United Utilities Group PLC
24 November 2021

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

Strong purpose – Performing well for customers and communities

- 6% real reduction in typical household bills since the start of AMP7
- Upper quartile for customer satisfaction; on track for a C-MeX reward
- Backing the Consumer Council for Water's (CCW) drive to launch a national social tariff
- More than 200,000 customers supported through extensive affordability schemes
- Welcoming a record 95 apprentices onto our award winning apprentice scheme for 2021
- Helping 250 young people through the Kickstart scheme
- Committed £300,000 to eight North West charities to improve local rivers

Protecting the environment – Delivering a low carbon future and enhancing biodiversity

- Awarded top 4* environmental performance rating for 2020
- 100% of electricity from renewable sources
- First in sector to secure Science Based Targets initiative (SBTi) approval for carbon emissions targets
- On track to achieve Net Zero by 2030
- Working in partnership with the Environment Agency to deliver catchment-wide Systems Thinking
- Enhancing biodiversity; planting 1 million trees and restoring 1,000 ha of peatland

A digital utility – Delivering our AMP7 plans while generating value

- Digital transformation continues at pace, delivering value for all stakeholders
- Accelerating investment to deliver operational improvements earlier
- Delivering reductions in sewer flooding incidents through innovative applications of Systems Thinking
- On track to deliver c£20m net customer ODI rewards in 2021/22 and c£150m in total for AMP7

Financial resilience – Robust financial performance and resilient to risks

- Underlying[1] operating profit of £333m up 4%
- Cash collection remains strong with household bad debt improving to 1.8% in the first half of the year
- Strong balance sheet; A3 credit rating with Moody's and fully funded pension schemes
- Hedging policies mitigating risk and delivering sustainable performance
- Prices locked-in on 80% of AMP7 capital programme
- Around 95% hedged to power commodity price rises for 2021/22
- Interim dividend of 14.50p, in line with AMP7 dividend policy

Key financials

	Six months ended	
	30 September 2021	**30 September 2020**
Revenue	£932.3m	£894.4m
Reported operating profit	£332.8m	£318.5m
Underlying operating profit[1]	£332.8m	£318.5m
Reported earnings per share (pence)	(31.7)p	23.8p
Underlying earnings per share[1] (pence)	28.4p	29.2p
Interim dividend per ordinary share (pence)	14.50p	14.41p
Net regulatory capital spend[2]	£303.2m	£276.4m
RCV gearing[3]	62%	63%

[1] Underlying measures are defined in the tables on pages 22 to 24 and reflect a change in approach to alternative performance measures (APMs) implemented during the financial year ended March-21 with prior period numbers re-presented for comparability
[2] Net regulatory capital spend excludes infrastructure renewals expenditure
[3] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited's shadow RCV (outturn prices)

Steve Mogford, Chief Executive Officer, said:

"At a time when many families are struggling with a higher cost of living, we have reduced typical water bills for households in our region by 6 per cent in real terms over the last two years. We're also offering more help than ever before for vulnerable customers and households that are struggling to pay.

"Climate change and population growth are challenges we must all confront, and we will continue to invest to make our services more resilient and strengthen our ability to respond to, and recover from, extreme weather events. Our £2 billion investment programme will also help our region's economy to grow, generate jobs and develop skills in our communities.

"We're committed to delivering our six carbon pledges, which will help us achieve our ambition of net zero by 2030. We have already delivered our pledge to source 100 per cent of our electricity from renewable sources. As well as reducing our carbon footprint, we are committed to protecting the natural environment and ensuring no net loss of biodiversity.

"We've continued with the great start that we've made to AMP7, benefitting from the acceleration of our capital programme and investment in Systems Thinking. Our strong operational performance delivers efficiency gains and improvements to outcome delivery incentives, and is enabling us to drive further value for our shareholders."

Enquiries

For further information on the day, please contact:

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Presentation webcast and conference call details

We will be hosting a live virtual presentation at 9.00am on Wednesday 24 November 2021, which can be accessed via the following link:
http://www.unitedutilitiestv.live/

The presentation slides will be available on our website shortly before the presentation commences at the following link:
https://www.unitedutilities.com/corporate/investors/results-and-presentations/full-and-half-year-results/

Following conclusion of the presentation a recording of the presentation will be available from our website.

OPERATIONAL PERFORMANCE

Our digital transformation and investment in long-term sustainable performance are helping us to deliver improvements in service to customers, and to protect and enhance the environment we operate in. We have built on the strong start to AMP7 that we delivered in the first year of the regulatory period and remain on track to deliver our targets. We continue to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner and believe passionately in leveraging our investment programme to help keep the North West economy moving as we emerge from the pandemic.

We continue to help those customers who are struggling most to pay their bills through our extensive suite of support schemes. The temporary extension to the social tariff that we secured in the early stages of the pandemic has now been made permanent, meaning we have an additional £15 million of support available in each of the remaining years of AMP7 to help customers at risk of falling into debt. To support these customers longer term, we are backing the Consumer Council for Water's drive for a national social tariff; a key development for a region like ours that suffers from extreme deprivation.

