

26 November 2008

GOOD FINANCIAL PERFORMANCE AND ROBUST FINANCING POSITION

Half yearly financial report for the six months ended 30 September 2008

£m (continuing operations)	Six months ended		% Change
	30 September 2008	30 September 2007	
Operating profit	362.1	347.8	+4%
Underlying operating profit ¹	368.6	347.8	+6%
Profit before tax	305.9	252.4	+21%
Underlying profit before tax ¹	252.7	243.3	+4%

Pence	Six months ended	
	30 September 2008	30 September 2007
Basic earnings per share (continuing operations) ²	0.7	38.5
Basic earnings per share (continuing and discontinued operations) ²	0.7	49.6
Interim dividend per ordinary share ³	10.64	15.20

¹ Underlying operating profit and underlying profit before tax are defined in the underlying profit measure table on page 12.

² Basic EPS for the six months ended 30 September 2008 was negatively impacted by a one-off deferred tax charge of £213.6 million (equivalent to 31.3 pence per share) and basic EPS for the comparative period (re-presented) was positively impacted by a one-off deferred tax credit of £81.9 million (equivalent to 12.0 pence per share), as explained in the earnings per share section on page 10.

³ 2008/09 interim dividend per share reduced by 30%, as initially outlined in United Utilities' half yearly financial report published on 29 November 2007, in light of the revised composition of the group following the sale of United Utilities Electricity and the £1.5 billion return to shareholders.

- Good financial performance: underlying operating profit¹ up 6% to £369 million
- Operational improvements continue to be delivered
- Capital expenditure in regulated activities continues at high levels: £353 million for the half year
- Robust financing position: headroom into 2010
- £1.5 billion returned to shareholders in August 2008
- Interim dividend of 10.64 pence in line with previously announced policy

Commenting, Philip Green, Chief Executive, said:

“I am pleased to report another good set of results, in what is a challenging economic climate. We continue to make good progress on our regulatory capital programme and invested £353 million in our infrastructure during the first half of the year. Our strategy to focus on our core skills has helped deliver operational performance improvements, although there is more to do. Customer satisfaction is now at its highest levels for many years and we are on course to meet our regulatory leakage target for the third consecutive year.

“The group benefits from a robust financing position and we have headroom to cover our projected financing needs into 2010, following the return of £1.5 billion to shareholders in August this year.

“We submitted our draft business plan for 2010-15 to Ofwat in August and expect investment in our assets to continue at high levels providing further environmental and customer benefits.

“Looking ahead, we remain confident of delivering a good underlying financial performance over the remainder of 2008/09.”

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A presentation to investors and analysts starts at 9.00 am on Wednesday 26 November 2008, 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. A recording of the call will be available for seven days following 26 November 2008 on +44 (0) 20 7031 4064, access code 816250.

The presentation, with further information on United Utilities, will be available at 9.00 am on the day at: <http://www.unitedutilities.com>.

CHIEF EXECUTIVE'S REVIEW

Financial performance

United Utilities has delivered a good financial performance in the six months ended 30 September 2008. Revenue from continuing operations rose 5% to £1,208 million. Underlying profit before tax¹ increased by 4% to £253 million and underlying operating profit¹ was up by 6% to £369 million.

The group continues to benefit from a robust financing position and has headroom to cover its projected financing needs into 2010, following the return of £1.5 billion to shareholders in August. Since the start of this financial year, we have enhanced our liquidity via a £400 million 12-year term loan facility with the European Investment Bank and through the arrangement of additional bank facilities and renewal of core relationship banking facilities which matured in the period. This provides us with improved flexibility in terms of when and how we raise further debt finance.

Our regulated activities have delivered good growth in the period with operating profit up 7%. This growth primarily reflects the regulated price increase, which supports high levels of essential investment in our infrastructure. This investment enables us to deliver better service for customers and make environmental improvements.

Capital investment in our regulated water and wastewater operations continues at high levels and amounted to £353 million during the half year, including infrastructure renewals expenditure. This high level of spend is in line with our planned investment profile, as we continue through the peak phase of our current capital expenditure programme. Overall, we remain in line with regulatory assumptions on both expenditure and outputs.

Our business improvement initiatives are delivering benefits and we remain on track to meet our regulatory efficiency targets across this price review period, although we are facing increasing cost pressures in areas such as power and bad debts.

We have delivered good operating profit growth in our non-regulated activities. This principally reflects the planned increase in activity on the Scottish Water contract and a benefit realised from foreign exchange rate movements in the period. Our order book is worth over £6 billion in revenue and we continue to be the leading utility infrastructure outsourcing company in the UK.

Operational performance

Improving operational performance is an integral part of our vision to be a world class operator of utility infrastructure and we continue to make progress. The business remains on course to meet its regulatory leakage target for the third consecutive year. Customer satisfaction is now at its highest level for many years though we intend to deliver further improvements.

We also remain on track to meet or outperform our medium term target of a 50% reduction in the number of serious pollution incidents for the third consecutive year. Since 2005, we have closed the operational efficiency gap to the most efficient water companies and this has been reflected in Ofwat's relative efficiency assessments. We expect to sustain these efficiency ratings for 2007/08.

We have continued to remove properties from our sewer flooding register. Earlier this year, Ofwat initiated a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. We are currently in discussions with Ofwat regarding our own methodology and processes in this area. This is expected to result in a restatement of the number of properties, increasing both the start point in 2005/06 and the current position, but we still envisage that the restated numbers will demonstrate good progress over this period. We aim to build on the

achievements made over the last two years and will provide a further update when our sewer flooding registers have been reassessed.

Although we have delivered real progress, as we indicated in June in our full year results announcement, we received a lower operational Overall Performance Assessment (OPA) score from Ofwat for 2007/08. This principally reflects a higher level of sewer flooding incidents, influenced by adverse weather conditions, and environmental underperformance at our Fleetwood wastewater treatment works. We remain focused on delivering improvements in these areas and have already initiated a funded capital investment programme at our Fleetwood works which is expected to improve the operational integrity of the site on project completion.

