined below.

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

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

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

- ***Distributable reserves*** – as at 30 September 2018, the company had distributable reserves of £3,148 million. The total external dividends relating to the 2017/18 financial year amounted to £271 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 set 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 five years, always comfortably within its target range of 55 per cent to 65 per cent, supporting a solid A3 credit rating for UUW with Moody's. RCV gearing at 30 September 2018 was 60 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***
  2015-20
  - 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.

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

Cash flow

Net cash generated from continuing operating activities for the six months ended 30 September 2018 was £438 million, compared with £412 million in the first half of last year. The group's net capital expenditure was £298 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex is based on the capital work that is done in the period, rather than actual cash spent.

Net debt including derivatives at 30 September 2018 was £6,914 million, compared with £6,868 million at 31 March 2018. This modest increase reflects regulatory capital expenditure, payments of dividends, interest and tax, and the inflationary uplift on index-linked debt, largely offset by operating cash flows.

Fair value of debt

The group's gross borrowings at 30 September 2018 had a carrying value of £7,707 million. The fair value of these borrowings was £8,680 million. This £973 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 60 per cent at 30 September 2018. This is slightly lower than the 61 per cent gearing as at 31 March 2018 and remains comfortably within our target range of 55 per cent to 65 per cent.

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

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

Cash and short-term deposits at 30 September 2018 amounted to £260 million. Over 2015-20 we have financing requirements totalling around £2.5 billion to cover refinancing and incremental debt, supporting our five-year investment programme, and we have now raised around £2.3 billion of this requirement.

In September 2018 UUW's financing subsidiary, United Utilities Water Finance PLC (UUWF), increased the amount outstanding on its £300 million public bond issued in February 2018 with a maturity due in February 2025, by an additional £50 million taking the total size of the bond to £350 million.

We remain one of the sector leaders in the issuance of CPI-linked debt having previously raised £165 million, in response to Ofwat's decision to transition away from RPI inflation linkage.

In addition, since March 2018, the group has renewed £50 million of committed bank facilities for an initial five-year term and extended a further £100 million out to 2023. The group has headroom to cover its financing needs into 2020.

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 2018, approximately 54 per cent of the group's net debt was in index-linked form, representing around 33 per cent of UUW's RCV, with an average real interest rate of 1.3 per cent. The long-term nature of this funding also provides a good match to the group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is 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. This reflects a balanced assessment across a range of factors, along with the group's defined benefit pension schemes further de-risking by increasing their hedges of RPI inflation in the external market with a corresponding removal of the pension Inflation Funding Mechanism.

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 is supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination. In line with this, the group has fixed interest costs for substantially all of its nominal debt over the 2015-20 regulatory period, locking in an average annual interest rate of around 3.2 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.

Liquidity

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

Available headroom at 30 September 2018 was £426 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 2018, the group had an IAS 19 net pension surplus of £326 million, compared with a net pension surplus of £344 million at 31 March 2018. This £18 million reduction mainly reflects an adverse movement in demographic assumptions offset by a reduction in mortality assumptions over the period. The scheme specific funding basis does not suffer from volatility due to credit spread movements, as it uses a prudent, fixed credit spread assumption. Therefore, any inflation and credit spread movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

Further detail on pensions is provided in note 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
Flooding incidents	Two significant flooding incidents in the year ended 31 March 2016 caused extensive damage to localised parts of our infrastructure, resulting in significant levels of remedial operating expenditure and a large claim under the group's insurance cover. Management's view is that these were significant and infrequent events and, as such, were not part of the normal course of business.
Non-household retail market reform	The group has incurred significant costs since the year ended March 2015 in preparation for the non-household retail market opening to competition in April 2017. This represents a one-off event and as such, is not considered part of the normal course of business.
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 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)/expense	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believe it is useful to adjust for this to provide a more representative view of performance which is better aligned to the return on capital it earns through revenue.
Capitalised borrowing costs	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.
Agreement of prior years' tax matters	The agreement of prior years' tax matters can be significant, volatile and often related to final settlement with tax authorities of numerous prior year periods. Management adjust for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management adjust for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Operating profit	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m
Operating profit per published results	**339.1**	**341.8**
Flooding Incidents (net of insurance proceeds)	-	(0.1)
Non-household retail market reform	-	1.0
Dry weather event	25.0	-
Restructuring costs	3.7	1.3
Underlying operating profit	**367.8**	**344.0**

Net finance expense	£m	£m
Finance expense	(90.7)	(109.8)
Investment income	7.8	5.2
Net finance expense per published results	**(82.9)**	**(104.6)**
Adjustments:		
Net fair value gains on debt and derivative instruments	(43.7)	(34.5)
Interest on derivatives and debt under fair value option	18.7	8.8
Net pension interest income	(4.5)	(3.3)
Adjustment for capitalised borrowing costs	(18.5)	(21.2)
Underlying net finance expense	**(130.9)**	**(154.8)**

