

United Utilities Group PLC
25 November 2009

HALF YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

£m (continuing operations)	Six months ended	
	30 September 2009	30 September 2008 (restated) ²
Operating profit ¹	358.9	359.4
Underlying operating profit ^{1, 3}	369.9	365.9
Profit before tax ¹	206.1	305.8
Underlying profit before tax ^{1, 3}	268.2	252.6

Pence (continuing operations)	Six months ended	
	30 September 2009	30 September 2008 (restated) ²
Basic earnings per share ^{1, 4}	29.1	0.6
Interim dividend per ordinary share	11.17	10.64

¹ The contributions from the group's investments in Northern Gas Networks Holdings Limited and Manila Water Company have been included in continuing operations.

² In accordance with International Financial Reporting Standards, IFRIC 12 'Service Concession Arrangements' is applied retrospectively hence the prior period has been restated

³ Underlying operating profit and underlying profit before tax are defined in the underlying profit measure tables on page 13

⁴ One-off factors affecting EPS are explained in the earnings per share section on page 10

- Sound results in a difficult economic environment: underlying operating profit of £370 million
- Customer satisfaction continues to increase: now at highest level for many years
- Taking action to improve overall performance: OPA score on track to improve significantly
- Agreed divestment of holdings in Northern Gas Networks and Manila Water for c£130 million
- Group plans to assess further opportunities to crystallise value from its non-regulated business
- Interim dividend increased by 5.0% to 11.17 pence per share, in line with policy

Commenting, Philip Green, Chief Executive, said:

"This is a sound set of results in a challenging economic climate. We have delivered an underlying operating profit of £370 million in the half year and have continued to make high levels of investment in our water and wastewater infrastructure.

"We responded rapidly to the recent exceptional weather conditions in Cumbria, with hundreds of our engineers working alongside the emergency services to help maintain vital water and power supplies. This remains a very difficult time for our customers and we will continue to work hard in the affected communities in the aftermath of the floods.

"Improving operational performance remains high on our agenda and the business is on course to meet its regulatory leakage target for the fourth consecutive year. In addition, overall service performance, as measured by Ofwat's OPA score, is on track to improve significantly this year.

"Our aim is to keep customer bills affordable whilst continuing with essential investment in our infrastructure. In September, we submitted our representations to Ofwat on the regulator's draft price limit proposals for 2010-15. Tomorrow, Ofwat is due to publish its final determination of prices and we have a two month period in which we will consider the proposals carefully before responding.

"We have agreed the disposals of our holdings in Northern Gas Networks and Manila Water, for approximately £130 million. Following these divestments, the group plans to assess further opportunities to crystallise value from its non-regulated business.

"We expect to deliver a sound underlying financial performance over the remainder of 2009/10, despite facing ongoing revenue and cost pressures. In line with our policy the board has declared an interim dividend of 11.17 pence per share, an increase of five per cent."

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A presentation to investors and analysts starts at 9.00 am on Wednesday 25 November 2009, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB. The presentation can be accessed via a live listen in conference call facility by dialling: +44 (0) 20 7162 0025, access code 850308. A recording of the call will be available for seven days following 25 November 2009 on +44 (0) 20 7031 4064, access code 850308.

This half yearly financial report announcement and the associated presentation will be available on the day at: <http://www.unitedutilities.com>

CHIEF EXECUTIVE'S REVIEW

Financial performance

United Utilities has delivered a sound set of financial results for the six months ended 30 September 2009. Revenue from continuing operations rose by £6 million to £1,210 million. Underlying operating profit increased by 1% to £370 million. Underlying profit before tax increased by 6% to £268 million, including the effect of a lower underlying cost of net borrowings.

Operating profit in our regulated activities was broadly in line with the first half of last year at £348 million on an underlying basis. This result primarily reflects the price increase allowed by our regulator, offset as expected by reduced water demand and ongoing cost pressures, alongside an increase in depreciation. The price increase supports the high levels of essential investment in our assets, which helps the business meet strict environmental standards and deliver an improved service for our customers.

Capital expenditure in our regulated water and wastewater business amounted to £296 million during the half year, including infrastructure renewals expenditure. This level of spend is consistent with our planned investment profile for the final year of the current 2005-10 capital expenditure programme.

Our business improvement initiatives are delivering benefits, although cost pressures in areas such as power and bad debts are continuing in 2009/10. The company has a continuing focus on cost efficiency and is implementing a range of cost control measures across the group, as we aim to lower the cost to serve our customers whilst maintaining and improving levels of service. These initiatives have largely mitigated the increases in power costs, bad debts and property rates, with further savings expected.

A year ago we launched our workforce management project on time and below budget. This integrated system is a key initiative in increasing productivity by using real time data across the workforce to enable more effective work scheduling. The system is now delivering efficiency benefits, coupled with improvements in operational performance. Total cost savings in the order of £7 million per annum are expected to be realised in full during 2010/11. In addition, we have identified further benefits which should increase the total annual savings to £9 million thereafter.

We have delivered an increased underlying operating profit of £28 million in our non-regulated business. We continue to be the leading utility infrastructure outsourcing business in the UK.

The group benefits from headroom to cover its projected financing needs through to early 2012. During the first half of the year we enhanced our liquidity through the issuance of an additional £100 million, 5.75% bond maturing in March 2022; an additional £50 million, 6.125% bond maturing in December 2015; and a new £70 million, 2.40%+RPI index-linked bond maturing in July 2039. This provides us with good flexibility in terms of when and how we raise further debt finance.

Operational performance

Improving operational performance is a key area of focus for the group and we are pleased to report further progress. The business is on track to meet its regulatory leakage target for the fourth consecutive year and customer satisfaction continues to increase and is now at its highest level for many years.

Since 2005, we have narrowed the operational efficiency gap to the most efficient water companies and this has been reflected in Ofwat's relative efficiency assessments. We expect at least to sustain these efficiency ratings for 2008/09.

We continue to remove properties from our sewer flooding register. Ofwat has published a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. Following discussions with Ofwat regarding our methodology and processes in this area we have reassessed the number of properties on our register, increasing both the current position and the start point in 2005/06. These reassessed numbers indicate a net reduction of 101 properties over this three year period and we have plans in place to offer mitigation measures to all properties on the register.

Although we are encouraged by the tangible progress we have made, we do recognise that there is more to do and the business is taking steps to improve overall service performance. We initiated a capital investment programme at Fleetwood wastewater treatment works over a year ago and this programme is scheduled to be completed by summer 2010. We also have plans to introduce an enhanced online monitoring system to help improve performance in respect of meeting consent standards at our wastewater treatment works.

Improving our response to customer contacts, in particular billing enquiries, is another key area of focus and we have introduced new working practices to enhance our performance. Regulatory targets are monitored more closely, providing better information and enabling us to allocate resources more effectively to help meet these targets. Early progress is encouraging.

We expect a significant improvement in our overall performance assessment (OPA) score for 2009/10 and the management actions we are taking should have a positive impact on our performance as measured by Ofwat's new service incentive mechanism, which is scheduled to be introduced in 2010/11.

Disposals of investments

We have agreed the disposals of our holdings in Northern Gas Networks and Manila Water Company, to existing shareholders, for a combined price of approximately £130 million and we intend to retain the proceeds within the group.

Regulatory developments

In April 2009, United Utilities Water PLC (UW) submitted its final business plan for the 2010-15 period to Ofwat. On 23 July 2009, Ofwat published its draft determination of price limits for this five-year period. We responded to the draft determination in September and engaged with a broad range of stakeholders to ensure their views were conveyed to Ofwat. The next stage in the process is the publication by Ofwat of its final determination on 26 November 2009.