Regulatory developments

In August, United Utilities Water submitted its draft business plan to Ofwat which covers the 2010-15 period. This plan forms part of the 2009 water price review process and builds on the company's strategic direction statement published in December 2007. The proposed £4 billion capital investment programme aims to safeguard existing standards of service, address new, higher quality standards and make provision for the challenge of climate change.

To finance this plan, we believe an average real, fully post-tax return of 4.7% is required. However, we will wish to reassess our financing costs in light of the prevailing financial market conditions at the time we submit our final business plan to Ofwat in the spring of 2009.

United Utilities Water expects to improve its efficiency in the next regulatory period and is aiming for a 1.5% annual improvement in its underlying operating efficiency and an average efficiency improvement of 3% in respect of its capital investment programme.

We propose an average annual real price increase of 2.7% across the 2010-15 period to deliver the plan, which is designed to provide further environmental and customer improvements. However, average household bills are expected to increase by just over 2% in real terms on average each year, reflecting an expected increase in properties and the proportion of metered customers. We believe this level of increase is consistent with the aim set out in our strategic direction statement that bills, on average, should rise no faster than medium term household income growth.

Ofwat provided feedback to us on our draft business plan last month and we are actively involved in deliberations with our regulators. We expect significant levels of capital investment to continue beyond 2010.

Outlook

The Board expects United Utilities to continue to deliver a good underlying financial performance over the remainder of 2008/09. We benefit from robust financing as we progress towards the next regulatory period.

We aim to build on the performance improvements already achieved, supported by our strategy to focus on our core skills. We are now heavily involved in our preparations for the forthcoming water price review and will submit our final business plan to Ofwat in April 2009.

OPERATING PERFORMANCE

REGULATED ACTIVITIES

Financial highlights

- Regulated revenue increased by 6% to £757 million
- Regulated operating profit increased by 7% to £347 million

Revenue from regulated activities increased by just over 6% to £757 million, principally as a result of an allowed price increase of 7.8% (including inflation), partially offset by lower water demand. The increase in price supports the investment of significant sums in improving the company's infrastructure which provides vital clean water and wastewater services to customers.

Reported operating profit for the half year increased by 7%, primarily reflecting the allowed price increase, partly offset by a higher depreciation expense and, as expected, increases in power costs and bad debts. The higher depreciation charge reflects the high levels of capital spend, in line with the planned profile of the investment programme. Although bad debts increased in absolute terms, the level as a proportion of revenue was approximately 3.5% which was similar to the level for the 2007/08 full year.

Capital investment in the period, including £58 million of infrastructure renewals expenditure, was £353 million. This high level of spend reflects the capital investment profile, as the company progresses through the peak phase of its 2005-10 regulatory programme. Earlier in the year, United Utilities agreed a revised strategy with Ofwat for processing and disposing of sewage sludge. After adjusting for this strategy, cumulative capital expenditure on water and wastewater assets remains broadly in line with regulatory assumptions. Overall, the business remains on course to meet its capital expenditure regulatory efficiency targets and deliver its outputs across the 2005-10 period.

Operational performance

United Utilities has a vision to be a world class operator of utility infrastructure and is targeting an upper quartile position among UK water companies on key operational measures in the medium term. The business continues to upgrade its infrastructure and replaced 119 kilometres of water mains during the first half of the year. The company continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance for the year to date of 99.93%.

United Utilities is making good progress against its key performance indicators and remains on course to meet its targets:

- **Relative efficiency** – United Utilities has closed the operational efficiency gap to the most efficient water companies over the last two years. This is reflected in Ofwat's 2006/07 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 the two-year period. The company expects to maintain these bandings for 2007/08.
- **Security of water supply** – United Utilities met or outperformed its economic level of leakage rolling target for the last two years and is on course to meet its regulatory leakage target for the third consecutive year in 2008/09. This follows a period where the company had not met this target for five years. In addition, no water restrictions are anticipated in the year.
- **Pollution** – One water and eight wastewater Category 1&2 incidents were recorded in 2007 compared with the base position of two water and 21 wastewater incidents in 2005. The business has met or outperformed its medium term target of a 50% reduction over each of the last two years and is on track to meet this target for the third consecutive year.

- **Sewer flooding** – United Utilities continues to remove properties from the sewer flooding register. Earlier this year, Ofwat initiated a review of how registers of properties at risk of sewer flooding are compiled and reported in the water sector in England and Wales. United Utilities is currently in discussion with Ofwat regarding its methodology and processes in this area. This is expected to result in a restatement of the number of properties on the company’s sewer flooding registers, with a resulting increase in these numbers in terms of both the start point in 2005/06 and the current position. However, it is still envisaged that the restated numbers will demonstrate good progress over this period. United Utilities aims to build on the progress achieved over the last two years and will provide a further update when its sewer flooding registers have been reassessed.
- **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 United Utilities each month. Further progress has been achieved and customer satisfaction is now at its highest levels for many years, with a satisfaction rating of 75% over the last 12 months. The company remains focused on achieving further improvements.

Although United Utilities has delivered real progress, the company recognises that there is more to do in improving operational performance. During 2007/08, adverse weather conditions contributed to a higher level of sewer flooding incidents. As outlined previously, this, together with environmental underperformance at the company’s Fleetwood wastewater treatment works, has led to a lower operational Overall Performance Assessment (OPA) score from Ofwat for 2007/08, compared with the prior year. The business is focused on delivering improvements in these areas and a funded capital investment programme has already been initiated at the Fleetwood works and is scheduled to be delivered over the next two years. Although a significant improvement in performance at this works is not expected until completion of this investment programme, the business will continue to focus on all aspects of operational performance.

Efficiency initiatives

United Utilities is on track to meet its regulatory efficiency targets across the 2005-10 period, although the company is facing increasing 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.

Other key initiatives include supply chain management, which has now 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 workforce management project has now gone live and is expected to be a key initiative in delivering future efficiencies. This integrated system means that customers should only need to contact United Utilities once. The call handler has access to detailed information enabling more effective work scheduling and accurate, real time data on work status. The system should provide the dual benefits of reducing the cost to serve and improving customer satisfaction.