Our key performance indicators (KPIs)
Our purpose, to provide great water and more for the North West, means we aim to create long-term value for all our stakeholders and, as such, for AMP7 we are reporting against operational KPIs that are linked to each stakeholder group. We report our performance below in line with the key stakeholder groups for whom we create value, along with the KPI for that stakeholder group.

Communities
Our work puts us at the heart of local communities in the North West of England, where customers and employees live and work. We understand the impact our work can have on everyday lives across our region, and we seek to play an active role in tackling the issues that matter most to these communities. Our approach is to develop strong relationships and build partnerships where we work together to generate solutions. We look after beautiful landscapes and open our land to the public, which supports the regional tourism industry and offers physical and mental health and wellbeing benefits for communities through access to relaxation and recreation.

Our key performance indicator to measure value created for communities over AMP7 is the level of community investment, and we target increasing this by at least 10 per cent over 2020 to 2025, compared with the average between 2010 and 2020. Last year, our direct community investment was £2.1 million (calculated using the B4SI method) which was slightly lower than we were targeting to invest, mainly due to lower community activity as a result of the impact of COVID-19. As we emerge from the pandemic, we expect our community investment to increase. In addition to the investment covered by the B4SI method, we make further contributions to our communities such as payments to our Trust Fund to help those struggling to pay their bills.

- **Partnerships**
  We invest in community partnerships to tackle issues more effectively, to find new solutions to the challenges we face and to access new funding streams, driving efficiency and a better overall outcome. Working with a range of partners can often result in our investment tackling water issues delivering wider value such as other biodiversity enhancements. This summer we signed two memorandum of understandings with the RSPB and the Rivers Trust. These partners, held in high esteem by local communities and with a broad membership base, enhance the credibility of what we do. The partnership with the RSPB includes its management of Naddle Farm on our Haweswater estate where we aim to benefit biodiversity and water quality and develop a sustainable farming model for the future. If this proves successful, we aim to replicate this approach on other areas of our catchment land, tapping into natural capital markets including green finance initiatives and environmental land management schemes to leverage funding for beneficial land management projects.

- **Helping young people**
  We are supporting the government's Kickstart programme by providing placements in various roles across the North West. Each Kickstarter has a dedicated skills coach and receives job-related and employability skills training. Since April 2021, 45 Kickstarters have joined our business and so far 10 have found full time

employment with us or our suppliers. The government has extended the scheme to March 2022 and we will continue to provide opportunities to young people in our region.

In 2021, we have taken on a record 95 apprentices into roles such as process controllers, field service engineers and customer service agents and 24 graduates have joined us on our future leader, finance and engineering schemes. We have made good progress in recruiting apprentices from more diverse backgrounds – 31 per cent of apprentices that started with us in September are female and 18 per cent are from ethnic minorities and in addition, 20 per cent of apprentices this year disclosed a disability or learning difficulty. This represents continued success in our efforts to recruit a more diverse talent pipeline and is a positive result against a backdrop of low attrition levels, regional variations in ethnic diversity and difficulties attracting females for science, technology, engineering and maths (STEM) roles. We are creating a further 150 jobs, through our entry level opportunities as either apprentices or graduates who will start with us in 2022 to add to our existing talent pipeline.

- **Charitable support**
  We have committed £300,000 to community groups across the North West as part of our Catchment Systems Thinking (CaST) fund. This funding is linked to our catchment management approach and supports projects that deliver community engagement with nature or help shape and promote natural capital markets. One of the first projects to receive funding is led by the Mersey Rivers Trust and focuses on establishing community participation on the lower catchment area of the River Bollin. It aims to increase the number of people connecting with nature and accessing local blue-green space for health and wellbeing. The project will also engage volunteers and landowners in restoring the reed bed habitat at Tatton Mere, a popular recreational site near Knutsford, in Cheshire.

- **Community engagement**
  Directly engaging with communities gives us a chance to hear what customers think and the opportunity to highlight ways we can work together to address issues. One of the first events we attended since pandemic restrictions eased this year was the RHS Tatton Flower Show where we engaged customers on water saving tips and sponsored a garden of resilience. The garden addressed the challenges of extremes of weather and the stresses and strains of the pandemic. It gave visitors ideas for making outdoor spaces better able to cope with too much or too little rain and incorporated ideas to encourage people to take time out and contemplate their own personal resilience. The garden won three awards at the show and will continue to inspire gardeners at its new permanent home at the RHS Bridgewater in Salford.

- **Access to our land for recreational use**
  In spring we launched a new podcast series to connect people with the North West's outdoor spaces. Each themed episode of 'Acres of Nature' takes an in-depth look at the land we manage through the eyes of people who live, work and visit there. Available to all on Spotify, Acres of Nature is all about bringing people closer to nature and podcast themes have included history, nature and wellbeing.