Profit before tax	£m	£m
Share of profits of joint ventures	**3.4**	**5.1**
Profit before tax per published results	**259.6**	**242.3**
Adjustments:		
Flooding incidents	-	(0.1)
Non-household retail market reform	-	1.0
Dry weather event	25.0	-
Restructuring costs	3.7	1.3
Net fair value gains on debt and derivative instruments	(43.7)	(34.5)
Interest on derivatives and debt under fair value option	18.7	8.8
Net pension interest income	(4.5)	(3.3)
Capitalised borrowing costs	(18.5)	(21.2)
Underlying profit before tax	**240.3**	**194.3**

Profit after tax	£m	£m
Underlying profit before tax	240.3	194.3
Reported tax charge	(47.1)	(44.9)
Agreement of prior years' UK tax matters	-	1.6
Tax in respect of adjustments to underlying profit before tax	3.7	9.1
Underlying profit after tax	**196.9**	**160.1**

Earnings per share	£m	£m
Profit after tax per published results (a)	212.5	197.4
Underlying profit after tax (b)	196.9	160.1
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	31.2p	28.9p
Underlying earnings per share, in pence (b/c)	28.9p	23.5p

PRINCIPAL RISKS AND UNCERTAINTIES

We continue to focus on creating sustainable value by delivering a high quality customer service, at the lowest sustainable cost, while acting in a responsible manner at every level within our organisation. In our day-to-day operations we encounter a wide variety of risks which can challenge the quality, cost-effectiveness and timescales for the delivery of our aims and ambitions. We identify and plan for mitigation of these risks under our established risk management framework which includes:

- an enterprise-wide approach to risk management;
- oversight and control of risk through a well-established governance and reporting process;
- a risk assessment and management process which aligns to ISO 31000:2018; and
- training materials, accessible policies and guidance to help our people to identify and manage risk in a consistent manner.

Our individual business areas and functions take responsibility for identifying, quantifying, communicating and controlling the risks relevant to their own business activities. We also use a forward looking approach to take into account new and emerging areas of concern and the long-term impact of risk. The identified risks cover a very wide range of potential events including regulatory, legal, core operations, service and hazard risks. They are reviewed and scored for likelihood as well as for financial and reputational impact should the identified event occur. Initially we use the gross position when assessing risk, i.e. we assume that any controls over the risk are absent or have failed. We then assess the current position of the risk including considering existing controls and their effectiveness. This is then followed by a targeted risk position which introduces further mitigating controls where the current state does not fully align with objectives and/or obligations.

Our governance and reporting process includes twice-yearly reports to our group board on the character of the group's risk profile, informed by the above risk identification and assessment approach. Individual event-based risks are identified and then categorised within ten inherent risk areas known as principal risks. These principal risks were set out on pages 56-57 of the 2018 United Utilities Group PLC Annual Report and Financial Statements and are: (1) Political and regulatory; (2) Compliance; (3) Water service; (4) Wastewater service; (5) Retail and commercial; (6) Financial; (7) Programme delivery; (8) Resource; (9) Security; and (10) Health, safety and environmental. 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.

We also build on this overview in the board report, highlighting two key categories of risk: i) the most significant group-wide business risks; and ii) wholesale operational risks. These are represented by the 10 highest ranked risks (based on the scores awarded for likelihood x 'full life' financial impact) for each of the two categories plus a further five risks with potentially very high impact severity in their current state (net of control effectiveness). In addition, the report also identifies risks that could create potentially significant reputational impacts or are associated with potentially significant emerging topics but have not already been covered by the other reported categories.

Our approach aligns with the UK Corporate Governance Code and includes reports to the group board for every full and half year statutory accounting period so that the board is in a position 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

Key developments in the last 12 months include a maturing of and increased formalisation of our risk appetite framework. Our framework supports our assessment of the extent of risk we are willing to take based on obligations, stakeholders' requirements and the company's capacity and capability to manage risk. By doing this we aim to influence the target position for individual risks underpinning the principal risks through improved consistency. This approach also enables better benchmarking of individual risks against the appetite limits and boundaries. We have also sought to make an incremental governance improvement in our sign-off processes for all risks and also in relation to the wholesale risk and resilience board and the core risk team meetings which focus on long-term resilience. Associated with this is a focus on asset health and operational hazard risk assessment in advance of and beyond PR19. This supports our understanding of the long-term risk profile of our asset base and improves our capability to deliver the most cost-effective and proportionate risk management response as a result.

Profile features

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

Political and regulatory risk and uncertainty feature prominently within the profile, notably with the outcome of PR19 which is expected to be even tougher than previous price reviews. The possibility of 'Renationalisation' is a key area of uncertainty as is the opening up to competition of wholesale operations (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 the Brexit deal that the UK Government ultimately delivers. Our review has considered the availability of European funding, the price of goods and services, exchange rate impacts, possible impacts on our ability to collect cash were there to be an economic downturn and the effect of any potential inflationary shift outside current predicted parameters. We continue to keep this area under review.

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

From an operational risk perspective, the dominance of the penalty element of Ofwat's outcome delivery incentive mechanism and the effect following changes to the Environmental Sentencing Guidelines are 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 viability 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.