2009 water price review

United Utilities Water submitted its draft water and wastewater business plan, covering the 2010-15 period, to Ofwat on 11 August 2008. This plan forms part of the 2009 water price review process and builds on the company's strategic direction statement published in December 2007.

The total capital investment programme contained within the plan, including infrastructure renewals expenditure, is approximately £4 billion (2007/08 prices), comprising approximately £1.6 billion for the water service and approximately £2.4 billion for the wastewater service. Investment to meet regulatory quality standards, enhance the service to customers and maintain the supply/demand balance is forecast at around £2 billion, almost half the total programme. The remainder of the capital investment programme relates to maintenance of the water and wastewater infrastructure.

The 2010-15 capital investment programme, which takes account of the geography and history of the north west region, aims to safeguard existing standards of service, address new, higher quality standards and make provision for the challenge of climate change. It also includes investment for issues first identified in previous price reviews where the clear need for investment has only recently been confirmed. This includes a programme of work to deal with unsatisfactory intermittent discharges (UIDs).

The draft business plan included costs of £280 million in relation to UIDs, representing those schemes where the company has high quality estimates and which have been submitted to the regulator and the government (Defra). Further schemes are likely to be included in the final business plan, scheduled to be submitted to Ofwat in April 2009. When taken together, the total funding requirement in relation to UIDs is estimated to be around £600 million.

United Utilities Water expects to improve its efficiency across the 2010-15 period. The company is aiming for a 1.5% annual improvement in its underlying operating efficiency, although operating expenditure is likely to increase overall due to cost pressures in areas such as power, pensions and property rates. United Utilities Water is also targeting an average improvement in efficiency of 3% in respect of its capital investment programme.

United Utilities Water believes that to finance this plan an average real, fully post-tax return of 4.7% is required. This is consistent with the required return range published by NERA Economic Consulting in its June 2008 publication: "Cost of Capital for PR09 - Final Report for Water UK". This compares with a cost of capital of 5.1% assumed by Ofwat at the last price review in 2004 and reflects the reduction in the cost of debt finance available to the water sector, although recently the raising of debt finance has become more challenging. The company will, therefore, wish to reassess its financing costs at the time of its final business plan submission to Ofwat in spring 2009, in light of the prevailing financial market conditions.

United Utilities believes that Ofwat should ensure that companies can at least maintain an A3 credit rating and should consider recent developments in the credit markets. The raising of debt finance is particularly important given the likely scale of investment that is still required in the water industry to replace and refurbish ageing infrastructure, address flooding risk and climate change and deliver further statutory environmental obligations and customer priorities. The Board believes this to be an appropriate investment grade rating to allow the company to raise finance to fund its substantial capital investment programmes.

To deliver this plan, United Utilities Water proposes an average annual real price increase of 2.7% across the five-year period, although average household bills are expected to increase by just over 2% in real terms on average each year, reflecting an expected increase in properties and the proportion of metered customers. The company believes this is consistent with the aim set out in its strategic direction statement that bills, on average, should rise no faster than medium term household income growth. United Utilities is currently in deliberations with its regulators.

NON-REGULATED ACTIVITIES

Financial highlights

- Non-regulated revenue broadly flat at £447 million
- Non-regulated operating profit increased by 21% to £26 million

Non-regulated revenue in the half year was broadly flat at £447 million, reflecting United Utilities' strong order book. Operating profit increased by 21% compared with the corresponding period last year. This principally reflects the planned increase in activity on the Scottish Water contract and an increase in contribution from the company's international operations, including the benefit of foreign exchange rate movements in the period which amounted to £1.1 million.

Business update

United Utilities is the leading utility infrastructure outsourcing company in the UK, applying the core utility skills of the regulated business. United Utilities holds major utility outsourcing contracts, working on behalf of:

- Dŵr Cymru Welsh Water
- Electricity North West
- Southern Water
- Northern Gas Networks
- Scottish Water
- British Gas Trading (meter installation)

In addition, the meter installation contract with British Gas Trading provides a revenue stream to United Utilities through rental income from meter ownership. United Utilities also has a 15% stake in Northern Gas Networks which provides a steady income stream. Furthermore, United Utilities has three Scottish PFI operations and operates in Bulgaria, Estonia, Poland, the Philippines and Australia.

United Utilities has a strong order book worth over £6 billion in revenue, which provides long-term income streams for the group. Overall, the business is pleased with performance across its non-regulated contract portfolio.

The group continues to seek opportunities to grow its non-regulated business by applying its core skills where it identifies opportunities to generate additional shareholder value with little impact on the risk profile of the group. In addition to the UK utility outsourcing market, United Utilities is currently focusing business development resources on specific opportunities in the UK municipal solid waste treatment market, Australia and the fast-developing Gulf region.

OTHER ACTIVITIES

As expected, other activities delivered a small underlying operating loss of £5 million for the six months ended 30 September 2008. This segment includes central costs and the contribution from United Utilities Property Solutions (UUPS), the property sales and management business of the group. As indicated previously, the slowdown in the UK property market has affected the financial performance of UUPS and this business delivered a very small operating profit of £1 million in the first half of the year. This compares with an operating profit of £10 million for the six months ended 30 September 2007.

One-off costs of £6.5 million were incurred in the first half of 2008/09. These costs principally relate to the capital restructuring associated with the £1.5 billion return to shareholders.

FINANCIAL PERFORMANCE

Investment income and finance expense

Finance expense of £105 million was £63 million lower than the corresponding period last year. This expense included a £31 million fair value gain on debt and derivative instruments, whereas the comparative period included a £19 million fair value loss. 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 spread on debt accounted for at fair value through profit or loss can result in significant additional volatility. However, this volatility in fair values has no cash flow impact. Interest expense on swaps (on a pre-IAS 39 basis) and debt under the fair value option was £8 million, £19 million lower than the comparative period, primarily due to the derivative contracts associated with a €1 billion 6.625% bond, which matured in November 2007.