  Since the first COVID-19 lockdown in spring 2020, there has been an increase in anti-social behaviour on our catchment land with issues such as wild camping, illegal fires and littering. We have been working with local groups at several sites to address this. At Macclesfield Forest, we have joined forces with the rural crime team from Cheshire Police and rangers from the Peak District National Park to tackle anti-social behaviour by undertaking joint patrols at busy times to remind visitors to enjoy the area responsibly.

Customers

We put customers at the heart of everything we do. This relentless focus drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company. We have started this AMP strongly with customer satisfaction remaining high, despite the challenging environment brought about by the pandemic. Serving many of the most economically deprived areas in the country, we are always mindful of the need to help customers who struggle to pay their bills. We have an extensive range of schemes

offering financial assistance and tailored support for customers struggling with affordability and vulnerability. We have committed to provide £71 million in financial support to customers over AMP7 and the temporary extension to the social tariff that we secured at the start of the COVID-19 pandemic to support those customers most affected has now been made permanent meaning that we have an additional £15 million per annum of support available for each of the remaining years of AMP7.

Our key performance indicator to measure customer satisfaction over AMP7 is Ofwat's C-MeX measure, in which we target being in positive reward territory. In 2020/21 we earned a £2.1 million reward and for the first six months of this year we are on track to deliver a higher level of reward as we continue to be the highest performing listed company. We are proud to have been reaccredited this month with the Institute of Customer Service – Service Mark with Distinction award and are one of only 15 brands across the UK to achieve the award with Distinction.

- **Customer service**

  Our customer service metrics have been strong so far this year and we are pleased that as a result we have seen a 14 per cent reduction in written complaints.

  We continue to see the benefits of increasing the availability and performance of our digital channels, driving both service improvements and cost efficiencies. Over 1 million customers engage with us digitally and we are pleased to have improved our rating on google reviews to 4.3 out of 5 and customers rate us 4.7 out of 5 on the App store.

  We have been proactive and used targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay. We have achieved all of our reputational performance commitments, most notably recertification to the enhanced BSI standard 18477:2010 for our Priority Services scheme that supports over 150,000 customers, along with recognition as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic.

- **Operational performance for customers**

  Our AMP7 business plan includes 46 customer commitments, delivering the outcomes that are important to customers and measured through customer outcome delivery incentives (ODIs).

  Our performance has been strong across the broad range of our activities with us achieving over 80 per cent of our performance commitments in 2020/21 – the highest in the sector. Having benefited from the great start we made to AMP7 and the additional investment we made towards the end of AMP6, our strong performance so far in the AMP positions us well as the frontier performance level across common measures inevitably moves forward at PR24.

  We have installed a network of 70,000 sensors delivering real-time data to our integrated control centre (ICC) and allowing us to optimise the performance of our water network. As a result, leakage is at its all-time lowest ever level and currently 5 per cent lower than when we started the AMP. Supply interruptions have halved since the beginning of AMP7; a significant improvement in the service we provide to customers, with fewer than ever experiencing the disruption of a water supply interruption. Both leakage and supply interruptions are key water ODIs.

  As part of our plans, we are investing around £100 million in Dynamic Network Management (DNM) – a ground breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. Our investment in DNM is on track and delivering and as a result, we expect to deliver a net positive ODI reward across our basket of flooding measures for AMP7.

In AMP7 there are more ODIs related to how we interact with and support customers. Through the development of an in-house app, we can better identify unbilled but occupied properties, securing an ODI reward on voids of £28 million over the AMP. The affordability support we provide to those who need it most has enabled us to lift a significant number of customers out of water poverty. We therefore expect to achieve a maximum reward against this measure.

We continue to work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. Customers have spent more time at home during the pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures. We have been driving enhanced customer engagement and over 60,000 customers have now signed up for our 'get water fit' app, helping customers to save water and save money. This, coupled with a programme of shadow metering combined with our lowest bill guarantee, encourages more customers to switch to a water meter and is changing customer behaviour to reduce consumption. Recognising that the long term impact of COVID-19 remains uncertain and that there may also be a variety of drivers of changes in behaviour, Ofwat has proposed to assess company performance for the PCC customer ODI at the end of the AMP when fuller facts and evidence of absolute and relative company performance are available.

- **Haweswater Aqueduct Resilience Programme (HARP)**
  In November 2020, we successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct and, along with our framework contractor, were named Utility Project of the Year by the Pipeline Industries Guild, one of the world's most respected pipeline associations. The completion of the work at Hallbank was the first milestone in the much larger Haweswater Aqueduct Resilience Programme (HARP). Work to replace the tunnel sections of the aqueduct is expected to be undertaken using a direct procurement for customers (DPC) approach. Under DPC we are competitively tendering for services in relation to the delivery of HARP for a third-party competitively appointed provider (CAP) to deliver the design, build, maintenance and also financing for the replacement of six tunnel sections of the Haweswater Aqueduct. The contract will be in place for a 25 year term following the completion of the construction, during which the CAP is paid a monthly Unitary Charge to recover its costs as well as an end of concession payment at the end of the term to reflect the residual value of the assets. We have been progressing our plans to start the DPC tender in 2022. If the tender process proceeds as planned, contract award is anticipated in 2023, with construction to begin later in the AMP.