Material Litigation

There continue to be two ongoing pieces of material litigation worthy of note, as outlined on page 55 of the 2018 United Utilities Group PLC Annual Report and Financial Statements. However, based on the facts currently known to us and the provisions in our statement of financial position, the directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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Classification – Half Year Results

Consolidated income statement

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Revenue (note 3)	**916.4**	876.0	1,735.8
Employee benefits expense (note 4)	**(80.0)**	(74.4)	(153.5)
Other operating costs (note 5)	**(220.7)**	(205.2)	(423.4)
Other income	**2.0**	1.7	3.8
Depreciation and amortisation expense	**(191.0)**	(185.3)	(376.8)
Infrastructure renewals expenditure	**(87.6)**	(71.0)	(149.5)
Total operating expenses	**(577.3)**	(534.2)	(1,099.4)
Operating profit	**339.1**	341.8	636.4
Investment income (note 6)	**7.8**	5.2	12.0
Finance expense (note 7)	**(90.7)**	(109.8)	(218.6)
Investment income and finance expense	**(82.9)**	(104.6)	(206.6)
Share of profits of joint ventures (note 11)	**3.4**	5.1	2.3
Profit before tax	**259.6**	242.3	432.1
Current tax charge	**(28.9)**	(24.4)	(18.7)
Deferred tax charge	**(18.2)**	(20.5)	(58.8)
Tax (note 8)	**(47.1)**	(44.9)	(77.5)
Profit after tax	**212.5**	197.4	354.6

All of the results shown above relate to continuing operations.

Earnings per share (note 9)			
Basic	**31.2p**	28.9p	52.0p
Diluted	**31.1p**	28.9p	51.9p
Dividend per ordinary share (note 10)	**13.76p**	13.24p	39.73p

Consolidated statement of comprehensive income

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Profit after tax	**212.5**	197.4	354.6
Other comprehensive income			
Remeasurement (losses)/gains on defined benefit pension schemes (note 13)	**(43.3)**	(52.4)	50.2
Tax on items taken directly to equity (note 8)	**5.1**	9.4	(8.5)
Change in credit assumptions for debt reported at fair value through profit and loss	**2.6**	-	-
Cash flow hedge effectiveness	**13.3**	-	-
Foreign exchange adjustments	**0.7**	0.7	0.2
Total comprehensive income	**190.9**	155.1	396.5

Consolidated statement of financial position

	30 September 2018 £m	30 September 2017 £m	31 March 2018 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**10,944.3**	10,589.0	10,790.5
Intangible assets	**212.0**	192.3	197.7
Interests in joint ventures (note 11)	**77.0**	78.3	75.2
Investments (note 12)	**11.5**	7.8	7.1
Trade and other receivables	**143.4**	131.6	141.1
Retirement benefit surplus (note 13)	**326.3**	219.8	344.2
Derivative financial instruments	**443.7**	418.3	297.8
	12,158.2	11,637.1	11,853.6
Current assets			
Inventories	**14.3**	19.6	16.8
Trade and other receivables	**284.9**	284.6	260.9
Current tax asset	**6.3**	7.6	24.5
Cash and short-term deposits	**259.6**	87.6	510.0
Derivative financial instruments	**163.6**	331.4	337.7
	728.7	730.8	1,149.9
Total assets	**12,886.9**	12,367.9	13,003.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(667.8)**	(611.5)	(642.7)
Borrowings (note 14)	**(7,143.7)**	(6,778.2)	(7,072.8)
Deferred tax liabilities	**(1,116.7)**	(1,047.3)	(1,098.8)
Derivative financial instruments	**(70.5)**	(111.0)	(96.8)
	(8,998.7)	(8,548.0)	(8,911.1)
Current liabilities			
Trade and other payables	**(338.5)**	(342.0)	(275.7)
Borrowings (note 14)	**(563.1)**	(649.6)	(839.5)
Provisions	**(19.5)**	(22.8)	(22.1)
Derivative financial instruments	**(3.7)**	(7.1)	(4.2)
	(924.8)	(1,021.5)	(1,141.5)
Total liabilities	**(9,923.5)**	(9,569.5)	(10,052.6)
Total net assets	**2,963.4**	2,798.4	2,950.9
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Cumulative exchange reserve	**(2.2)**	(1.3)	(1.8)
Cash flow hedging reserve	**13.3**	-	-
Merger reserve	**329.7**	329.7	329.7
Retained earnings	**2,119.9**	1,967.3	2,120.3
Shareholders' equity	**2,963.4**	2,798.4	2,950.9

Consolidated statement of changes in equity

Six months ended 30 September 2018

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 31 March 2018	499.8	2.9	(1.8)	329.7	-	2,120.3	2,950.9
Adjustment on initial adoption of IFRS 9 and IFRS 15 (note 1)	-	-	(1.1)	-	-	3.7	2.6
At 1 April 2018	499.8	2.9	(2.9)	329.7	-	2,124.0	2,953.5
Profit after tax	-	-	-	-	-	212.5	212.5
Other comprehensive income/(expense)							
Remeasurement losses on defined benefit pension schemes (note 13)	-	-	-	-	-	(43.3)	(43.3)
Tax on items taken directly to equity (note 8)	-	-	-	-	-	5.1	5.1
Change in credit assumption for debt reported at fair value through profit and loss	-	-	-	-	-	2.6	2.6
Cash flow hedge effectiveness	-	-	-	-	13.3	-	13.3
Foreign exchange adjustments	-	-	0.7	-	-	-	0.7
Total comprehensive income	-	-	0.7	-	13.3	176.9	190.9
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**	**(2.2)**	**329.7**	**13.3**	**2,119.9**	**2,963.4**