The final determination will not take account of potential additional investment in respect of the North East Irish Sea, which is dependent on a European court case decision involving the UK government scheduled for 10 December 2009. This is a complex issue and would require subsequent interpretation in terms of costs and outputs. If additional work is required, it is likely to be the subject of a further price determination as it would mean UW investing in nutrient removal at many of its larger wastewater treatment works to improve the quality of discharges to the marine environment.

Outlook

We expect to deliver a sound underlying financial performance over the remainder of 2009/10, although the company is experiencing ongoing revenue and cost pressures. United Utilities has a healthy level of headroom to cover its projected financing needs through to early 2012. We will continue with our strong focus on operational performance and aim to build on the improvements already achieved. In line with the group's policy, the board expects to grow the final dividend for 2009/10 by 5%.

Following the divestments of United Utilities' stakes in Northern Gas Networks and Manila Water Company, the group plans to assess further opportunities to crystallise value from its non-regulated business.

Ofwat is scheduled to publish its final determination of price limits, for the 2010-15 period, on 26 November 2009. We then have a two month period, until late January 2010, in which we will consider the final proposals carefully before responding.

OPERATING PERFORMANCE

REGULATED ACTIVITIES

Financial highlights

- Regulated revenue increased by 2% to £769 million
- Regulated underlying operating profit broadly in line with comparative period at £348 million

Revenue from regulated activities increased by 2% to £769 million, principally as a result of an allowed price increase of 6.0% (including inflation of 3.0%), partially offset, as expected and indicated previously, by reduced water demand reflecting the challenging economic climate. The regulated price increase supports significant investment in UUW's infrastructure which provides vital water and wastewater services to customers.

Underlying operating profit for the period was broadly in line with the first half of last year, primarily reflecting the revenue increase, offset by higher depreciation, property rates, bad debts and power costs. The increase in depreciation reflects the recent high levels of capital spend, in line with the planned profile of the investment programme. Reported operating profit was marginally lower than the corresponding period last year, reflecting one-off costs of approximately £4 million which principally relate to restructuring within the business.

In line with UUW's policy, the business had entered into forward contracts for the majority of its power requirements for 2009/10. As a result, unit power costs in 2009/10 are approximately 10% higher than in 2008/09 and, coupled with a volume impact, power expense has increased by around £4 million. Bad debt expense has marginally increased compared with the prior period and now represents a slightly higher proportion of regulated revenue at 3.6%. This compares with 3.4% in the year ended 31 March 2009 and reflects the impact of the tough economic environment on cash collection rates.

Capital investment in the period, including £58 million of infrastructure renewals expenditure, was £296 million. This level of spend is in line with the planned capital investment profile, with UUW now in the final year of its 2005-10 regulatory programme.

Operational performance

Operational performance is a key area of focus and UUW is targeting an upper quartile position among UK water companies on key operational measures in the medium-term. The regulated business continues to upgrade its infrastructure, replacing 64 kilometres of water mains during the period. UUW continues to supply high quality drinking water with a mean zonal compliance water quality performance for the year to date of 99.95%, which compares with 99.92% for the previous year. UUW is making good progress against its key performance indicators:

- **Relative efficiency** – UUW has narrowed the operational efficiency gap to the most efficient water companies since 2005. This is reflected in Ofwat's most recent (2007/08) assessment of United Utilities as band B for the water service and band C for the wastewater service and represents a one band improvement for both services over this period. UUW expects at least to sustain these bandings in Ofwat's 2008/09 assessment.
- **Security of water supply** – UUW has met its economic level of leakage rolling target for the last three years and is on course to meet its regulatory target for the fourth consecutive year in 2009/10.
- **Pollution** – The business has now met or outperformed its medium-term target of a 50% reduction in major pollution incidents in each of the last three years. One water and ten wastewater Category 1&2

incidents were recorded in 2008 compared with the base position of two water and 21 wastewater incidents in 2005. U UW is on track to meet this target for the fourth consecutive year.

- **Sewer flooding** – U UW continues to remove properties from the sewer flooding register. Earlier in the year, an independent review of U UW’s sewer flooding recording and reporting process was undertaken and the report submitted to Ofwat for consideration. The independent reviewer concluded that the processes are generally fit for purpose with some scope for streamlining and further improvement. U UW has agreed to implement changes required by Ofwat as a result of this review. The company has now reassessed its sewer flooding registers. This shows 990 properties on the register in 2008/09 (for properties at risk of experiencing at least one sewer flooding incident in ten years), which compares with a reassessed number for 2005/06 of 1,091 properties, a net reduction of 101 properties over the three year period. The company has plans in place to reduce the number of incidents due to sewer flooding (other causes) and to offer mitigation measures to all properties on the register.
- **Overall customer satisfaction** – Significant improvements have been delivered. Overall customer satisfaction, in response to enquiries, has improved from less than 50% in 2005 to consistently over 70%. These satisfaction levels are based on a comprehensive independent survey conducted on behalf of U UW each month. Further progress has been achieved and customer satisfaction is now at its highest levels for many years, with a satisfaction rating of 78% for the 12 months to 30 September 2009. The rating for October 2009 was 83%, the highest score attained for an individual month, and the business remains focused on achieving further improvements.

Although U UW has delivered real progress, the business recognises that there is more to do. As indicated previously, sewer flooding incidents, together with environmental underperformance at Fleetwood wastewater treatment works, negatively impacted the 2008/09 OPA score.

U UW initiated a capital investment programme at Fleetwood works over a year ago and this programme is scheduled to be completed by summer 2010. The business also has plans to introduce an enhanced monitoring system across the company’s wastewater treatment works to help improve performance in respect of meeting consent standards at its works. With regard to sewer flooding, the business has identified those areas of its sewer network which are high risk with the potential to have a major flooding impact and is allocating operational resources more effectively to help mitigate these risks.

Improving the company’s response to customer contacts is another key area of focus, in particular billing enquiries. We have introduced new working practices to help improve our performance and early progress is encouraging. Regulatory targets are monitored more closely and managers now have better information and the flexibility to reallocate resources to help meet these targets. The more complex work has also been brought back in-house, giving the business greater control to resolve issues and help meet its targets.

The business expects a significant improvement in its OPA score for 2009/10 and the actions being taken should have a positive impact on U UW’s performance as measured by Ofwat’s new service incentive mechanism, due to be introduced in 2010/11.

Efficiency initiatives

U UW’s efficiency initiatives are progressing well, although the business is facing ongoing cost pressures in areas such as power and bad debts.

The company’s principal efficiency initiatives include an integrated performance management project, which increases remote operational site management and optimises chemical and power usage, and its asset improvement programme which is improving the efficiency of operational pumps. These schemes are key elements of United Utilities’ plan to mitigate its carbon emissions, alongside its combined heat

and power assets which recycle energy generated from wastewater treatment processes. Earlier in the year, UUW was awarded funding from Defra to convert biogas, a by-product of the sludge treatment process, into bio-methane for vehicle fuel. There is potential in the future to export biogas into the national gas distribution network.

Other key initiatives include supply chain management, which has been centralised and is delivering procurement economies, and a workforce management project. There is a strong drive to improve customer service and the business is focusing on reducing the number of customer queries, improving staff productivity and implementing improved cash collection procedures.

The company has a strong focus on cost efficiency and is implementing a range of cost control initiatives, as the business aims to lower the cost to serve its customers whilst maintaining and improving levels of service. These initiatives have largely mitigated the increases in power costs, bad debts and property rates, with further savings expected.

The workforce management system, implemented a year ago on time and below budget, is a key element in improving the efficiency of frontline staff. The system is now delivering the dual benefits of reducing the cost to serve and improving customer satisfaction. The business has halved the time taken to resolve poor water supply issues and cost savings of approximately £7 million per annum are expected to be realised in full during 2010/11. In addition, further benefits have been identified which will increase the total annual savings to £9 million thereafter.