- **Cash collection**
  Despite the challenging economic environment following the COVID-19 pandemic, our overall cash collection continues to perform well. We are encouraged that the number of customers that pay by direct debit has been maintained at around 70 per cent and remains one of the highest levels across the industry. Overall, the proportion of customers on a payment plan has remained stable at around 80 per cent providing a high level of collection certainty for a significant proportion of the household customer base.

  So far this year we have been extremely pleased to have been shortlisted for five external awards for our credit management and collections services. Our industry leading approach to collections and innovative affordability offerings have ensured we were well placed to respond to the challenges brought about by the pandemic. We have further enhanced the use of credit reference agency partnerships, leveraging additional sophisticated credit insight to inform our collections strategy. This will facilitate continued improvements in our collections activity supporting our ability to collect cash from customers who have the ability to pay, but attempt to avoid doing so.

- **Affordability**
  We have an extensive range of schemes available to help customers and around 200,000 are currently benefitting from that help. Last year we were able to support 73,000 additional customers through the swift proactive action we took to secure support and regulatory approval for an extension to the scale and scope of our social tariff. This temporary extension has now been made permanent, meaning we have the additional

£15 million per annum of support available for each of the remaining years of AMP7, providing additional support to help prevent customers from falling into debt. This supplements the £71 million financial support we committed to provide over AMP7 – the largest of any water company.

We continually look for ways to enhance our affordability processes, to make it easier for customers to access the support that is available to them. We are proud to be the first UK water company to roll out a real-time Open Banking income verification tool that makes it easier for us to understand customer eligibility for reduced-rate social tariffs. This modernises and drives efficiency into our income verification process with over 40 per cent of customers we speak to now using this capability. As a result, we are able to passport customers immediately onto the right affordability schemes, enhancing the customer experience and enabling savings on processing costs. Following the success of this initial phase, we are exploring the wider use of Open Banking in other customer interactions, for example enhancing payment conversations with customers to improve the overall sustainability of payment plans.

We share data with the Department for Work and Pensions (DWP) – leveraging the new provisions under the Digital Economy Act – to assist people living in poverty. In doing so, we are able to identify customers in receipt of state benefits and offer support to those customers who need our help the most. It is particularly beneficial in identifying customers eligible for our Help to Pay tariff as older customers who are struggling to pay are typically harder to engage with. These new provisions help us to proactively apply the reduced tariff to their account. The DWP data share arrangement will also enhance our audit and customer reapplication processes. The ability to include a benefit check at the point of on-boarding and reapplication means eligible customers can automatically continue to benefit from low bill support.

The Consumer Council for Water (CCW) published its independent Affordability Review in the summer in which it made recommendations on how to improve the help available to customers who may struggle to pay their water bills. We are backing CCW's drive for a national social tariff; a key development for a region like ours that suffers from extreme deprivation. We are currently working with CCW on two pilots coming out of the Affordability Review, the first of which is a trial of a new digital payment plan giving customers more flexibility over how and when they make their payments. This gives customers the option to pay at whatever frequency suits their personal circumstances as long as they meet agreed payment milestones. We are also leading the Universal Credit transition pilot; increasing promotion of the support we have available for customers who are transitioning onto Universal Credit. We are relaunching the scheme to raise awareness of the help available for customers struggling to pay while waiting for their first Universal Credit payment.

Employees

Our people are critical to the success of our business and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology. We made over 300 changes to working arrangements during the pandemic and we have been focusing in recent months on reviewing what future ways of working will look like and how hybrid working may look for some of our employees. We continue to build on our diversity and inclusion agenda, which underpins all aspects of our organisation. Increasing the diversity of our workforce ensures we have access to a broader set of views and we want colleagues to feel valued, supported and respected in the workplace.

Our key performance indicator to measure value created for our employees over AMP7 is our engagement score, in which we target being at least as good as the UK High Performance Norm benchmark. Our last survey scored 89 per cent engagement, which is five per cent above the UK High Performance Norm and is the highest engagement score we have achieved while comparatively tracking engagement over the last six years. It is also a five per cent increase from 2020 engagement levels and is 15 per cent better than the UK Norm and nine per cent better than the Utilities Norm. We are extremely proud that our recent Glassdoor rating has increased to 4.7 out of 5, placing us as the leading UK utility company and is an excellent position for achieving a ranking in Glassdoor's 'Best Company to Work' index. In addition, we have been shortlisted as finalists for Employer of the Year, Utility Awards 2021 all testimony to our great employees and the focus on making United Utilities a brilliant place to work.

- **Committed to equality, diversity and inclusion**

  We continue to play an important role in evolving our inclusive culture, with a growing membership and executive sponsors for each of the four employee network groups. We have a strong focus on educating, raising awareness and celebrating cultural events. Recognising that our leaders are pivotal to creating the right environment for inclusion right across the business, we have invested in inclusive leadership training for all leaders and managers. We have been bringing the outside in with guest speakers to stimulate and challenge ourselves.