Investment income was £49 million, compared with £73 million in the corresponding prior period, principally reflecting a reduction in cash following the repayment of debt, including the repayment of a \$500 million bond on 1 April 2008. The underlying cost of net borrowings for continuing operations of £99 million was £17 million lower than the corresponding period last year. This reflects lower average net debt, primarily due to the cash proceeds from the sale of United Utilities Electricity (UUE), and a reduction in the group's average net borrowing rate from around 6.2% to 5.7%. The group redeemed a €1 billion 6.625% bond in November 2007 which has served to reduce the underlying cost of net borrowings, partly offset by the impact of higher inflation on the group's index-linked debt.

Profit before taxation

Profit before taxation increased by 21% to £306 million. Adjusting for the impact of one-off items, fair value movements in respect of debt and derivative instruments, interest on swaps and debt under fair value option and the short-term interest benefit associated with the cash proceeds from the sale of UUE, underlying profit before taxation¹ was £253 million, 4% ahead of the results for the six months ended 30 September 2007.

Taxation

The current tax charge relating to continuing operations was £73 million and the current tax effective rate was 24% compared with 19% in the previous period. The increase in the current tax rate principally relates to the cessation of deductions for the 2005 pension prepayment and a net reduction in capital allowances claimed, partly offset by the reduction in the corporation tax rate from 30% to 28%. These timing differences are matched by an equal and opposite movement in deferred tax.

The company has recognised a one-off deferred tax charge of £214 million in the six month period to 30 September 2008 relating to the abolition of industrial buildings allowances. This one-off item has resulted in a significant increase in the effective tax rate for the six months ended 30 September 2008 and is also anticipated to result in a significant increase in the effective tax rate for the year ending 31 March 2009. However, the cash impact will be spread over a period of approximately 20 years.

The overall deferred tax charge relating to continuing operations is £228 million compared with a deferred tax credit in the prior period of £58 million, when the opening deferred tax liability was restated following the reduction in the corporation tax rate from 30% to 28% with effect from April 2008.

A total tax charge of £301 million relating to continuing operations has been recognised for the six months ended 30 September 2008. Excluding the impact of the abolition of industrial buildings

allowances and the change in corporation tax rate in the prior year, the total tax charge relating to continuing operations would be £88 million or 29%, compared with a £72 million charge or 29% in the corresponding period last year.

Earnings per share

Basic earnings per share relating to continuing operations decreased by 98% to 0.7 pence, principally reflecting the one-off deferred tax charge of £214 million relating to the abolition of industrial buildings allowances (equivalent to 31.3 pence per share). Basic earnings per share in the corresponding period last year were positively impacted by a one-off deferred tax credit of £82 million (equivalent to 12.0 pence per share), reflecting the reduction in the corporation tax rate from 30% to 28% with effect from April 2008.

Basic earnings per share are calculated based on 681.4 million ordinary shares (the corresponding period last year has been re-presented based on 680.2 million ordinary shares), reflecting the group's capital reorganisation implemented on 28 July 2008.

Dividends per share and future dividend policy

The Board has declared an interim dividend of 10.64 pence per ordinary share in respect of the six months ended 30 September 2008. This is a 30% reduction compared with the 2007/08 interim dividend per share, as outlined in United Utilities' half yearly financial report published on 29 November 2007, to reflect the revised composition of the group following the sale of UUE and the return of £1.5 billion to shareholders. The group's revised dividend policy is intended to target a sustainable and growing level of dividends. The new target real growth rate of RPI+2% will be applied from 2009/10 to the 2008/09 dividend per share.

The interim dividend is expected to be paid on 4 February 2009 to shareholders on the register at the close of business on 19 December 2008. The ex-dividend date for the interim dividend is 17 December 2008.

Following the creation of the new parent company, United Utilities Group PLC (as described on page 13), the group has significantly increased its distributable reserves. As at 30 September 2008, the company had approximately £3.4 billion of distributable reserves.

Cashflow

Cash generated from the group's continuing operations for the six months ended 30 September 2008 was £431 million, compared with £319 million in the corresponding period last year. High levels of capital expenditure continue, principally in the regulated water and wastewater investment programmes. The group's net capital expenditure on property, plant and equipment for the half year was £385 million, excluding infrastructure renewals expenditure which is treated as an operating cost under IFRS.

During the half year, United Utilities repaid a \$500 million 6.45% bond from existing cash resources; cash and short-term deposits on the balance sheet at 30 September 2008 amounted to £1,080 million. United Utilities has a long-standing relationship with the European Investment Bank (EIB) and enhanced its liquidity further via a new £400 million term loan facility for United Utilities Water PLC, which was approved by the EIB in July 2008, to support the remainder of the company's current capital investment programme. United Utilities has now signed this £400 million facility and since 30 September 2008 has received £300 million of this 12-year loan facility from the EIB. The remaining £100 million is available for drawing immediately. Taking this £400 million loan facility together with cash and short-term deposits, medium term committed bank facilities and net of short-term debt, results in total available headroom of £807 million, which is sufficient to cover the group's projected financing needs into 2010. In line with the Board's treasury policy, United Utilities aims to maintain a healthy headroom position.

Net debt, including derivatives, at 30 September 2008 was £4,675 million, an increase of £1,772 million compared with 31 March 2008. This movement principally reflects the return to shareholders of approximately £1.5 billion, along with expenditure on the regulatory capital investment programme, payment of the 2007/08 final dividend and payments of interest and tax, partly offset by operational cash flows.

As expected, gearing (group net borrowings divided by United Utilities Water's regulatory capital value) increased to 61% at 30 September 2008, compared with 39% at 31 March 2008, following the return of approximately £1.5 billion to shareholders in August 2008. The Board is aiming to maintain a credit rating of A3 for United Utilities Water PLC and is anticipating a group net debt to regulatory capital value gearing level towards the upper end of Ofwat's range (55% to 65% for the 2005-10 price control period) by 2010.

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

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.