2009 water price review

UUW submitted its final water and wastewater business plan, covering the 2010-15 period, to Ofwat in April 2009. On 23 July 2009 Ofwat published its draft determination of prices for this five-year period, which for UUW included:

- a £3.4 billion capital investment programme (2007/08 prices);
- an average annual underlying operating efficiency of 1.8% for the water service and 2.4% for the wastewater service;
- a return on capital of 4.5% (post-tax, real); and
- an average annual real price decrease of 0.6% across the five-year period, with a real price decrease of 6.3% in the first year.

UUW formally responded to the regulator's draft proposals in September 2009 and has been in discussions with Ofwat, having engaged with a broad range of stakeholders to ensure their views were conveyed to the regulator. The next stage of the price review process is publication of the final determination by Ofwat on 26 November 2009. Water companies have until late January 2010 to decide whether to accept the final determination, or alternatively have it referred to the Competition Commission to be re-determined. UUW will consider the regulator's final proposals carefully before responding.

The final determination will not take account of potential additional investment in respect of the North East Irish Sea, which is dependent on a European court case decision involving the UK government scheduled for 10 December 2009. This is a complex issue and would require subsequent interpretation in terms of costs and outputs. If additional work is required, it is likely to be the subject of a further price determination as it would mean UUW investing in nutrient removal at many of its larger wastewater treatment works to improve the quality of discharges to the marine environment.

NON-REGULATED ACTIVITIES

Financial highlights

- Non-regulated revenue marginally down to £437 million
- Non-regulated underlying operating profit increased by £5 million to £28 million

Non-regulated revenue was marginally lower at £437 million, reflecting the impact of difficult conditions in the UK property market on the group's utility connections business. The business has implemented tight cost control measures. Underlying operating profit increased by £5 million, compared with the first half of last year (restated in accordance with IFRIC 12 as explained in the accounting policies section on page 12). Reported operating profit was £26 million and this included one-off costs of approximately £2 million, which principally relate to restructuring within the business.

Business update

United Utilities is the leading utility infrastructure outsourcing business in the UK, applying the core utility skills from its regulated activities. United Utilities holds major outsourcing contracts working on behalf of Dŵr Cymru Welsh Water, Southern Water, Scottish Water, Electricity North West, Northern Gas Networks and British Gas Trading (meter installation).

United Utilities also has a meter ownership contract with British Gas Trading which provides a revenue stream to the group through rental income once the meters have been installed. In addition, United Utilities has three Scottish PFI operations and operations in Bulgaria, Estonia, Poland and Australia.

The contract with Scottish Water, via Scottish Water Solutions Limited in which United Utilities is a major partner, is expected to come to a natural end in March 2010.

In June 2009, United Utilities, via the 4D consortium, won a new capital delivery contract with Southern Water to manage the design and build of a new wastewater treatment works in the Brighton and Hove area. The contract has now commenced and the construction phase is expected to take approximately three years, followed by the potential for a two-year contract to operate and maintain the new plant.

Earlier this month, United Utilities agreed the disposals of its 15.0% stake in Northern Gas Networks and its 11.7% holding in Manila Water Company, to existing shareholders, for a combined price of approximately £130 million, enabling the group to crystallise value from these investments. The Northern Gas Networks divestment has now been completed and completion of the Manila Water Company transaction is expected by the end of 2009. The contribution in dividends from United Utilities' investments in Northern Gas Networks and Manila Water Company was just over £12 million for the year ended 31 March 2009, the vast majority of which was received in the second half of the year.

United Utilities plans to assess further opportunities to crystallise value from its non-regulated business.

ALL OTHER SEGMENTS

As expected, the group's other activities, which include central costs, delivered an underlying operating loss during the half year of £6 million, compared with an underlying operating loss of £5 million in the corresponding period last year, reflecting a minimal contribution from United Utilities Property Solutions (UUPS). As indicated previously, the difficult conditions in the UK property market have affected the performance of UUPS, the property sales and management business of the group.

The reported operating loss for other activities was £12 million, reflecting one-off costs incurred in the half year of approximately £5 million. These costs principally relate to restructuring within the business.

FINANCIAL PERFORMANCE

Investment income and finance expense

Finance expense of £163 million was £58 million higher than the corresponding period last year. This expense included £63 million of net fair value losses on debt and derivative instruments, compared with £31 million of net fair value gains in the first half of last year. This volatility in financing expense reflects the fact that, in order to provide a hedge of the interest cost implicit in the regulatory period, the group fixes interest rates for the duration of each five-year review period for the majority of its debt using interest rate swaps. IAS 39 limits the use of hedge accounting for these commercial hedges, thereby increasing the potential volatility of the income statement. In addition, the impact of changes in credit spreads on debt accounted for at fair value through profit or loss can result in significant additional volatility and this is the principal reason for the large net fair value movement in the period. However, this volatility in fair values has no cashflow impact. Interest expense on swaps and debt under the fair value option was £12 million, compared with £8 million in the comparative period.

Investment income was £10 million, compared with £51 million in the corresponding prior period, principally reflecting a reduction in cash following the return of approximately £1.5 billion to shareholders in the previous financial year. The underlying cost of net borrowings for continuing operations of £93 million was £6 million lower than the prior period. This reflects a reduction in the group's average net borrowing rate from around 5.7% to 3.8% partly offset by higher average net debt, primarily due to the return of approximately £1.5 billion to shareholders in August 2008. The group has just over £2 billion of index-linked debt and the reduction in finance expense primarily reflects lower RPI. In a period of RPI deflation, the principal amount of the index-linked debt is adjusted downwards, reducing interest expense in the income statement. During the six months ended 30 September 2009, indexation of the principal of index-linked debt amounted to a net credit in the income statement of £8 million compared with a charge of £38 million in the comparative period.

Profit before taxation

Underlying profit before taxation was £268 million, 6% ahead of the results for the six months ended 30 September 2008. This underlying measure adjusts for the impact of one-off items, fair value movements in respect of debt and derivative instruments and the short-term interest benefit in the first half of last year associated with the cash proceeds from the sale of United Utilities Electricity (UUE), prior to the £1.5 billion return to shareholders. Reported profit before taxation decreased by 33% to £206 million as a result of the £63 million of fair value losses compared with £31 million of fair value gains in the prior period, reflecting the movement in credit spreads on the group's debt.

Taxation

The group received a cash tax inflow for the half year of £51 million, following agreement with UK tax authorities of prior years' tax returns.

The current tax charge relating to continuing operations was £20 million and the current tax effective rate was 10%, compared with 24% in the prior period. The current tax charge included a £35 million credit in relation to the agreement with the tax authorities of prior years' tax returns.

In the corresponding period last year, the group recognised a one-off deferred tax charge of £214 million relating to the abolition of industrial buildings allowances with a cash impact expected to be spread over a period of approximately 20 years. This one-off item resulted in a significant increase in the effective tax rate for the prior period.

The group has recognised a net deferred tax credit relating to continuing operations of £12 million compared with a deferred tax charge in the first half of last year of £228 million. This included a £16 million credit in relation to the agreement with the tax authorities of prior years' tax returns.

An overall tax charge of £8 million relating to continuing operations has been recognised for the six months ended 30 September 2009. Excluding the impact of prior years' adjustments and the abolition of industrial buildings allowances, the total tax charge relating to continuing operations would be £59 million or 29% compared with a £88 million charge or 29% in the corresponding prior period.

Earnings per share

Basic earnings per share relating to continuing operations increased from 0.6 pence to 29.1 pence, principally reflecting the one-off deferred tax charge of £214 million in the comparative period relating to the abolition of industrial buildings allowances (equivalent to 31.3 pence per share). The adjustments relating to the agreement of prior years' tax returns increased earnings per share by 7.5 pence in the six months ended 30 September 2009.