  We are building an inclusive culture to ensure our employees can bring their whole selves to work. In July 2021, we launched our first diversity survey, 'All About Me', with over 2,000 employees sharing data about themselves beyond their role. We will continue to build on our diversity data, collecting information as part of our ongoing recruitment approach. This will help inform what we might do differently to support employees, such as launching an Employee Ability Passport, and it creates a strong baseline for any future diversity reporting.

  We have made bold public commitments such as the Race at Work Charter, the Valuable 500 pledge and joining the 10,000 Black Intern Programme, offering 40 roles to black students next summer across many different business areas. For the second year running, we are listed in the Financial Times Diversity Leaders Ranking which recognises Europe's most inclusive companies, reflecting our focus on inclusive leadership.
  Achieving the Armed Forces Gold Award once again, United Utilities has had its Employer Recognition Scheme (ERS) reaccredited, recognising our considerable commitment to supporting the Armed Forces community.

- **Training and development**

  Our award winning technical training centre continues to go from strength to strength. We are the only technical training centre in the water sector accredited by Ofsted meaning we can maximise the apprentice levy. As part of our further capability development we have launched our Digital Skills Academy, a new learning portal for employees to access digital learning content to upskill them for their roles now and in the future. This helps to ensure we have skilled and competent colleagues able to embrace new and next ways of working.

- **Adapting to a hybrid way of working**

  We have an active Employee Voice Panel, chaired by Alison Goligher, one of our Non-Executive Directors, with representatives from across the business areas and at all levels. The panel has continued to meet during the pandemic, holding virtual sessions with invites extended to all our Non-Executive Directors. In the last panel in September, key topics discussed included next ways of working and the key strategic challenges for the Board. After facilitating home working for over 3,000 of our employees, over 330 colleagues have piloted new ways of working, shaping a new hybrid way of working that maintains business performance, enhances engagement and aligns to our digital utility strategy without impacting on productivity or wellbeing.

<u>Environment</u>

We are fortunate to have many areas of natural beauty within our region, and these are important in offering health, fitness and wellbeing benefits to local communities and drivers for tourism in the area, as well as being essential for us to deliver our services to customers. We have a deep, symbiotic relationship with the environment in which we operate and it is of great importance that we continue to protect and enhance the environment across the North West, and manage our land responsibly to improve the environment in our region for future generations. We have agreed an environmental improvement programme to be delivered in AMP7 that will continue to improve the river, bathing and shellfish water quality for the benefit of customers and visitors to the North West as well as society as a whole. We remain on track for the improvements we have committed to.

Our key performance indicator to measure value created for the environment over AMP7 is our performance against the Environment Agency's annual performance assessment, in which we target being an upper quartile

performer. In the assessment for 2020, we were awarded the maximum 4 stars, with high performance on every measure, and we are classed by the Environment Agency as an industry leading company.

- **Pollution performance**

  Our pollution performance continues to be industry leading, and in 2020, we had no serious pollution incidents for the second year running in line with the Environment Agency's stated expectation for the sector to trend to zero by 2020. We have been green in our serious incident performance for the last seven consecutive years - the only company to have achieved this. We also had our best ever performance on minimising the total number of pollution incidents, with our largest ever reduction, all delivered whilst we maintained our excellent self-reporting performance.

  During storm conditions, when sewers and treatment plants are operating at full capacity, we are permitted to spill excess storm water from Combined Sewer Overflows (CSOs) to help prevent the flooding of streets, homes and businesses. Since 2000, we have invested £1.2 billion to improve overflow discharges to reduce spill frequency, volume and impact upon the natural environment. Our existing plans are focused on securing further improvement and have been supplemented by our Green Recovery proposals. The quality of water in rivers and the sea in the North West is impacted by many stakeholders, and we are working collaboratively with farmers, government, regulators and others to secure the healthy, thriving rivers that everyone wants.

  Earlier this month, the Environment Agency and Ofwat launched an investigation into possible unpermitted sewage discharges into rivers and watercourses involving sewage treatment works across the country. We take our environmental responsibilities very seriously and are highly transparent about our performance as evidenced by our high levels of self-reporting on pollution.

- **Carbon reduction**

  As part of our commitment to tackling climate change, in 2020 we made six climate pledges covering emission targets and action on energy, transport and emissions removal schemes such as creating woodland and peatland restoration. Central to these pledges was to set science-based targets for all emission scopes and we are proud that these targets have been approved by the Science Based Targets initiative (SBTi) and that we were the first UK water company to have done so. Our scope 1 and 2 emissions target is to reduce emissions by 42 per cent from our 2019/20 baseline by 2030 and to continue to reduce this towards zero emissions by 2050. We have set a scope 3 target that 66 per cent of our capital goods suppliers (by emissions) will have science-based targets by 2025. For all other scope 3 categories, we will work with our supply chain to achieve a 25 per cent reduction in emissions by 2030 from a 2019/20 baseline. We are also part of the global movement of 'Business Ambition for 1.5°C: Our Only Future', are signatories to the UN Race to Zero campaign and are proud to be contributing to the UK water industry's commitment to be net zero by 2030.