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, interest on swaps and debt under fair value option 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> Operating profit/(loss) for the six months ended 30 September 2008	Regulated activities £m	Non- regulated activities £m	Other activities £m	Total £m
Operating profit/(loss) per published results	347.4	26.0	(11.3)	362.1
One-off costs ⁴	-	-	6.5	6.5
Underlying operating profit/(loss)	347.4	26.0	(4.8)	368.6

<i>Continuing operations</i> Operating profit for the six months ended 30 September 2007	Regulated activities £m	Non- regulated activities £m	Other activities £m	Total £m
Operating profit per published results and underlying operating profit	325.3	21.5	1.0	347.8

<i>Continuing operations</i> Profit before taxation	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m
Profit before taxation per published results	305.9	252.4
Operating profit adjustments (see above)	6.5	-
Fair value (gains) / losses on debt and derivative instruments	(30.8)	18.5
Interest on swaps and debt under fair value option	(8.3)	(27.6)
Interest associated with cash proceeds from UUE sale ⁵	(20.6)	-
Underlying profit before taxation	252.7	243.3

⁴ Principally relates to the capital restructuring associated with the £1.5 billion return to shareholders.

⁵ 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.

£1.5 billion return to shareholders and creation of new parent company

As a result of the sale of UUE and the review of the group's capital structure, outlined in its half year results published on 29 November 2007, the Board said that it intended to return to shareholders a total of £1.5 billion or 170 pence per share. The vast majority of the planned £1.5 billion return to shareholders took place in August 2008. The residual balance of approximately £17 million is scheduled to be returned in April 2009 to shareholders who elected to receive the return in the next financial year.

The return of value, in the form of a redeemable B share scheme, provided shareholders (other than shareholders in certain overseas jurisdictions) with a choice of receiving the return as capital or income and the option to spread the return over two financial years. In order to implement the B share scheme and return of value and increase the group's distributable reserves, the company said that it intended to propose a change to its corporate structure. The proposed change, which was subject to court and shareholder approval, involved a scheme of arrangement to introduce a new parent company above United Utilities PLC.

The scheme of arrangement has now taken place and involved the new parent company, United Utilities Group PLC, acquiring all of the shares in United Utilities PLC and issuing new shares. This comprised the issue of new ordinary shares and redeemable B shares to facilitate the £1.5 billion return. The number of new ordinary shares issued was reduced on the basis of 17 United Utilities Group PLC ordinary shares for every 22 United Utilities PLC ordinary shares in issue prior to the capital reorganisation. This reduction in shares was commensurate with the £1.5 billion return to shareholders. United Utilities Group PLC shares commenced trading on 28 July 2008.

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 over the second half of the financial year and beyond remain as stated in its 2008 Annual Report and Accounts. The principal risks are set out in full on pages 24, 25 and 26 of the 2008 Annual Report and include (a) regulation; (b) operational performance and cost savings implicit in price determinations; (c) capital investment programmes; (d) environmental laws; (e) events, service interruptions, water shortages or contamination of water supplies; (f) non-recovery of customer debt; (g) risks in our non-regulated business; (h) rapid growth in our non-regulated business; (i) pension scheme obligations; (j) operating risk; (k) material litigation; (l) changes in laws; (m) corporate information systems failure; and (n) current capital market conditions.

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 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Continuing operations			
Revenue	1,208.0	1,152.6	2,362.9
Other income	3.7	3.5	21.3
Employee benefits expense	(165.2)	(159.6)	(317.5)
Depreciation and amortisation expense	(129.3)	(118.1)	(248.2)
Infrastructure renewals expenditure	(57.7)	(61.6)	(120.1)
Other operating costs	(497.4)	(469.0)	(1,035.2)
Total operating expenses	(845.9)	(804.8)	(1,699.7)
Operating profit	362.1	347.8	663.2
Investment income (note 3)	48.6	72.6	146.7
Finance expense (note 4)	(104.8)	(168.0)	(331.6)
Investment income and finance expense	(56.2)	(95.4)	(184.9)
Profit before taxation	305.9	252.4	478.3
Current taxation charge	(73.4)	(48.6)	(88.6)
Deferred taxation charge	(14.4)	(23.6)	(55.1)
Deferred taxation charge – abolition of industrial buildings allowances	(213.6)	-	-
Deferred taxation credit – change in taxation rate	-	81.9	81.7
Taxation (note 5)	(301.4)	9.7	(62.0)
Profit for the period from continuing operations	4.5	262.1	416.3
Discontinued operations			
Profit for the period from discontinued operations (note 6)	-	75.4	492.9
Profit for the period	4.5	337.5	909.2
Earnings per share from continuing and discontinued operations (note 7)*			
Basic	0.7p	49.6p	133.6p
Diluted	0.7p	49.6p	133.6p
Earnings per share from continuing operations (note 7)*			
Basic	0.7p	38.5p	61.2p
Diluted	0.7p	38.5p	61.2p
Dividend per ordinary share (note 8)	10.64p	15.20p	46.67p

* The weighted average number of shares for the current and prior periods has been based on the 681,381,233 new ordinary shares issued on 28 July 2008 and the earnings per share figures for the comparative periods have been re-presented accordingly (note 7).