Dividend per share

The board has declared an interim dividend of 11.17 pence per ordinary share in respect of the six months ended 30 September 2009. This is an increase of 5.0%, in line with the group's dividend policy of a target real growth rate of RPI+2.0%. The inflationary increase of 3.0% is based on the RPI element included within the allowed regulated price increase for U UW for the 2009/10 financial year (i.e. the movement in RPI between November 2007 and November 2008).

The interim dividend is expected to be paid on 3 February 2010 to shareholders on the register at the close of business on 18 December 2009. The ex-dividend date is 16 December 2009.

Cashflow

Cash generated from the group's continuing operations for the six months ended 30 September 2009 was £497 million, compared with £431 million in the corresponding period last year. The group's capital expenditure on property, plant and equipment for the period was £283 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

Net debt including derivatives at 30 September 2009 was £4,888 million, similar to the position at 31 March 2009 (£4,895 million). This principally reflects expenditure on the regulatory capital investment programmes, payment of the 2008/09 final dividend and payments of interest, offset by operational cash flows and the aforementioned cash tax receipt.

Debt financing and interest rate management

Gearing (measured as group net debt divided by U UW's regulatory capital value) decreased to 65% at 30 September 2009, compared with 66% at 31 March 2009. Adjusting for the group's non-recourse joint venture debt of £234 million, gearing was 62%. At the period end, United Utilities Water PLC had long-term credit ratings of A3/A- and United Utilities PLC had long-term credit ratings of Baa1/BBB+ from Moody's Investors Services and Standard and Poor's Ratings Services respectively. Following the publication of the draft determination of prices by Ofwat in July 2009, Standard and Poor's placed United Utilities on credit watch with negative implications.

Cash and short-term deposits at 30 September 2009 amounted to £332 million. During the period, the group's financing headroom position was enhanced through the issuance of an additional £100 million, 5.75% bond maturing in March 2022; an additional £50 million, 6.125% bond maturing in December 2015; and a new £70 million, 2.40%+RPI index-linked bond maturing in July 2039. United Utilities has headroom to cover its projected financing needs through to early 2012.

The group has access to the international debt capital markets through its €7 billion medium-term note programme which provides for the periodic issuance by United Utilities PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are issued. The

programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities.

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to earnings and assets. At 30 September 2009, approximately 41% of the group's net debt was in index-linked form, representing around 27% of U UW's regulatory capital value, with an average real interest rate of 1.8%. 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 in excess of 25 years.

Where debt is raised in a currency other than sterling and/or with a fixed interest rate, it is generally swapped to create a floating rate sterling liability for the term of the liability. The group's policy is to seek to match the debt service costs to regulatory cashflow which is impacted by the general interest rate environment at the time of each price control determination and is then fixed for the five-year period of that price control. To hedge the exposure to each price control determination, the group enters into interest rate swaps, around the time of each price control determination, to fix interest costs for a substantial proportion of the group's debt for the duration of that price control period. The group does not undertake any speculative trading activity.

The group enters into joint ventures with consortium partners. The financial and legal structure of joint ventures is designed to limit the group's exposure to the extent of the equity investment and loans provided by the group, with no further recourse should the joint venture default. All joint venture arrangements have been incorporated into the group's results on a proportionate consolidation basis.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cashflow and its short-term bank deposits. Further liquidity is provided by committed but undrawn credit facilities. This liquidity supports the group's €2 billion euro-commercial paper programme.

In line with the board's treasury policy, United Utilities aims to maintain a healthy headroom position. Available headroom at 30 September 2009 was £977 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs through to early 2012.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. The group does not have any cash (or cash equivalents) invested in money market funds. Its cash is held in the form of short-term (generally no longer than three months) 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

United Utilities has updated its pension assumptions in response to changes in market conditions. The group's net pension obligations increased during the period from £213 million at 31 March 2009 to £359 million at 30 September 2009. Further detail is provided in note 8 ("Retirement benefit obligations") of these half year financial statements.

Accounting policies

In line with International Financial Reporting Standards (IAS 23 'Borrowing Costs – Revised standard') United Utilities is required to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Qualifying assets include property, plant and equipment, inventories and intangible assets developed in projects that take a substantial period of time to prepare for use. Other borrowing costs which are not directly attributable to a qualifying asset are recognised as an expense. During the six months ended 30 September 2009, borrowing costs of £0.3 million have been capitalised.

On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 12 'Service Concession Arrangements'. The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. The group has adopted IFRIC 12 during the six months ended 30 September 2009. IFRIC 12 is applied retrospectively hence the prior period has been restated to reflect this. For the arrangements falling within its scope, the relevant assets are recognised as a financial asset (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or an intangible asset (where the operator's future cash flows are not specified); or both a financial asset and an intangible asset (where the operator's return is provided partially by a financial asset and partially by an intangible asset). Previously the infrastructure assets were generally recognised as property, plant and equipment.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

Underlying profit

In considering the results for the period, the directors have adjusted the group's statutory measures for fair value movements on debt and derivative instruments and those significant items identified as non-recurring. Operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit from continuing operations and underlying profit before taxation from continuing operations as follows:

<i>Continuing operations</i>	Regulated activities	Non-regulated activities	All other segments	Group
Operating profit/(loss) for the six months ended 30 September 2009				
	£m	£m	£m	£m
Operating profit/(loss) per published results	344.9	25.6	(11.6)	358.9
One-off items ⁵	3.5	2.3	5.2	11.0
Underlying operating profit/(loss)	348.4	27.9	(6.4)	369.9

<i>Continuing operations</i>	Regulated activities	Non-regulated activities	All other segments	Group
Operating profit/(loss) for the six months ended 30 September 2008 (restated)				
	£m	£m	£m	£m
Operating profit/(loss) per published results	347.4	23.3	(11.3)	359.4
Restructuring costs ⁶	-	-	6.5	6.5
Underlying operating profit/(loss)	347.4	23.3	(4.8)	365.9

<i>Continuing operations</i>	Six months ended 30 September 2009	Restated Six months ended 30 September 2008
Profit before taxation		
	£m	£m
Profit before taxation per published results	206.1	305.8
Operating profit adjustments (see above)	11.0	6.5
Net fair value losses/(gains) on debt and derivative instruments	62.8	(30.8)
Interest on swaps and debt under fair value option	(11.7)	(8.3)
Interest associated with cash proceeds from UUE sale ⁷	-	(20.6)
Underlying profit before taxation	268.2	252.6

<i>Continuing operations</i>	Six months ended 30 September 2009	Restated Six months ended 30 September 2008
Underlying cost of net borrowings		
	£m	£m
Finance expense	163.1	104.8
Net fair value (losses)/gains on debt and derivative instruments	(62.8)	30.8
Interest on swaps and debt under fair value option	11.7	8.3
Underlying interest payable	112.0	143.9
Investment income	(10.3)	(51.2)
Adjustment for net pension interest (expense)/income	(11.5)	3.6
Adjustment for IFRIC 12 financing income	2.9	2.6
Underlying cost of net borrowings	93.1	98.9
Add back adjustment for net pension interest expense/(income)	11.5	(3.6)
Add back adjustment for IFRIC 12 financing income	(2.9)	(2.6)
Interest associated with cash proceeds from UUE sale ⁷	-	20.6
Underlying net interest payable	101.7	113.3

⁵ Principally relates to restructuring within the business.

⁶ Principally relates to the capital restructuring associated with the £1.5 billion return to shareholders.

⁷ The interest associated with the cash proceeds from the sale of UUE has been deducted to provide a more representative view of underlying performance. As the cash proceeds from the sale of UUE were held by the group until the £1.5 billion return to shareholders in August 2008, this resulted in a short-term net debt and interest reduction.