Six months ended 30 September 2017

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2017	499.8	2.9	(2.0)	329.7	1,991.2	2,821.6
Profit after tax	-	-	-	-	197.4	197.4
Other comprehensive income/(expense)						
Remeasurement losses on defined benefit pension schemes (note 13)	-	-	-	-	(52.4)	(52.4)
Tax on items taken directly to equity (note 8)	-	-	-	-	9.4	9.4
Foreign exchange adjustments	-	-	0.7	-	-	0.7
Total comprehensive income	-	-	0.7	-	154.4	155.1
Dividends (note 10)	-	-	-	-	(176.7)	(176.7)
Equity-settled share-based payments	-	-	-	-	1.2	1.2
Exercise of share options - purchase of shares	-	-	-	-	(2.8)	(2.8)
At 30 September 2017	**499.8**	**2.9**	**(1.3)**	**329.7**	**1,967.3**	**2,798.4**

Year ended 31 March 2018

	Share capital £m	Share premium account £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2017	499.8	2.9	(2.0)	329.7	1,991.2	2,821.6
Profit after tax	-	-	-	-	354.6	354.6
Other comprehensive income/(expense)						
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	-	50.2	50.2
Tax on items taken directly to equity (note 8)	-	-	-	-	(8.5)	(8.5)
Foreign exchange adjustments	-	-	0.2	-	-	0.2
Total comprehensive income	-	-	0.2	-	396.3	396.5
Dividends (note 10)	-	-	-	-	(267.0)	(267.0)
Equity-settled share-based payments	-	-	-	-	3.2	3.2
Exercise of share options - purchase of shares	-	-	-	-	(3.4)	(3.4)
At 31 March 2018	**499.8**	**2.9**	**(1.8)**	**329.7**	**2,120.3**	**2,950.9**

Consolidated statement of cash flows

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Operating activities			
Cash generated from operations (note 16)	**507.1**	499.4	989.8
Interest paid	**(66.2)**	(71.1)	(144.6)
Interest received and similar income	**3.3**	3.5	5.9
Tax paid	**(6.0)**	(20.2)	(35.5)
Net cash generated from operating activities	**438.2**	411.6	815.6
Investing activities			
Purchase of property, plant and equipment	**(302.6)**	(323.5)	(698.6)
Purchase of intangible assets	**(13.3)**	(15.7)	(36.1)
Proceeds from sale of property, plant and equipment	**1.2**	0.2	1.1
Grants and contributions received	**17.2**	10.5	23.7
Loans to joint ventures	**(6.0)**	(12.6)	(26.5)
Proceeds from disposal of business	**-**	6.5	8.9
Dividends received from joint ventures	**2.3**	3.4	3.3
Proceeds from investments	**0.6**	0.6	1.0
Net cash used in investing activities	**(300.6)**	(330.6)	(723.2)
Financing activities			
Proceeds from borrowings	**120.7**	129.1	801.0
Repayment of borrowings	**(337.5)**	(178.0)	(345.9)
Dividends paid to equity holders of the company (note 10)	**(180.6)**	(176.7)	(267.0)
Exercise of share options – purchase of shares	**(2.0)**	(2.8)	(3.4)
Net cash (used in)/generated from financing activities	**(399.4)**	(228.4)	184.7
Net (decrease)/increase in cash and cash equivalents	**(261.8)**	(147.4)	277.1
Cash and cash equivalents at beginning of the period	**497.4**	220.3	220.3
Cash and cash equivalents at end of the period	**235.6**	72.9	497.4

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2018 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 2018.

The comparative figures for the year ended 31 March 2018 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 condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The accounting policies, presentation and methods of computation are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2018 with the exception of the adoption of IFRS 9 *'Financial Instruments'* and IFRS 15 *'Revenue from Contracts with Customers'*. Adoption of these standards is broadly in line with expectations set out in the March 2018 group financial statements, and has resulted in no material impact to the financial statements.

Impact of newly adopted standards

IFRS 9 'Financial Instruments'

The group adopted IFRS 9 on 1 April 2018, applying the standard retrospectively in accordance with the standard's transition requirements. Comparative periods have not been restated, with any differences arising from retrospective application being recognised as an adjustment to retained earnings at the beginning of the period. This has resulted in retained earnings at the adoption date increasing by £1.1 million with a corresponding debit to the cumulative exchange reserve.

During the period fair value foreign exchange gains of £0.5 million have been recognised in the income statement which would have been recognised in the cumulative exchange reserve under previous accounting policies. This has resulted from the classification of an investment previously accounted for as an available for sale financial asset under IAS 39 *'Financial Instruments: Recognition and Measurement'* as a financial asset measured at fair value through profit or loss.