Consolidated balance sheet	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
ASSETS			
Non-current assets			
Property, plant and equipment	7,774.8	7,276.2	7,591.8
Goodwill	2.3	4.4	2.3
Other intangible assets	85.2	99.7	85.3
Investments	159.8	127.8	155.5
Trade and other receivables	31.6	21.5	28.2
Retirement benefit surplus	-	45.5	-
Derivative financial instruments	65.8	19.4	44.3
	8,119.5	7,594.5	7,907.4
Current assets			
Inventories	74.2	65.0	63.3
Trade and other receivables	500.9	492.5	456.2
Cash and short-term deposits	1,080.4	1,811.5	1,810.5
Derivative financial instruments	173.5	108.1	99.0
	1,829.0	2,477.1	2,429.0
Assets classified as held for sale (note 6)	-	2,209.7	-
Total assets	9,948.5	12,281.3	10,336.4
LIABILITIES			
Non-current liabilities			
Trade and other payables	(137.7)	(125.4)	(125.5)
Borrowings	(3,872.6)	(3,998.9)	(3,788.9)
Retirement benefit obligations	(253.1)	-	(101.2)
Deferred tax liabilities	(1,345.5)	(1,171.5)	(1,164.0)
Provisions	(18.0)	(22.3)	(18.7)
Derivative financial instruments	(14.2)	(135.0)	(53.2)
	(5,641.1)	(5,453.1)	(5,251.5)
Current liabilities			
Trade and other payables	(718.6)	(727.3)	(771.9)
Borrowings	(2,039.9)	(1,503.7)	(878.4)
Current income tax liabilities	(129.5)	(84.3)	(66.9)
Provisions	(25.5)	(4.6)	(21.0)
Derivative financial instruments	(68.4)	(107.8)	(136.7)
	(2,981.9)	(2,427.7)	(1,874.9)
Liabilities associated with assets classified as held for sale (note 6)	-	(1,565.2)	-
Total liabilities	(8,623.0)	(9,446.0)	(7,126.4)
Total net assets	1,325.5	2,835.3	3,210.0
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	34.1	880.3	881.6
Share premium account	0.5	1,423.9	1,429.3
Revaluation reserve	158.8	158.8	158.8
Treasury shares	(0.3)	(0.3)	(0.3)
Cumulative exchange reserve	7.8	(3.2)	7.6
Merger reserve	778.7	-	-
Other reserves	62.6	34.4	58.1
Retained earnings	283.3	341.4	674.9
Shareholders' equity (note 10)	1,325.5	2,835.3	3,210.0

Consolidated cashflow statement	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Operating activities			
Cash generated from operations	431.0	319.2	876.9
Interest paid	(112.4)	(146.7)	(299.9)
Interest received and similar income	75.3	60.3	119.1
Tax paid	(12.2)	(66.1)	(98.6)
Net cash generated from operating activities (continuing operations)	381.7	166.7	597.5
Net cash generated from operating activities (discontinued operations)	-	169.3	99.5
	381.7	336.0	697.0
Investing activities			
Disposal of investments	-	30.0	0.6
Disposal of associated company	-	75.8	75.8
Disposal of subsidiaries	-	-	1,152.7
Net cash outflow from group reorganisation	-	-	(15.0)
Purchase of property, plant and equipment	(389.6)	(297.5)	(644.5)
Purchase of other intangible assets	(11.2)	(16.3)	(25.3)
Proceeds from sale of property, plant and equipment	4.6	1.3	15.0
Net cash (used in)/generated from investing activities (continuing operations)	(396.2)	(206.7)	559.3
Net cash used in investing activities (discontinued operations)	-	(146.2)	(161.0)
	(396.2)	(352.9)	398.3
Financing activities			
Proceeds from issue of ordinary shares	1.3	2.5	9.2
Cash (used in)/proceeds from structured financing	(41.3)	2.2	(170.1)
Proceeds from borrowings	1,893.6	285.0	1,068.9
Repayment of borrowings	(771.4)	(443.4)	(2,297.2)
Dividends paid to equity holders of the company	(277.4)	(266.6)	(400.4)
Return to shareholders on capital reorganisation	(1,482.2)	-	-
Dividends received from discontinued operations	-	100.0	100.0
Net cash used in financing activities (continuing operations)	(677.4)	(320.3)	(1,689.6)
Net cash used in financing activities (discontinued operations)	-	(100.0)	(190.1)
	(677.4)	(420.3)	(1,879.7)
Effects of exchange rate changes (continuing operations)	13.7	2.8	148.9
Net decrease in cash and cash equivalents (continuing operations)	(678.2)	(357.5)	(383.9)
Net decrease in cash and cash equivalents (discontinued operations)	-	(76.9)	(251.6)
	(678.2)	(434.4)	(635.5)
Cash and cash equivalents at beginning of the period	1,705.2	2,340.7	2,340.7
Cash and cash equivalents at end of the period	1,027.0	1,906.3	1,705.2

Consolidated statement of recognised income and expense

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Actuarial (losses)/gains on defined benefit pension schemes	(166.3)	20.6	(126.4)
Revaluation of investments	4.4	10.1	34.9
Fair value gains/(losses) on cashflow hedges	0.2	-	(1.5)
Foreign exchange adjustments	0.2	0.9	11.8
Tax on items taken directly to equity	46.5	(5.8)	35.8
Net (expense)/income recognised directly in equity	(115.0)	25.8	(45.4)
Profit for the period	4.5	337.5	909.2
Total recognised income and expense for the period	(110.5)	363.3	863.8

Reconciliation of movements in consolidated equity

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Total net (expense)/income recognised for the period	(110.5)	363.3	863.8
Dividends (note 8)	(277.4)	(266.6)	(400.4)
New share capital issued	34.6	2.5	9.2
Capital reorganisation*	(1,532.2)	-	-
Other movements	1.0	1.3	2.6
Net (decrease)/increase in equity for the period	(1,884.5)	100.5	475.2
Opening equity attributable to equity shareholders	3,210.0	2,734.8	2,734.8
Closing equity attributable to equity shareholders	1,325.5	2,835.3	3,210.0

* September 2008 includes £1,499.0 million return of capital to shareholders (note 10).

Cash generated from continuing operations

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Profit before taxation from continuing operations	305.9	252.4	478.3
Adjustment for investment income and finance expense	56.2	95.4	184.9
Operating profit from continuing operations	362.1	347.8	663.2
Adjustments for:			
Depreciation of property, plant and equipment	118.0	109.6	226.0
Amortisation of other intangible assets	11.3	8.5	22.2
Profit on disposal of property, plant and equipment	(0.4)	(0.6)	(5.7)
Equity-settled share-based payments charge	0.3	1.6	2.6
Other non-cash movements	-	(1.6)	3.9
Changes in working capital:			
Increase in inventories	(10.9)	(2.2)	(4.1)
Increase in trade and other receivables	(53.0)	(129.3)	(81.3)
Increase/(decrease) in provisions and payables	3.6	(14.6)	50.1
Cash generated from continuing operations	431.0	319.2	876.9

Segmental analysis by class of business

Continuing operations	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Revenue			
Regulated activities	756.9	713.0	1,416.3
Non-regulated activities	447.3	454.3	949.2
Other activities	7.2	19.5	41.3
	1,211.4	1,186.8	2,406.8
Inter-segment revenue	(3.4)	(34.2)	(43.9)
	1,208.0	1,152.6	2,362.9

Continuing operations	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Operating profit/(loss)			
Regulated activities	347.4	325.3	611.6
Non-regulated activities	26.0	21.5	50.6
Other activities	(11.3)	1.0	1.0
	362.1	347.8	663.2

For management purposes, the group is currently organised into two principal operating divisions, being regulated and non-regulated activities. These divisions form the basis on which the above primary segment information is reported.