  We have demonstrated our capability to reduce our greenhouse gas emissions having reduced them by over 70 per cent since 2005/06, largely from working to balance our energy consumption, self-generation and being smart about how we operate our assets to get best value while maintaining security of supply. In 2020/21 we generated the equivalent of 205 GWh of renewable electricity with a mix of generation from wind, hydro, solar photovoltaics and energy recovery from bioresources (using sewage sludge to power combined heat and power generators). 100 per cent of the electricity we use is now from renewable technologies from either self-generated power or certified green electricity purchase.

  In working towards meeting our other carbon pledges we are restoring peatland and planting new woodlands which will have a net greenhouse gas emission reduction, trialling alternatives to fossil fuels in our treatment processes and transportation, innovating to create made-to-measure objects out of sustainable concrete alternatives on site through 3D printing and encouraging employees to understand and do more to limit their impact through carbon education.

In the last six months, the Environment Agency has sought to restrict the disposal to land of organic matter such as farmyard manures, slurry and biosolids from wastewater treatment. This will potentially require the water industry to manage the recycling of biosolids in a different way, such as incineration. Given the impact on both investment costs and carbon emissions, the industry has challenged the Environment Agency on this and is working to develop a long term strategy for sludge and bioresources.

- **Climate resilience**

  In recent years we have felt the impact of climate change through wetter winters and drier summers. Through our investment in becoming a digital utility, we have demonstrated we are better placed to deal with the extremes of weather that we are experiencing more frequently. In AMP6 we invested an additional £250 million targeted to increase resilience against climate change, and we continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further mature our already advanced level of climate risk understanding. In the coming months we will be publishing an overview of our climate risks and plans in our third adaptation report. This will be followed by a period of consultation and engagement with stakeholders on how to maximise value as we take account of these risks in our long term business planning process leading up to our next price control submission. We expect our third adaptation report to be a key feature of our business plan for PR24, driving ongoing investment needs and growth as the sector and society more broadly tackles this critical issue.

  The summer of 2021 was one of the driest on record in the Lake District. This, combined with higher consumption as many customers continued to work from home and consumption from businesses returned to pre-pandemic levels, meant that the storage levels in our strategic water resources in the Lake District reduced to below their operating norm. We supplemented our usual water resources operations with actions outlined in our statutory drought plan, and this, together with rainfall in October, has resulted in resources now having recovered to average autumn levels.

- **Biodiversity**

  As the largest private land owner in the UK, and an organisation delivering significant development in the North West, we have made significant investment over the last two decades in improving biodiversity on our 56,000 hectare estate. We are committed to deliver net gain for biodiversity in the delivery of our capital programme and across our landholdings. This approach includes all development activities we undertake. We are working closely to understand the additional requirements that are expected through the Environment Bill and will ensure that we will meet these requirements and deliver at least a 10 per cent net gain in biodiversity and the provision of a 30 year maintenance plan for biodiversity gains where needed.

Investors

Our clear and enduring investment strategy and focus on digital transformation, underpinned by our pioneering Systems Thinking approach, is delivering long-term sustainable improvement in the service we provide. Last year was our best year of operational performance for customers and the environment, manifesting itself in a net reward against our customer ODIs for the year of around £20 million. Our strategy will help us to deliver strong ODI performance throughout AMP7 and also provides the foundations for continued high levels of performance in AMP8 and beyond. We continue to accelerate our AMP7 investment programme to deliver benefits for customers earlier which brings significant capital investment into this year and next that is eligible for the super deductibility of capital allowances. We have already locked-in around 80 per cent of our total AMP7 programme, helping to mitigate risk in terms of supply issues and inflation. We have delivered another year of robust financial performance and we continue to raise finance effectively, locking-in rates favourable to the price review assumptions.

Our key performance indicator to measure value created for our investors over AMP7 is Return on Regulated Equity (RoRE), and we will update our targets for individual components of this measure as we progress through the period. RoRE is an annual measure so we will report on our performance for 2021/22 at the end of the financial year.

- **Total expenditure (totex)**

  In our AMP7 final determination, we were given a £5.3 billion totex allowance to deliver the required level of service to our customers and we are confident that we can deliver the scope of the final determination within this allowance. Our investment strategy delivers long-term sustainable performance improvements and efficiency. Subsequent to our AMP7 final determination, we have had regulatory approvals for extensions to our investment programme to allow for the confirmed need of schemes at Bolton and Vyrnwy amounting to around £150 million, and a further £65 million in relation to our Green Recovery proposals. These are schemes that will deliver improvements for customers and the environment during this AMP. In addition, we have elected to spend a further £150 million on Dynamic Network Management and other projects driving ODI performance. While this expenditure is subject to the totex sharing mechanism meaning 50 per cent is company funded, it is more than compensated for by improved ODI performance in AMP7 and beyond and a proportion of the spend is also eligible for capital allowances super deductions in this year and next, providing further benefits. Our financial strength and balance sheet headroom enable us to fund this investment now, improving performance for customers and the environment today, while also generating value for shareholders.