PRINCIPAL RISKS AND UNCERTAINTIES

The group performs an annual risk assessment exercise involving consideration by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team. The group's anticipated principal risks and uncertainties over the second half of the financial year and beyond remain as stated in its 2009 Annual Report and Financial Statements. The principal risks and uncertainties are set out in full on pages 16-19 of the 2009 Annual Report and Financial Statements, namely (a) unfavourable price determination; (b) capital investment programmes; (c) current capital market conditions; (d) pension scheme obligations; (e) failure to comply with applicable law or regulations; (f) increased competition in the water and wastewater industry; (g) events, service interruptions, systems failures, water shortages or contamination of water supplies; (h) risks in the group's non-regulated business; (i) material litigation.

An update as to the combined IAS 19 deficit in the group's current pension schemes as at 30 September 2009 is shown on the consolidated statement of financial position and further detail is provided in note 8: "Retirement benefit obligations".

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This half yearly 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 half yearly financial report and the company undertakes no obligation to update these forward-looking statements. Nothing in this half yearly financial report should be construed as a profit forecast.

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

Consolidated income statement

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
<i>Continuing operations</i>			
Revenue	1,210.2	1,204.4	2,427.2
Other income	2.6	3.7	18.5
Employee benefits expense	(181.9)	(165.2)	(347.2)
Depreciation and amortisation expense	(137.7)	(128.6)	(261.9)
Infrastructure renewals expenditure	(58.4)	(57.7)	(117.8)
Other operating costs	(475.9)	(497.2)	(989.3)
Total operating expenses	(851.3)	(845.0)	(1,697.7)
Operating profit	358.9	359.4	729.5
Investment income (note 2)	10.3	51.2	70.7
Finance expense (note 3)	(163.1)	(104.8)	(270.9)
Investment income and finance expense	(152.8)	(53.6)	(200.2)
Profit before taxation	206.1	305.8	529.3
Current taxation charge	(19.9)	(73.4)	(139.1)
Deferred taxation credit/(charge)	11.9	(14.4)	(3.5)
Deferred taxation charge – abolition of industrial buildings allowances	-	(213.6)	(206.4)
Taxation (note 4)	(8.0)	(301.4)	(349.0)
Profit for the period from continuing operations	198.1	4.4	180.3
<i>Discontinued operations</i>			
Loss for the period from discontinued operations (note 5)	-	-	(1.2)
Profit for the period	198.1	4.4	179.1
Earnings per share			
from continuing and discontinued operations (note 6)*			
Basic	29.1p	0.6p	26.3p
Diluted	29.0p	0.6p	26.2p
Earnings per share			
from continuing operations (note 6)*			
Basic	29.1p	0.6p	26.5p
Diluted	29.0p	0.6p	26.4p
Dividend per ordinary share (note 7)	11.17p	10.64p	32.67p

* The weighted average number of shares for the prior periods has been based on the 681,381,233 new ordinary shares issued on 28 July 2008 (note 6).

Consolidated statement of comprehensive income

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
Profit for the period	198.1	4.4	179.1
Other comprehensive income			
Actuarial losses on defined benefit pension schemes (note 8)	(131.0)	(166.3)	(124.3)
Tax on actuarial losses on defined benefit pension schemes	36.7	46.6	34.8
Revaluation of investments	6.7	4.4	(20.3)
Fair value gains/(losses) on cashflow hedges	1.0	0.2	(1.6)
Tax on fair value (gains)/losses on cashflow hedges	(0.3)	(0.1)	0.4
Foreign exchange adjustments	5.9	0.2	8.3
Total comprehensive income/(expense) for the period	117.1	(110.6)	76.4

There is no tax impact on the items of other comprehensive income except where stated in the table above.

Consolidated statement of financial position

	30 September 2009 £m	Restated 30 September 2008 £m	Restated 31 March 2009 £m
ASSETS			
Non-current assets			
Property, plant and equipment	7,975.4	7,665.6	7,866.8
Goodwill	2.5	2.3	2.6
Other intangible assets	209.1	176.1	198.9
Investments	143.3	159.8	136.8
Trade and other receivables	52.6	55.5	44.2
Derivative financial instruments	337.2	65.8	412.6
	8,720.1	8,125.1	8,661.9
Current assets			
Inventories	80.2	74.2	73.0
Trade and other receivables	510.9	500.9	491.6
Cash and short-term deposits	331.6	1,080.4	298.6
Derivative financial instruments	152.6	173.5	226.4
	1,075.3	1,829.0	1,089.6
Total assets	9,795.4	9,954.1	9,751.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	(143.0)	(137.7)	(139.8)
Borrowings	(5,260.0)	(3,872.6)	(5,200.1)
Retirement benefit obligations (note 8)	(358.6)	(253.1)	(213.1)
Deferred tax liabilities	(1,293.0)	(1,348.0)	(1,341.3)
Provisions	(10.2)	(18.0)	(17.2)
Derivative financial instruments	(3.7)	(14.2)	(4.5)
	(7,068.5)	(5,643.6)	(6,916.0)
Current liabilities			
Trade and other payables	(703.9)	(718.6)	(672.4)
Borrowings	(314.6)	(2,039.9)	(479.6)
Current income tax liabilities	(137.9)	(129.5)	(67.6)
Provisions	(26.2)	(25.5)	(22.6)
Derivative financial instruments	(131.0)	(68.4)	(148.6)
	(1,313.6)	(2,981.9)	(1,390.8)
Total liabilities	(8,382.1)	(8,625.5)	(8,306.8)
Total net assets	1,413.3	1,328.6	1,444.7
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	499.8	499.8	499.8
Share premium account	0.9	0.5	0.7
Revaluation reserve	158.8	158.8	158.8
Treasury shares	(0.1)	(0.3)	(0.3)
Cumulative exchange reserve	21.8	7.8	15.9
Merger reserve	329.7	313.0	313.0
Other reserves	44.0	62.6	36.6
Retained earnings	358.4	286.4	420.2
Shareholders' equity (note 10)	1,413.3	1,328.6	1,444.7

Consolidated statement of changes in equity

Six months ended 30 September 2009

	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2009 (restated)	499.8	0.7	158.8	(0.3)	15.9	313.0	36.6	420.2	1,444.7
Profit for the period	-	-	-	-	-	-	-	198.1	198.1
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	-	-	(131.0)	(131.0)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	-	36.7	36.7
Revaluation of investments	-	-	-	-	-	-	6.7	-	6.7
Fair value gains on cashflow hedges	-	-	-	-	-	-	1.0	-	1.0
Tax on fair value gains on cashflow hedges	-	-	-	-	-	-	(0.3)	-	(0.3)
Foreign exchange adjustments	-	-	-	-	5.9	-	-	-	5.9
Total comprehensive income for the period	-	-	-	-	5.9	-	7.4	103.8	117.1
Transactions with owners									
Dividends (note 7)	-	-	-	-	-	-	-	(150.1)	(150.1)
New share capital issued	-	0.2	-	-	-	-	-	-	0.2
Shares disposed of from employee share trust	-	-	-	0.2	-	-	-	(0.2)	-
Capital reorganisation*	-	-	-	-	-	16.7	-	(16.7)	-
Equity-settled share-based payments	-	-	-	-	-	-	-	1.4	1.4
At 30 September 2009	499.8	0.9	158.8	(0.1)	21.8	329.7	44.0	358.4	1,413.3