The regulated activities segment includes the regulated results of United Utilities Water PLC.

The non-regulated activities segment relates to the group's utility outsourcing contracts in the United Kingdom and overseas.

In addition, the other activities segment includes the results of United Utilities Property Solutions Limited, United Utilities PLC and other group holding companies.

NOTES

1. New statutory holding company

On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC (the previous holding company) and United Utilities Group PLC (the new holding company) and the group became United Utilities Group PLC.

This has been accounted for as a reverse acquisition in the condensed consolidated interim financial statements. The legal subsidiary, United Utilities PLC, is treated as the acquirer and the legal parent company, United Utilities Group PLC, is treated as the subsidiary. The transaction was, in substance, an acquisition of the assets of United Utilities Group PLC by United Utilities PLC.

As a consequence of applying reverse acquisition accounting, the results of United Utilities Group PLC (the “group”) for the period ended 30 September 2008 comprise the results of United Utilities PLC for the half year ended 30 September 2008 consolidated with those of United Utilities Group PLC from 28 July 2008. The comparative figures for the group are those of the group headed by United Utilities PLC for the half year ended 30 September 2007 and the year to 31 March 2008. All of the financial information has been presented in accordance with the accounting policies referred to below.

2. Basis of preparation

The results for the period ended 30 September 2008, which are unaudited, have been prepared on the basis of accounting policies consistent with those set out in the Annual Report to shareholders of United Utilities PLC for the year ended 31 March 2008.

During the half year, the group has considered IFRIC 14 ‘IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’. The group does not anticipate that the adoption of this interpretation will have a material impact on its financial statements in the year ending 31 March 2009.

The group has elected to update the valuation of its defined benefit pension schemes in the half yearly report for the first time due to the current fluctuations in financial markets.

The condensed consolidated interim financial statements of the group have been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (IAS 34), and have been prepared on the basis of International Financial Reporting Standards (IFRSs) as adopted by the European Union that are expected to be effective for the year ending 31 March 2009.

The September 2007 comparatives have been re-presented to reflect the re-presentation of investments, inventories, other reserves and retained earnings as explained in the United Utilities PLC Annual Report for the year ended 31 March 2008.

The condensed consolidated interim 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 2008 Annual Report of United Utilities PLC. The first Annual Report of United Utilities Group PLC will be for the year ending 31 March 2009. United Utilities Group PLC prepared unconsolidated initial accounts of the company for the period from 8 April 2008 to 31 July 2008.

The comparative figures for the year ended 31 March 2008 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.

3. Investment income

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Interest receivable on short-term bank deposits held at amortised cost	13.1	41.1	67.8
Foreign exchange gains on forward contracts	31.9	19.8	55.4
	45.0	60.9	123.2
Expected return on pension schemes' assets	61.6	58.9	128.6
Interest cost on pension schemes' obligations	(58.0)	(47.2)	(105.1)
Net pension interest income	3.6	11.7	23.5
	48.6	72.6	146.7

4. Finance expense

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Interest payable	(135.6)	(149.5)	(288.9)
Fair value gains/(losses) on debt and derivative instruments	30.8	(18.5)	(42.7)
	(104.8)	(168.0)	(331.6)

The group follows a policy of economic hedging 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 gains/(losses) and adjusting for the reclassification of interest income and expenditure associated with the group's defined benefit pension schemes, would give an economic underlying cost of net borrowings of £98.9 million (30 September 2007: £116.2 million, 31 March 2008: £207.4 million):

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Finance expense	(104.8)	(168.0)	(331.6)
Fair value (gains)/losses on debt and derivative instruments	(30.8)	18.5	42.7
Add back interest on swaps and debt under fair value option	(8.3)	(27.6)	(41.7)
Underlying interest payable	(143.9)	(177.1)	(330.6)
Investment income	48.6	72.6	146.7
Adjustment for net pension interest income	(3.6)	(11.7)	(23.5)
Underlying cost of net borrowings	(98.9)	(116.2)	(207.4)

5. Taxation

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Current taxation:			
UK corporation tax	(72.4)	(46.4)	(108.9)
Foreign tax	(1.0)	(2.2)	(2.7)
Prior year adjustments	-	-	23.0
	<u>(73.4)</u>	<u>(48.6)</u>	<u>(88.6)</u>
Deferred taxation:			
Current period	(14.4)	(23.6)	(37.5)
Prior year adjustments	-	-	(17.6)
	<u>(14.4)</u>	<u>(23.6)</u>	<u>(55.1)</u>
Abolition of industrial buildings allowances	(213.6)	-	-
Change in taxation rate	-	81.9	81.7
	<u>(228.0)</u>	<u>58.3</u>	<u>26.6</u>
	<u>(301.4)</u>	<u>9.7</u>	<u>(62.0)</u>

Following Royal Assent of the 2008 Finance Bill on 21 July 2008, the abolition of industrial buildings allowances was formally enacted. The financial impact as a consequence of this legislation is a one-off deferred tax charge of £213.6 million, which is included in the current period deferred tax charge; however the cash impact will be spread over a period of approximately 20 years.

6. Discontinued operations

In line with its declared strategy of concentrating on its core skills of managing water, wastewater, electricity and gas networks the group has previously reported the disposals of United Utilities Electricity (UUE), its facilities management and industrial liquid waste operations and its exit from the telecoms sector.