  In the first half of 2021/22, we have invested £303 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure (IRE)), representing the continued acceleration of our AMP7 investment programme and bringing significant capital investment into this year and next that is eligible for the super deductibility of capital allowances. A further benefit of our decision to accelerate our investment profile is the mitigation of risk in terms of supply issues and inflation with 80 per cent of our capital programme already locked-in and contracted for with our delivery partners.

- **Customer outcome delivery incentives (ODIs)**

  In the first year of AMP7 we earned a net ODI reward of around £20 million, representing upper quartile performance in the sector both in terms of absolute reward earned and as a percentage of return on regulated equity.

  The Customer section above provides more detail on our customer ODI performance. We continue to see opportunities across a number of ODI targets, and our investment in Dynamic Network Management (DNM) is helping to drive improvements in some of our most challenging areas. Our investment in DNM is on track and delivering with 4,500 sensors installed across the region providing enhanced monitoring at 600 sites. Across these areas, we have achieved a significant improvement in performance, with over 400 operational issues identified and resolved proactively. We anticipate that as a result of this investment, we will be able to deliver a net ODI reward across our basket of flooding measures.

  Any ODI reward earned this year will be reflected in an increase to revenues in 2023/24 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism. We are targeting a further reward of around £20 million for 2021/22, and around £150 million for the 2020-25 period in total. We will continue to focus on driving operational performance improvements and investing where we see the opportunity to deliver improved customer or environmental outcomes and better customer ODI performance.

- **Financing**

  Thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise, we have consistently issued debt at rates that compare favourably with the industry average.

  Our debut sustainable bond issued in January 2021 generated a huge amount of interest in the company and our ESG credentials. We published our first allocation and impact report in July 2021, detailing how the proceeds are funding projects with a positive ESG impact. In further evidence of the link between ESG performance and investor value, our debut sustainable bond outperformed the index used for regulatory

assumptions for AMP7 new cost of debt by around 150 basis points, securing around £40 million of shareholder value through financing outperformance.

At a time when we observe significant volatility in short-term inflation forecasts, our transparent and consistent approach to hedging, including our defined benefit pension schemes being fully hedged for inflation, continues to mitigate risk for shareholders and delivers long-term sustainable value through financing outperformance that is well understood.

- **ESG performance**

  We actively participate in a broad range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges and we are consistently assessed as a leader in this space.

  In April this year, we were ranked ninth out of 604 global utilities in the Sustainalytics ESG Risk Rating assessment, positioning us as the leading water utility in the index. CDP is a global disclosure system for environmental reporting and in 2020, our CDP climate change rating improved from B to A-, demonstrating leadership-level reporting and disclosure. In February, we received an MSCI ESG rating of AA recognising our ability to manage industry-specific ESG risks relative to peers and from an employee perspective, we achieved a significant improvement in the Workforce Disclosure Initiative, scoring well above the overall average and receiving special recognition in the 'COVID-19 transparency' category at its Workforce Transparency Awards.

Suppliers

Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. Through our capital programme we invest in North West infrastructure, generating jobs, skills and income across the region, with the acceleration of around £500 million of capital expenditure into the first three years of AMP7 helping to support the economy as the country emerges from the COVID-19 pandemic. Treating our supply chain fairly, through prompt payments and adequate guidance and support, is something we are fully committed to.

Our key performance indicator to measure value created for our suppliers over AMP7 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this timeframe. In the six months to September 2021, in excess of 99 per cent of invoices were paid within 60 days with the average number of days taken to pay suppliers being 13 days.

- **Delivering prompt payments to our suppliers**

  We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements. As a signatory to this Code we are working to pay 95 per cent of our SME suppliers within 30 days, a new guideline that came into effect in July 2021. Our efforts have not gone unnoticed and we have recently been awarded one of the first 'Fast Payer Awards' by Good Business Pays. This award recognises FTSE350 companies who are fast payers of their invoices and can demonstrate that over the past 12 months they have paid their suppliers in less than 30 days as well as paying 95 per cent or more of all invoices on time.

- **Responsible sourcing through our United Supply Chain**

  Our new approach to responsible supply chain management for AMP7, called United Supply Chain (USC), was launched in 2020 and we are continuing to embed this strategy amongst our supply chain. USC recognises suppliers as an extension of the United Utilities family. Suppliers are asked to become a signatory to our Responsible Sourcing Principles as a minimum, or for those who are integral to our operation we encourage to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. In September 2021 we held a small USC event where we acknowledged the efforts of our suppliers and awarded our first USC award in Customer, Innovation and Integrity.

At the beginning of October 2021 we had signed 88 per cent of our targeted suppliers to our Responsible Sourcing Principles and continue to pursue the remaining suppliers to reach our target of 100 per cent. Our partnership with the Supply Chain Sustainability School has been useful in sharing knowledge of our Responsible Sourcing Principles with both our commercial colleagues and supply chain partners.