Six months ended 30 September 2008

	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
Restated									
At 1 April 2008	881.6	1,429.3	158.8	(0.3)	7.6	-	58.1	678.1	3,213.2
Profit for the period	-	-	-	-	-	-	-	4.4	4.4
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	-	-	(166.3)	(166.3)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	-	46.6	46.6
Revaluation of investments	-	-	-	-	-	-	4.4	-	4.4
Fair value gains on cashflow hedges	-	-	-	-	-	-	0.2	-	0.2
Tax on fair value gains on cashflow hedges	-	-	-	-	-	-	(0.1)	-	(0.1)
Foreign exchange adjustments	-	-	-	-	0.2	-	-	-	0.2
Total comprehensive income/(expense) for the period	-	-	-	-	0.2	-	4.5	(115.3)	(110.6)
Transactions with owners									
Dividends (note 7)	-	-	-	-	-	-	-	(277.4)	(277.4)
New share capital issued	499.8	0.5	-	-	-	-	-	-	500.3
Capital reorganisation*	(881.6)	(1,429.3)	-	-	-	313.0	-	-	(1,997.9)
Equity-settled share-based payments	-	-	-	-	-	-	-	1.0	1.0
At 30 September 2008	499.8	0.5	158.8	(0.3)	7.8	313.0	62.6	286.4	1,328.6

Consolidated statement of changes in equity (continued)

Year ended 31 March 2009

	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
Restated									
At 1 April 2008	881.6	1,429.3	158.8	(0.3)	7.6	-	58.1	678.1	3,213.2
Profit for the year	-	-	-	-	-	-	-	179.1	179.1
Other comprehensive income									
Actuarial losses on defined benefit pension schemes (note 8)	-	-	-	-	-	-	-	(124.3)	(124.3)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	-	34.8	34.8
Revaluation of investments	-	-	-	-	-	-	(20.3)	-	(20.3)
Fair value losses on cashflow hedges	-	-	-	-	-	-	(1.6)	-	(1.6)
Tax on fair value losses on cashflow hedges	-	-	-	-	-	-	0.4	-	0.4
Foreign exchange adjustments	-	-	-	-	8.3	-	-	-	8.3
Total comprehensive income/(expense) for the year	-	-	-	-	8.3	-	(21.5)	89.6	76.4
Transactions with owners									
Dividends (note 7)	-	-	-	-	-	-	-	(349.9)	(349.9)
New share capital issued	499.8	0.7	-	-	-	-	-	-	500.5
Capital reorganisation*	(881.6)	(1,429.3)	-	-	-	313.0	-	-	(1,997.9)
Equity-settled share-based payments	-	-	-	-	-	-	-	2.4	2.4
At 31 March 2009	499.8	0.7	158.8	(0.3)	15.9	313.0	36.6	420.2	1,444.7

* September 2008 and March 2009 include £1,499.0 million return of capital to shareholders (note 10).

Consolidated statement of cashflows

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
<i>Continuing operations</i>			
Operating activities			
Cash generated from operations	496.9	431.0	911.4
Interest paid	(86.8)	(112.4)	(232.3)
Interest received and similar income	4.1	75.3	90.4
Tax paid	(0.1)	(12.2)	(32.8)
Tax received	50.5	-	-
Net cash generated from operating activities	464.6	381.7	736.7
Investing activities			
Purchase of property, plant and equipment	(283.3)	(385.0)	(668.2)
Purchase of other intangible assets	(19.8)	(15.8)	(45.9)
Proceeds from sale of property, plant and equipment	2.7	4.6	3.8
Net cash used in investing activities	(300.4)	(396.2)	(710.3)
Financing activities			
Proceeds from issue of ordinary shares	0.2	1.3	1.6
Cash used in structured financing	-	(41.3)	(163.9)
Proceeds from borrowings	241.7	1,893.6	3,784.7
Repayment of borrowings	(173.4)	(771.4)	(3,310.9)
Dividends paid to equity holders of the company	(150.1)	(277.4)	(349.9)
Return to shareholders on capital reorganisation	(16.7)	(1,482.2)	(1,482.3)
Net cash used in financing activities	(98.3)	(677.4)	(1,520.7)
Effects of exchange rate changes	10.2	13.7	(1.8)
Net increase/(decrease) in cash and cash equivalents	76.1	(678.2)	(1,496.1)
Cash and cash equivalents at beginning of the period	209.1	1,705.2	1,705.2
Cash and cash equivalents at end of the period	285.2	1,027.0	209.1

Cash generated from operations

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
<i>Continuing operations</i>			
Profit before taxation	206.1	305.8	529.3
Adjustment for investment income and finance expense	152.8	53.6	200.2
Operating profit	358.9	359.4	729.5
Adjustments for:			
Depreciation of property, plant and equipment	122.7	114.3	238.0
Amortisation of other intangible assets	15.0	14.3	23.9
(Profit)/loss on disposal of property, plant and equipment	-	(0.4)	0.8
Equity-settled share-based payments charge	1.4	0.3	1.9
Changes in working capital:			
Increase in inventories	(7.2)	(10.9)	(9.7)
Increase in trade and other receivables	(25.8)	(49.6)	(22.9)
Increase/(decrease) in provisions and payables	31.9	3.6	(50.1)
Cash generated from continuing operations	496.9	431.0	911.4

Segment reporting

The group is organised into two principal operating divisions for management purposes, being regulated and non-regulated activities. These divisions form the basis on which the operating segment information, presented in accordance with IFRS 8 (see note 1), is reported.

The regulated activities segment is as previously reported and includes the regulated results of United Utilities Water PLC.

The non-regulated activities segment is as previously reported and includes the group's utility outsourcing contracts in the United Kingdom and overseas.

The 'all other segments' category was previously reported as the group's other activities segment. This category includes the results of United Utilities Property Solutions Limited, United Utilities Group PLC and other group holding companies.

The disclosure correlates with the information provided to the United Utilities Group PLC board of directors (the "board") for the purposes of assessing performance and allocating resources. The board reviews revenue and operating profit by segment, but assets and liabilities are reviewed at a consolidated level. Investment income and finance expense and taxation are managed on a group basis and are not allocated to operating segments.

Total assets have not changed materially from the amount disclosed in the financial statements of United Utilities Group PLC for the year ended 31 March 2009 and are therefore not disclosed by segment.

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Six months ended 30 September 2009				
<i>Continuing operations</i>				
Total revenue	769.2	436.9	6.6	1,212.7
Inter-segment revenue	(0.3)	-	(2.2)	(2.5)
External revenue	768.9	436.9	4.4	1,210.2
Underlying segmental operating profit/(loss)	348.4	27.9	(6.4)	369.9
Restructuring costs	(3.5)	(2.3)	(5.2)	(11.0)
Segmental operating profit/(loss)	344.9	25.6	(11.6)	358.9
Investment income				10.3
Finance expense				(163.1)
Profit before taxation				206.1

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Restated				
Six months ended 30 September 2008				
<i>Continuing operations</i>				
Total revenue	756.9	443.7	7.2	1,207.8
Inter-segment revenue	(0.8)	-	(2.6)	(3.4)
External revenue	756.1	443.7	4.6	1,204.4
Underlying segmental operating profit/(loss)	347.4	23.3	(4.8)	365.9
Restructuring costs	-	-	(6.5)	(6.5)
Segmental operating profit/(loss)	347.4	23.3	(11.3)	359.4
Investment income				51.2
Finance expense				(104.8)
Profit before taxation				305.8

Segment reporting (continued)

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Restated				
Year ended 31 March 2009				
<i>Continuing operations</i>				
Total revenue	1,499.5	911.8	22.4	2,433.7
Inter-segment revenue	(0.9)	(0.1)	(5.5)	(6.5)
External revenue	1,498.6	911.7	16.9	2,427.2
Underlying segmental operating profit/(loss)	679.4	62.4	(5.7)	736.1
Restructuring costs	(1.0)	1.0	(6.6)	(6.6)
Segmental operating profit/(loss)	678.4	63.4	(12.3)	729.5
Investment income				70.7
Finance expense				(270.9)
Profit before taxation				529.3

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated half yearly financial statements for the six months ended 30 September 2009, which are unaudited, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The accounting policies, presentation and methods of computation are consistent with those set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2009, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), except for the adoption of the standards and interpretations referred to below.