The results of UUE, the group's industrial liquid waste and facilities management operations and its share of results from its associate (THUS Group plc) have been disclosed, along with the profit/(loss) on disposal, as discontinued operations in the comparative periods. A summary of the retained profits for the comparative periods is shown below:

	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
United Utilities Electricity	84.6	493.0
Industrial liquid waste	(0.2)	(5.0)
Facilities management	1.0	10.4
Telecoms (including loss on disposal of THUS Group plc shares of £10.0m)	(10.0)	(5.5)
Profit for the period from discontinued operations	<u>75.4</u>	<u>492.9</u>

7. 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
Period ended 30 September 2008	681.4	681.6
Period ended 30 September 2007 (re-presented)	680.2	681.0
Year ended 31 March 2008 (re-presented)	680.4	680.7

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

The actual United Utilities PLC shares in issue in the period from 1 April 2007 to 30 September 2007 and the year from 1 April 2007 to 31 March 2008 have been proportionally applied to the 681,381,233 shares in issue at 28 July 2008 to derive a weighted average number of shares for the comparative periods and the earnings per share re-presented accordingly. As part of this re-presentation, the diluted weighted average number of shares for the period ended 30 September 2007 has also been adjusted to reflect the performance of contingently issuable shares.

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 2008	Re-presented Six months ended 30 September 2007	Re-presented Year ended 31 March 2008
From continuing and discontinued operations			
Basic	0.7p	49.6p	133.6p
Diluted	0.7p	49.6p	133.6p
From continuing operations			
Basic	0.7p	38.5p	61.2p
Diluted	0.7p	38.5p	61.2p

8. Dividends

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Dividends relating to the period comprise:			
Interim dividend	72.5	133.8	133.8
Final dividend	-	-	277.4
	<u>72.5</u>	<u>133.8</u>	<u>411.2</u>
	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Dividends deducted from shareholders' equity:			
Interim dividend	-	-	133.8
Final dividend	277.4	266.6	266.6
	<u>277.4</u>	<u>266.6</u>	<u>400.4</u>

The proposed interim dividends for the six months ended 30 September 2008 and 30 September 2007 and the final dividend for the year ended 31 March 2008 have not been included as liabilities in the condensed consolidated interim financial statements at 30 September 2008, 30 September 2007 or the consolidated financial statements at 31 March 2008 respectively.

The interim dividend of 10.64 pence per ordinary share (2007/08 interim dividend of 15.20 pence per ordinary share; final dividend of 31.47 pence per ordinary share) is expected to be paid on 4 February 2009 to shareholders on the register at close of business on 19 December 2008. The ex-dividend date for the interim dividend is 17 December 2008.

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 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Operating profit items:			
Restructuring costs	6.5	-	14.0
Finance expense items:			
Fair value (gains)/losses on debt and derivative instruments	(30.8)	18.5	42.7
Interest on swaps and debt under fair value option	(8.3)	(27.6)	(41.7)
Interest associated with cash proceeds from UUE sale	(20.6)	-	(17.7)

10. Shareholders' equity – capital reorganisation

The movements on the accounts within shareholders' equity of the group which are affected by the capital reorganisation during the 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	34.1	0.5	-	34.6
Capital reorganisation (note 1)	(881.6)	(1,429.3)	778.7	(1,532.2)
At 30 September 2008	34.1	0.5	778.7	813.3

On 24 July 2008, the High Court (the "Court") approved the scheme of arrangement (the "Scheme") of United Utilities PLC under section 425 of the Companies Act 1985 to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. The Scheme became effective on 28 July 2008. Under the terms of the Scheme, holders of shares in United Utilities PLC 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 pence for each United Utilities PLC share.

On 30 July 2008, the Court approved the reduction of the capital of United Utilities Group PLC, whereby the nominal value of each ordinary share was reduced from 500 pence to 5 pence.

In addition, a merger reserve was created in the company balance sheet of United Utilities Group PLC upon the Scheme becoming effective, which, in order to create further distributable reserves in United Utilities Group PLC, was capitalised into Class A shares, which were cancelled as part of the reduction of capital of United Utilities Group PLC.

The reduction of capital became effective on 31 July 2008. The effect of the scheme of arrangement and the subsequent reduction in capital increased the distributable reserves of United Utilities Group PLC by £4.8 billion which enabled the return of capital to take place and will allow future dividends.

The merger reserve, as shown above, arises on consolidation and represents the capital adjustment to reserves 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, including B shares, of United Utilities Group PLC following the reduction of capital of United Utilities Group PLC.

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 are listed below:

Sir Richard Evans	(appointed 29 April 2008, resigned 25 July 2008)
Philip Green	(appointed 29 April 2008)
Tim Weller	(appointed 29 April 2008)
Charlie Cornish	(appointed 29 April 2008)
Dr Catherine Bell	(appointed 29 April 2008)
Norman Broadhurst	(appointed 29 April 2008, resigned 25 July 2008)
Paul Heiden	(appointed 29 April 2008)
David Jones CBE	(appointed 29 April 2008)
Dr John McAdam	(appointed 29 April 2008)
Andrew Pinder CBE	(appointed 29 April 2008)
Nick Salmon	(appointed 29 April 2008)
Tom Keevil	(appointed 17 April 2008, resigned 29 April 2008)
Simon Gardiner	(appointed 17 April 2008, resigned 29 April 2008)
Kathrin Kribben	(appointed 8 April 2008, resigned 17 April 2008)
Nicole Monir	(appointed 8 April 2008, resigned 8 April 2008)
Trusec Limited	(appointed 8 April 2008, resigned 17 April 2008)

By order of the Board

.....
Philip Green
25 November 2008
Chief Executive Officer

.....
Tim Weller
25 November 2008
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 2008 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the reconciliation of movements in consolidated equity, cash generated from continuing operations, the segmental analysis by class of business and the related notes 1 to 10. 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 2410 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 2, 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 2008 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 & Touche LLP

Chartered Accountants and Registered Auditors
25 November 2008
Manchester, United Kingdom