The group has reassessed the effectiveness of existing accounting hedges on adoption of IFRS 9 and the documentation that supports any designation. Financial instruments that had been designated in an accounting fair value hedge relationship under IAS 39 continue to be designated as such under IFRS 9, however the group has reassessed its position with regards to designating non-financial risks in hedge relationships and has determined that in order to give a more representative view of operating costs it would be appropriate to designate a number of existing swaps as being in a cash flow hedge relationship. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements reflecting the effective part of the swaps being recognised in other comprehensive income. At the maturity date the amounts paid/received will be recognised against expenses in the income statement, thus giving a more representative view of operating costs.

The impact of this change is that whereas previously no income relating to these swaps would have been recognised against corresponding operating expenses, with the full £14.6 million gain recognised as a fair value movement as part of finance expense, the settlement of existing swaps in the period has instead resulted in income of £1.3 million being recognised against operating expenses, with a fair value gain of £13.3 million relating to the effective element of the cash flow hedge being recognised in other comprehensive income together with a corresponding increase in the cash flow hedge reserve.

In addition to this, where the group has chosen to measure borrowings at fair value through profit or loss, the portion of the change in fair value due to changes in the group's own credit risk, which has been a £2.6 million gain during the period, has been recognised in other comprehensive income rather than within profit or loss.

A deferred tax charge of £2.7 million has been recognised in other comprehensive income during the period in relation to the above.

IFRS 15 'Revenue from Contracts with Customers'

The group adopted IFRS 15 on 1 April 2018, applying the standard retrospectively with the cumulative effect of initial application recognised at the date of initial application as an adjustment to retained earnings. Prior period comparatives have therefore not been restated. The group has elected to use the practical expedient whereby any contracts that were completed in accordance with accounting standards as at 31 March 2018 need not be restated on an IFRS 15 basis. This transition approach has resulted in a £2.6 million increase in retained earnings and reduction in deferred income on the adoption date due to a change in the period over which revenue relating to connection activities is recognised.

The two main areas of the group's activities impacted by the adoption of IFRS 15 are (i) the provision of core water and wastewater services, and (ii) capital income streams relating to diversions work and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to core water and wastewater services, which are deemed to be distinct performance obligations under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

The main impact of adoption for the group has been in respect of connection activities. Under IFRS 15 the performance obligation associated with the connection activities is deemed to be satisfied over the period of time that water and wastewater services are expected to be provided through the connection, which has been estimated as being around 60 years. These revenues are therefore deferred on the balance sheet and released to the income statement over this period. Further detail can be found in the group's annual report and financial statements for the year ended 31 March 2018. Had the new standard not been adopted in the current period, revenue would have been £3.5 million less based on the application of previous accounting policies rather than IFRS 15 due to a longer average amortisation period having previously been used.

New and revised standards not yet effective

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019, and will therefore be adopted on 1 April 2019. Under the provisions of the standard, most leases, including the majority of those previously classified as operating leases, will be brought onto the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability will both be 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 and reduced by lease payments.

The key judgements associated with adoption of 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 the rate is not implicit in the contract.

Implementation work associated with adoption is well progressed. For current operating leases, contracts making up the vast majority of the value of future lease payments have been reviewed and appropriately classified as leases under IFRS 16 ahead of adoption. These future lease payments will be discounted using the group's incremental cost of borrowing. The value of the assets and liabilities brought onto the statement of financial position will be highly sensitive to this rate on the adoption date. We estimate that the right-of-use asset and offsetting lease liability brought onto the statement of financial position will be in the region of £50 million based on borrowing rates at the reporting date.

Going concern

The directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of approval of the condensed financial statements, and have therefore assessed that the going concern basis of accounting is appropriate in preparing the condensed financial statements and that there are no material uncertainties to disclose. This conclusion is based upon a review of the resources available to the group, taking account of the group's financial projections together with available cash and committed borrowing facilities as well as consideration of the group's capital adequacy. 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.

2. Segmental reporting

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

3. Revenue

	30 September 2018 £m	**30 September 2017 £m**	**31 March 2018 £m**
Wholesale water charges	**383.4**	360.8	719.2
Wholesale wastewater charges	**460.7**	436.3	875.6
Residential retail charges	**45.9**	46.3	91.2
Other	**26.4**	32.6	49.8
	916.4	876.0	1,735.8

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

Other revenues comprise a number of smaller non-core income streams including those relating to energy generation and export, and those associated with activities, typically performed opposite property developers, which impact the group's capital network assets including diversions works to relocate water and wastewater assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

4. Employee benefits expense

Included within employee benefits expense were £3.7 million (30 September 2017: £1.3 million, 31 March 2018: £6.0 million) of restructuring costs, and £0.9 million (30 September 2017 and 31 March 2018: £nil) of costs incurred in relation to the group's response to the severe dry weather event experienced during the period.