The adoption of the following standards and interpretations, at 1 April 2009, has had no material impact on the group's half yearly financial statements:

IFRIC 12 '*Service Concession Arrangements*'

The interpretation addresses accounting by private sector operators involved in the provision of public sector infrastructure assets and services. Relevant assets within its scope have been reclassified from property, plant and equipment to financial assets, intangible assets or a combination of both. Its application requires the restatement of the comparative periods ended 30 September 2008 and 31 March 2009. Operating profit has reduced by £3.7 million in the period ended 30 September 2009 (30 September 2008: £2.7 million, 31 March 2009: £5.7 million), broadly offset by a corresponding increase in investment income of £2.9 million (30 September 2008: £2.6 million, 31 March 2009: £5.2 million).

IAS 1 '*Presentation of Financial Statements (September 2007)*'

The application of this standard has resulted in the consolidated balance sheet and consolidated cashflow statement being renamed the 'consolidated statement of financial position' and the 'consolidated statement of cashflows' respectively. The shareholders' equity note is presented as a primary statement and is renamed the 'consolidated statement of changes in equity'. The consolidated statement of recognised income and expense is also presented as a primary statement and is renamed the 'consolidated statement of comprehensive income'. Taxation on each item within the consolidated statement of comprehensive income is shown separately.

IAS 23 '*Borrowing costs (March 2007)*'

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of that asset. Qualifying assets include property, plant and equipment, inventories and intangible assets developed in projects that take a significant period of time to complete. The standard has been adopted as a prospective change and borrowing costs have been capitalised on projects commencing from 1 April 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed. During the six months to 30 September 2009, borrowing costs of £0.3 million have been capitalised.

IFRS 8 '*Operating Segments*'

The application of this standard requires disclosure of information about the group's operating segments on the same basis as that used for internal reporting, and replaces the requirement to determine the primary (business) and secondary (geographical) reporting segments. The group determined that its operating segments were the same as the business segments previously identified under IAS 14 'Segment Reporting', except that the 'other activities' segment has been renamed 'all other segments'. Additional disclosures about each of these segments are provided on page 22.

At the date of authorisation of these condensed consolidated half yearly financial statements, the following relevant interpretation was in issue but not yet effective.

IFRIC 18 '*Transfers of Assets from Customers*'

The interpretation has not been applied in the condensed consolidated half yearly financial statements as it has not yet been endorsed by the EU and its effective date is uncertain.

1. Basis of preparation and accounting policies (continued)

The group updated the valuation of its defined benefit pension schemes in the half yearly financial statements for the first time for the six months ended 30 September 2008, due to fluctuations in financial markets. As the financial markets continue to be volatile, the group has again updated the valuation of its defined benefit pension schemes for the six months ended 30 September 2009.

The condensed consolidated half yearly 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 435 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 2009.

The comparative figures for the year ended 31 March 2009 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditors and delivered to the registrar of companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Going concern

The directors have reviewed the financial resources available to the group and have concluded that the group is a going concern. This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group.

2. Investment income

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
Interest receivable	10.3	15.7	27.8
Foreign exchange gains on forward contracts	-	31.9	36.1
	10.3	47.6	63.9
Expected return on pension schemes' assets (note 8)	-	61.6	124.3
Interest cost on pension schemes' obligations (note 8)	-	(58.0)	(117.5)
Net pension interest income	-	3.6	6.8
	10.3	51.2	70.7

3. Finance expense

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Interest payable	(88.8)	(135.6)	(246.6)
Fair value (losses)/gains on debt and derivative instruments	(62.8)	30.8	(24.3)
	(151.6)	(104.8)	(270.9)
Expected return on pension schemes' assets (note 8)	46.6	-	-
Interest cost on pension schemes' obligations (note 8)	(58.1)	-	-
Net pension interest expense	(11.5)	-	-
	(163.1)	(104.8)	(270.9)

3. Finance expense (continued)

The group follows a policy of economic hedging of its interest rate and currency exposures, with particular regard to the five-year regulatory period. Including the interest element of swaps and interest on debt under the fair value option within interest payable, as opposed to within the fair value (losses)/gains, adjusting for the reclassification of interest income and expenditure associated with the group's defined benefit pension schemes and adjusting for the reclassification of financing income relating to the group's service concession arrangements, would give an economic underlying cost of net borrowings of £93.1 million (30 September 2008: £98.9 million, 31 March 2009: £196.2 million):

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
Finance expense	(163.1)	(104.8)	(270.9)
Fair value losses/(gains) on debt and derivative instruments	62.8	(30.8)	24.3
Add back interest on swaps and debt under fair value option	(11.7)	(8.3)	(8.3)
Underlying interest payable	(112.0)	(143.9)	(254.9)
Investment income	10.3	51.2	70.7
Adjustment for net pension interest expense/(income)	11.5	(3.6)	(6.8)
Adjustment for service concession financing income (note 1)	(2.9)	(2.6)	(5.2)
Underlying cost of net borrowings	(93.1)	(98.9)	(196.2)

4. Taxation

	Six months ended 30 September 2009 £m	Restated Six months ended 30 September 2008 £m	Restated Year ended 31 March 2009 £m
Current taxation			
UK corporation tax	(53.1)	(72.4)	(147.0)
Foreign tax	(1.8)	(1.0)	(2.1)
Prior year adjustments	35.0	-	10.0
	(19.9)	(73.4)	(139.1)
Deferred taxation			
Current period	(4.2)	(14.4)	0.7
Prior year adjustments	16.1	-	(4.2)
	11.9	(14.4)	(3.5)
Abolition of industrial buildings allowances	-	(213.6)	(206.4)
	11.9	(228.0)	(209.9)
Total tax charge for the period	(8.0)	(301.4)	(349.0)

The prior year adjustments relate to agreement of prior years' UK tax returns.

Following Royal Assent of the 2008 Finance Act on 21 July 2008, the abolition of industrial buildings allowances was formally enacted. The financial impact as a consequence of this legislation was a one-off deferred tax charge of £213.6 million, which was included in the deferred tax charge for the six months ended 30 September 2008 (31 March 2009: £206.4 million); however the cash impact will be spread over a period of approximately 20 years.

5. Discontinued operations

The group announced the disposal of its 11.7 per cent economic interest in Manila Water Company (MWC) to Ayala Corporation and Philwater Holdings Company Inc, both existing shareholders of MWC, for a cash consideration of USD73 million on 12 November 2009. On completion of the transaction, expected by the end of 2009, the group will reinvest approximately USD1.2 million in new preference shares in Philwater Holdings Company Inc.

The group announced the disposal of its 15.0 per cent economic interest in Northern Gas Networks Holdings Limited (NGN) to Cheung Kong Infrastructure Holdings Limited (CKI) and SAS Trustee Corporation (managed by RREEF Alternative Investments), both existing shareholders of NGN, for a cash consideration of £85.75 million on 16 November 2009.

The contributions from the group's investments in MWC and NGN have been included in continuing operations, within the non-regulated segment, in the group's results for the six months ended 30 September 2009.

The group has previously reported the disposal of United Utilities Electricity, which took place on 19 December 2007. A loss on disposal of £1.2 million was disclosed as discontinued operations in the group's results for the year ended 31 March 2009.

6. Earnings per share

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

	Basic million	Diluted million
Six months ended 30 September 2009	681.5	682.0
Six months ended 30 September 2008	681.4	681.6
Year ended 31 March 2009	681.4	682.3

To enable a meaningful comparison and in compliance with IAS 33 'Earnings per Share', the weighted average number of shares for the comparative periods has been based on the 681,381,233 new ordinary shares in United Utilities Group PLC issued on 28 July 2008.

The difference between the weighted average number of shares used in the basic and diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'.

The basic and diluted earnings per share for the current and comparative periods are as follows:

	Six months ended 30 September 2009	Restated Six months ended 30 September 2008	Restated Year ended 31 March 2009
From continuing and discontinued operations			
Basic	29.1p	0.6p	26.3p
Diluted	29.0p	0.6p	26.2p
From continuing operations			
Basic	29.1p	0.6p	26.5p
Diluted	29.0p	0.6p	26.4p

7. Dividends

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Dividends relating to the period comprise:			
Interim dividend	76.1	72.5	72.5
Final dividend	-	-	150.1
	76.1	72.5	222.6

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Dividends deducted from shareholders' equity comprise:			
Interim dividend	-	-	72.5
Final dividend	150.1	277.4	277.4
	150.1	277.4	349.9

The proposed interim dividends for the six months ended 30 September 2009 and 30 September 2008 and the final dividend for the year ended 31 March 2009 have not been included as liabilities in the condensed consolidated half yearly financial statements at 30 September 2009, 30 September 2008 or the consolidated financial statements at 31 March 2009 respectively.

The interim dividend of 11.17 pence per ordinary share (2009: interim dividend of 10.64 pence per ordinary share; final dividend of 22.03 pence per ordinary share) is expected to be paid on 3 February 2010 to shareholders on the register at close of business on 18 December 2009. The ex-dividend date for the interim dividend is 16 December 2009.

8. Retirement benefit obligations

The main financial assumptions used by the actuary were as follows:

	Six months ended 30 September 2009 %	Six months ended 30 September 2008 %	Year ended 31 March 2009 %
Discount rate – United Utilities Pension Scheme (UUPS)	5.60	6.20	7.00
Discount rate – United Utilities Group of the Electricity Supply Pension Scheme (ESPS)	5.60	6.40	7.00
Discount rate – Northern Gas Networks Pension Scheme (NGNPS)	5.60	6.00	6.90
Expected return on assets – UUPS	6.60	6.80	6.60
Expected return on assets – ESPS	6.20	6.50	6.20
Expected return on assets – NGNPS	5.90	6.20	5.90
Pensionable salary growth – UUPS	4.15	4.45	4.15
Pensionable salary growth – ESPS	4.20	4.50	4.20
Pensionable salary growth – NGNPS	4.20	4.50	4.20
Pension increases	3.20	3.50	3.20
Price inflation	3.20	3.50	3.20

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

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Current service cost	(13.5)	(19.3)	(36.7)
Past service cost	(8.8)	(1.3)	(3.1)
Pension expense charged to operating profit	(22.3)	(20.6)	(39.8)
Expected return on schemes' assets	46.6	61.6	124.3
Interest on schemes' obligations	(58.1)	(58.0)	(117.5)
Pension (expense)/income (charged)/credited to investment income and finance expense (note 2, 3)	(11.5)	3.6	6.8
Net pension charged before taxation	(33.8)	(17.0)	(33.0)

The reconciliation of the opening and closing financial position is as follows:

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
At the start of the period	(213.1)	(101.2)	(101.2)
Expenses recognised in the income statement	(33.8)	(17.0)	(33.0)
Contributions paid	19.3	31.4	45.4
Actuarial losses gross of taxation	(131.0)	(166.3)	(124.3)
At the end of the period	(358.6)	(253.1)	(213.1)

The closing obligation at each period end is analysed as follows:

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Present value of defined benefit obligations	(2,210.9)	(1,974.8)	(1,696.9)
Fair value of schemes' assets	1,852.3	1,721.7	1,483.8
Net retirement benefit obligations	(358.6)	(253.1)	(213.1)

9. Additional disclosures

The following items are considered material in size or nature and are therefore disclosed separately in accordance with IAS 1 ‘Presentation of Financial Statements’:

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Operating profit items:			
Restructuring costs	11.0	6.5	6.6
Finance expense items:			
Fair value losses/(gains) on debt and derivative instruments	62.8	(30.8)	24.3
Interest on swaps and debt under fair value option	(11.7)	(8.3)	(8.3)
Interest associated with cash proceeds from UUE sale	-	(20.6)	(20.6)

10. Shareholders’ equity – capital reorganisation

The movements on the accounts within shareholders’ equity of the group which are affected by the capital reorganisation which took place during the prior period are shown below:

	Share capital £m	Share premium account £m	Merger reserve £m	Total £m
At 1 April 2008	881.6	1,429.3	-	2,310.9
New share capital issued	499.8	0.7	-	500.5
Capital reorganisation	(881.6)	(1,429.3)	313.0	(1,997.9)
At 31 March 2009	499.8	0.7	313.0	813.5
New share capital issued	-	0.2	-	0.2
Capital reorganisation	-	-	16.7	16.7
At 30 September 2009	499.8	0.9	329.7	830.4

In July 2008 the High Court (the “Court”) approved a scheme of arrangement (the “Scheme”) of United Utilities PLC to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. United Utilities PLC shareholders received 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC shares, together with one United Utilities Group PLC B share of 170.0 pence for each United Utilities PLC share.

The Court then approved the reduction of the capital of United Utilities Group PLC, whereby the nominal value of each ordinary share was reduced from 500.0 pence to five pence.

In addition, a merger reserve was created in the United Utilities Group PLC company, which was capitalised into A shares that were cancelled as part of the reduction of capital.

The Scheme and the subsequent reduction in capital increased the distributable reserves of United Utilities Group PLC by £4.8 billion enabling the return of £1,499.0 million capital and allowing future dividends.

On 14 April 2009, the remaining B shares were redeemed. This has been recorded as an adjustment to equity and has eliminated the outstanding financial liability. This transaction concluded the capital reorganisation.

The merger reserve, as shown above, arises on consolidation and represents the capital adjustment required to effect the reverse acquisition, being the difference between the existing share capital and share premium of United Utilities PLC at the date of the reverse acquisition and the share capital of United Utilities Group PLC following the reduction of capital of United Utilities Group PLC.

The share capital balance at 30 September 2008 has been restated to reflect the status of the capital reorganisation at that date.

11. Related party transactions

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

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

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Sales of services	48.3	55.6	109.8
Purchases of goods and services	1.6	1.7	11.4

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

	Six months ended 30 September 2009 £m	Six months ended 30 September 2008 £m	Year ended 31 March 2009 £m
Amounts owed by related parties	13.1	17.7	12.8
Amounts owed to related parties	(0.1)	-	(1.9)

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

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. No guarantees have been given or received. A £0.1 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (30 September 2008: £0.1 million, 31 March 2009: £0.1 million).

12. Contingent liabilities

The group has entered into performance guarantees as at 30 September 2009, where a financial limit has been specified of £193.5 million (30 September 2008: £122.6 million, 31 March 2009: £119.8 million).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

We confirm that to the best of our knowledge:

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

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

Dr John McAdam
Philip Green
Tim Weller
Charlie Cornish
Dr Catherine Bell CB
Paul Heiden
David Jones CBE
Andrew Pinder CBE
Nick Salmon

By order of the Board

.....
Philip Green
24 November 2009
Chief Executive Officer

.....
Tim Weller
24 November 2009
Chief Financial Officer

INDEPENDENT REVIEW REPORT TO UNITED UTILITIES GROUP PLC

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 2009 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 cashflows, cash generated from operations, segment reporting and related notes 1 to 12. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with 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. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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 formed.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditors
Manchester, United Kingdom
24 November 2009