5. Other operating costs

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Hired and contracted services	**57.2**	47.7	97.7
Property rates	**45.6**	42.6	90.5
Materials	**41.2**	33.2	67.3
Power	**34.1**	31.9	70.4
Regulatory fees	**17.3**	14.9	29.7
Charge for bad and doubtful receivables	**13.2**	14.8	20.8
Cost of properties disposed	**2.9**	7.7	9.8
Operating leases payable	**2.1**	2.0	4.2
Settlement of commercial claims	**(9.9)**	-	-
Compensation from insurers	**-**	(3.5)	(3.6)
Other expenses	**17.0**	13.9	36.6
	220.7	205.2	423.4

During the current period, as a result of the group's response to a severe dry weather event, there were £25.0 million of expenses incurred, comprising £17.3 million of other operating costs, £6.8 million of infrastructure renewals expenditure, and £0.9m of employee costs (see note 4).

During the prior periods, as a result of two significant flooding incidents caused by storms Desmond and Eva in December 2015, there were £3.4 million and £5.3 million of expenses incurred comprising £2.2 million and £2.9 million of operating costs, and £1.2 million and £2.4 million of infrastructure renewals expenditure, for 30 September 2017 and 31 March 2018 respectively. Insurance compensation relating to the flooding incidents of £3.5 million and £3.6 million for 30 September 2017 and 31 March 2018 respectively was recognised as part of a final settlement of the insurance claim. In addition, in prior periods there were £1.0 million of market reform restructuring costs incurred, preparing the business for open competition in the non-household retail market.

Total other operating costs are stated net of £0.2 million (30 September 2017: £0.9 million, 31 March 2018: £1.4 million) costs recharged to Water Plus at nil margin under transitional service agreements.

6. Investment income

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Interest receivable	**3.3**	1.9	4.9
Net pension interest income (note 13)	**4.5**	3.3	7.1
	7.8	5.2	12.0

7. Finance expense

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Interest payable	**134.4**	144.3	265.9
Net fair value gains on debt and derivative instruments	**(43.7)**	(34.5)	(47.3)
	90.7	109.8	218.6

Interest payable is stated net of £18.5 million (30 September 2017: £21.2 million, 31 March 2018: £39.7 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the period. Interest payable includes an £67.1 million (30 September 2017: £83.0 million, 31 March 2018: £137.8 million) non-cash, inflation uplift charge in relation to the group's index-linked debt.

Net fair value gains on debt and derivative instruments includes £18.7 million income (30 September 2017: £8.8 million, 31 March 2018: £23.5 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.

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 2018 for the purpose of the basic earnings per share was 681.9 million (30 September 2017 and 31 March 2018: 681.9 million) and for the diluted earnings per share was 683.0 million (30 September 2017: 683.0 million, 31 March 2018: 683.1 million).

10. Dividends

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Dividends relating to the period comprise:			
Interim dividend	**93.8**	90.3	90.3
Final dividend	**-**	-	180.6
	93.8	90.3	270.9
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	90.3
Final dividend	**180.6**	176.7	176.7
	180.6	176.7	267.0

10. Dividends (continued)

The interim dividends for the six months ended 30 September 2018 and 30 September 2017, and the final dividend for the year ended 31 March 2018, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2018 and 30 September 2017, and the consolidated financial statements at 31 March 2018, because they were approved after the reporting date.

The interim dividend of 13.76 pence per ordinary share (2017: interim dividend of 13.24 pence per ordinary share, final dividend of 26.49 pence per ordinary share) is expected to be paid on 1 February 2019 to shareholders on the register at the close of business on 21 December 2018. The ex-dividend date for the interim dividend is 20 December 2018.

11. Joint ventures

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
At the start of the period	**75.2**	75.2	75.2
Share of profits of joint ventures	**3.4**	5.1	2.3
Dividends received from joint ventures	**(2.3)**	(3.4)	(3.3)
Currency translation differences	**0.7**	1.4	1.0
At the end of the period	**77.0**	78.3	75.2

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.

Tallinn Water disclosed a contingent liability of EUR 26.5 million in its latest financial statements relating to possible third-party claims. If this contingent liability materialises 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 19.

12. Investments

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
At the start of the period	**7.1**	9.0	9.0
Change in fair value	**4.1**	-	-
Disposals	**(0.6)**	(0.6)	(1.0)
Currency translation differences	**0.9**	(0.6)	(0.9)
At the end of the period	**11.5**	7.8	7.1

At 30 September 2018, the group's investments mainly comprised its investment in Muharraq Holding Company 1 Limited. These investments are held at fair value.

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 2018 % p.a.	**Six months ended 30 September 2017 % p.a.**	**Year ended 31 March 2018 % p.a.**
Discount rate	**2.90**	2.70	2.60
Pensionable salary growth and pension increases	**3.45**	3.40	3.35
Price inflation - RPI	**3.45**	3.40	3.35
Price inflation - CPI	**2.05**	-	1.95

Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA (30 September 2017 and 31 March 2018: S2PA) year of birth tables, with a scaling factor of 108 per cent for males and 102 per cent for females, reflecting actual mortality experience; and CMI 2017 (30 September 2017 and 31 March 2018: CMI 2016) long-term improvement factors, with a long-term annual rate of improvement of 1.75 per cent (30 September 2017 and 31 March 2018: 1.75 per cent).

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 2018 £m	**Six months ended 30 September 2017 £m**	**Year ended 31 March 2018 £m**
Current service cost	**2.8**	14.0	27.3
Curtailments/settlements	**1.4**	0.2	2.3
Administrative expenses	**1.2**	1.2	2.6
Pension expense charged to operating profit	**5.4**	15.4	32.2
Net pension interest income credited to investment income (note 6)	**(4.5)**	(3.3)	(7.1)
Net pension expense charged before tax	**0.9**	12.1	25.1

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 2018 £m	**Six months ended 30 September 2017 £m**	**Year ended 31 March 2018 £m**
At the start of the period	**344.2**	247.5	247.5
Expense recognised in the income statement	**(0.9)**	(12.1)	(25.1)
Contributions paid	**26.3**	36.8	71.6
Remeasurement (losses)/gains gross of tax	**(43.3)**	(52.4)	50.2
At the end of the period	**326.3**	219.8	344.2

13. Retirement benefit surplus (continued)

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

	30 September 2018 £m	30 September 2017 £m	31 March 2018 £m
Present value of defined benefit obligations	**(3,340.9)**	(3,487.9)	(3,498.7)
Fair value of schemes' assets	**3,667.2**	3,707.7	3,842.9
Net retirement benefit surplus	**326.3**	219.8	344.2

The £43.3 million remeasurement loss has principally resulted from an increase in swap yields impacting the liability hedge, and adverse movements in demographic assumptions following an update to commutation factors and death in service and ill health benefits, offset by a reduction in mortality from the latest CMI 2017 model. 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 2018. During the period the investment and risk management strategy continued to evolve with both UUPS and ESPS now fully hedging inflation exposure through external market swaps and gilts. As a consequence the Inflation Funding Mechanism (IFM), which previously provided an element of inflation hedging directly with the company, has now ceased to apply.

During the current 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 2016 for both the group's ESPS and UUPS schemes.

On 26 October 2018 the High Court handed down a judgement involving Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for males and females in relation to Guaranteed Minimum Pension (GMP) benefits for the effect of unequal GMPs accrued between 1990 and 1997. The issues determined by the judgement are expected to have a widespread impact on defined benefit schemes operating in the UK, which will see an increase in the defined benefit obligations of the schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities for the group's pension schemes. We estimate that this could be in the tens of millions of pounds, with any adjustment necessary expected to be recognised in the second half of the 2018/19 financial year.

Defined contribution schemes

During the period, the group made £12.4 million (30 September 2017: £6.0 million, 31 March 2018: £12.1 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 2018 were as follows:

- On 12 September 2018 the group issued a further £50 million fixed interest rate notes in addition to the £300 million notes that had been issued on 14 February 2018. These notes are due February 2025.

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

15. Fair values of financial instruments

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

	30 September 2018		30 September 2017		31 March 2018	
	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m
Financial assets at fair value through profit or loss						
Derivative financial assets - fair value hedge	**419.5**	**419.5**	543.1	543.1	455.7	455.7
Derivative financial assets - held for trading	**187.8**	**187.8**	206.6	206.6	179.8	179.8
Investments*	**11.5**	**11.5**	7.8	7.8	7.1	7.1
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities - fair value hedge	**(11.6)**	**(11.6)**	(5.7)	(5.7)	(24.2)	(24.2)
Derivative financial liabilities - held for trading	**(62.6)**	**(62.6)**	(112.4)	(112.4)	(76.8)	(76.8)
Financial liabilities designated as fair value through profit or loss	**(360.1)**	**(360.1)**	(367.7)	(367.7)	(347.7)	(347.7)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(2,651.6)**	**(2,618.7)**	(2,492.1)	(2,449.8)	(2,905.9)	(2,895.3)
Other financial liabilities at amortised cost	**(5,667.8)**	**(4,728.0)**	(5,761.8)	(4,610.3)	(5,798.4)	(4,669.3)
	(8,134.9)	**(7,162.2)**	(7,982.2)	(6,788.4)	(8,510.4)	(7,370.7)

*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'*.

An increase in credit spreads during the period is the principal reason for the reduction in the difference between the fair value and carrying value of the group's borrowings compared with the position at 31 March 2018.

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair Value Measurement'* hierarchy of £2,338.5 million (30 September 2017: £1,708.1 million, 31 March 2018: £2,192.4 million) for financial liabilities in fair value hedge relationships and £1,801.8 million (30 September 2017: £2,253.7 million, 31 March 2018: £2,425.6 million) for other financial liabilities at amortised cost.

The £477.7 million reduction (30 September 2017: £1,257.8 million increase, 31 March 2018: £1,914.0 million increase) in 'level 1' fair value liability measurements is largely due to a decrease in the number of observable quoted bond prices in active markets at 30 September 2018. 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 2018.

16. Cash generated from operations

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
Operating profit	**339.1**	341.8	636.4
Adjustments for:			
Depreciation of property, plant and equipment	**174.0**	172.5	348.4
Amortisation of intangible assets	**17.0**	12.8	28.4
Loss on disposal of property, plant and equipment	**0.4**	2.2	6.8
Amortisation of deferred grants and contributions	**(3.0)**	(3.1)	(6.4)
Equity-settled share-based payments charge	**1.6**	1.2	3.2
Other non-cash movements	**(3.5)**	(1.6)	(3.3)
Changes in working capital:			
Decrease in inventories	**2.5**	2.9	5.6
(Increase)/Decrease in trade and other receivables	**(20.6)**	3.7	27.5
Increase/(Decrease) in trade and other payables	**23.1**	(8.0)	(13.0)
Decrease in provisions	**(2.6)**	(3.6)	(4.4)
Pension contributions paid less pension expense charged to operating profit	**(20.9)**	(21.4)	(39.4)
Cash generated from operations	**507.1**	499.4	989.8

17. Net debt

	Six months ended 30 September 2018 £m	Six months ended 30 September 2017 £m	Year ended 31 March 2018 £m
At the start of the period	**6,867.8**	6,578.7	6,578.7
Net capital expenditure	**297.5**	328.5	701.0
Dividends (note 10)	**180.6**	176.7	267.0
Inflation uplift on index-linked debt (note 7)	**67.1**	83.0	137.8
Interest	**62.9**	67.6	138.7
Loans to joint ventures	**6.0**	12.6	26.5
Tax	**6.0**	20.2	35.5
Other	**2.5**	(6.4)	(0.7)
Fair value movements	**(69.2)**	(52.9)	(26.9)
Cash generated from operations (note 16)	**(507.1)**	(499.4)	(989.8)
At the end of the period	**6,914.1**	6,708.6	6,867.8

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.

Fair value movements includes net fair value gains on debt and derivative instruments of £43.7 million (30 September 2017: £34.5 million, 31 March 2018: £47.3 million) less net payments on swaps and debt designated at fair value of £12.2 million (30 September 2017: £18.4 million net payment, 31 March 2018: £20.4 million net receipt) and fair value gains on cash flow hedges of £13.3 million following the adoption of IFRS 9.

17. Net debt (continued)

During the 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.

In the prior periods the group paid £106.8 million in settlement of certain interest rate swap liabilities as part of an exercise to better align the existing hedging profile with the group's target hedge ratios and to manage swap counterparty positions to facilitate future treasury activity. The payment is included within 'Repayment of borrowings' in the statement of cash flows.

Notional net debt totals £6,935.2 million as at 30 September 2018 (30 September 2017: £6,672.7 million, 31 March 2018: £6,830.2 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. Commitments and contingent liabilities

At 30 September 2018 there were commitments for future capital expenditure contracted but not provided for of £372.5 million (30 September 2017: £325.8 million, 31 March 2018: £432.9 million).

Details of the group's contingent liabilities were disclosed in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2018. There have been no significant developments relating to contingent liabilities in the period ended 30 September 2018 with the exception of that relating to the equalisation of Guaranteed Minimum Pensions (GMP) discussed in note 13.

19. 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 2018 £m	**Six months ended 30 September 2017 £m**	**Year ended 31 March 2018 £m**
Sales of services	**234.6**	264.9	496.3
Charitable contributions advanced to related parties	**0.2**	-	-
Purchases of goods and services	**0.2**	0.2	0.7
Costs recharged at nil margin under transitional service agreements	**0.2**	0.9	1.4
Interest income and fees recognised on loans to related parties	**1.9**	1.2	3.4
Amounts owed by related parties	**183.0**	179.9	179.7
Amounts owed to related parties	**-**	3.4	1.4

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.

19. Related party transactions (continued)

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 2018 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £183.0 million (30 September 2017: £179.9 million, 31 March 2018: £179.7 million), comprising £39.6 million (30 September 2017: £51.6 million, 31 March 2018: £42.5 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £143.4 million (30 September 2017: £128.3 million, 31 March 2018: £137.2 million) relating to loans. Included within these loans receivable were the following amounts owed by Water Plus:

- £100.0 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2019, bearing a floating interest rate of LIBOR plus a credit margin;
- £9.5 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 2018 of £12.5 million, comprising the £9.5 million receivable held at fair value, and £3.0 million recorded as a net equity contribution to Water Plus recognised within interests in joint ventures; and
- £32.5 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2019, bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million (30 September 2017: £3.7 million, 31 March 2018: £1.4 million) of non-current receivables was owed by other related parties at 30 September 2018.

No expense or allowance has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (30 September 2017 and 31 March 2018: £nil).

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 £64.0 million, of which £38.5 million related to guarantees to United Utilities Water Limited.

At 30 September 2018, amounts owed to joint ventures were £nil million (30 September 2017: £3.4 million, 31 March 2018: £1.4 million). Amounts outstanding are unsecured and settle in accordance with normal credit terms.

20. Events after the reporting period

With the exception of the High Court ruling relating to GMP equalisation documented in note 13, there were no material events arising after the reporting date that required recognition or disclosure in the condensed financial statements for the period ended 30 September 2018.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

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

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

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

………………………..	……………………….
Steve Mogford	Steve Fraser
20 November 2018	20 November 2018
Chief Executive Officer	Chief Operating 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 2018 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 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
St Peter's Square
Manchester
M2 3AE
20 November 2018