- **Helping more innovative businesses grow through Innovation Lab 4.0**
  We set up our Innovation Lab with the aim of attracting new entrants to United Utilities, finding ideas that others miss and, by fast-tracking them to trial and adoption, supporting their growth. With previous participants in the programme going on to great things, we are supporting the development of some of the most successful outcomes in the water industry. Typhon won a UK Water Industry Award for Drinking Water Initiative of the Year, for a UV LED disinfection system and FIDO Tech, the world's only AI to detect water leaks and their size by the noise signal from acoustic loggers, was the UK nomination and recently announced as runner up in the KPMG Global Tech innovation competition at the Web Summit in Lisbon. Both suppliers have contracts with us for ongoing optimisation and new idea development, with UU having first mover advantage.

  With the UK hosting the COP26 global summit on climate change earlier this month, one of the areas we are keen to delve into for our fourth Innovation Lab programme is net zero and natural solutions. We are working in partnership with the Environment Agency to explore topics such as biodiversity, natural flood management and community engagement and we have received another high volume of ideas to review to support our low carbon mission to net zero.

FINANCIAL PERFORMANCE

Revenue for the six months to 30 September 2021 was up 4 per cent on the same period last year, largely reflecting higher consumption as business activity returns to pre-pandemic levels. Household cash collection and our bad debt position have remained robust, and we are providing further financial assistance to customers with the extension to our social tariff providing an additional £15 million of support per annum to customers struggling with the effects of the pandemic now having been made permanent.

For the year ended 31 March 2021, we simplified our approach to alternative performance measures (APMs) and will no longer, as a matter of course, adjust our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and routine prior years' tax matters. In the commentary that follows in relation to underlying measures, we show the prior period results based on the latest definition of APMs for comparative purposes. The reconciliation on pages 22 to 24 shows the APMs for the prior period based on the latest definition of APMs.

We continue to invest in our asset base and we are bringing forward capital expenditure in the five year regulatory period. Underlying operating profit has increased 4 per cent compared with the same period last year, largely reflecting higher revenue partly offset by small increases in our core costs. Our financing performance remains strong and we continue to benefit from our robust financial risk management, delivering long-term sustainable performance and shareholder value through financing outperformance.

Our balance sheet remains one of the strongest in the sector, with an industry-leading, fully funded pension scheme on a low dependency basis, and RCV gearing supporting a stable A3 credit rating with Moody's.

Revenue

	£m
Six months to 30 September 2020	894.4
Regulatory revenue changes -1.5 per cent real reduction in allowed wholesale revenues and 0.6 per cent uplift in line with CPIH inflation	(6.3)
Non-household consumption increase	67.8
Household consumption decrease	(20.3)
Other	(3.3)
Six months to 30 September 2021	**932.3**

Revenue was up £38 million, at £932 million, largely reflecting higher consumption as business activity returns to pre-pandemic levels.

In the first half of 2021/22 we have had a £6 million reduction in the revenue cap, incorporating a 1.5 per cent real reduction in allowed wholesale revenues and a 0.6 per cent CPIH-linked increase.

With many more businesses able to operate compared with the first half of last year, when the impact of the initial lockdown was significant, non-household revenue has increased by £68 million. In contrast, consumption from households, although higher than pre-pandemic norms, has decreased £20 million in the first half of this year. This is due to significantly higher consumption during the first half of last year reflecting the initial impact of people being locked down at home through the warm weather of late spring 2020.

Operating profit

	£m
Underlying and Reported – six months to 30 September 2020	318.5
Revenue increase	37.9
Inflationary cost increases	(9.2)
Depreciation and amortisation increase	(4.8)
Increased costs driving ODI performance	(3.9)
Innovation fund increase	(3.1)
Other underlying operating costs increase	(2.6)
Underlying and Reported – six months to 30 September 2021	**332.8**

Underlying and reported operating profit at £333 million were £14 million higher than the first half last year. This principally reflects the £38 million increase in revenue partly offset by inflationary increases on our core costs along with other smaller cost increases.

Since the onset of the COVID-19 pandemic we, and many companies right across the country, have experienced inflationary pressures on input costs such as power, chemicals and labour. Through hedging, constructive cost challenge and commercial negotiations, we have managed to mitigate much of the cost increase to date. We are seeing inflationary increases coming through our core costs resulting in an increase of £9 million compared with the first half of last year. This is a relatively modest increase reflecting our robust control of costs and hedging policies, particularly on power where we have hedged around 95 per cent of the power commodity price for the current year. We will continue to actively manage our cost base in the second half of the year to mitigate inflationary cost pressures.

Depreciation was £5 million higher, principally reflecting the ongoing commissioning of our asset base. We expect that depreciation will be relatively flat for the full year when compared with the prior year. The rate of increase in depreciation across the remaining years of the AMP is expected to be much lower than observed in previous AMPs due to the lower AMP7 capex programme. We have incurred £4 million of costs associated with driving ODI performance and that will be compensated through ODI incentive payments.

In AMP7, Ofwat has introduced an Innovation Fund whereby companies collect an additional amount of revenue from customers and which is allocated to a central pot which is subsequently reallocated to companies successfully bidding for funding for innovative projects. In the first half of this year, we accrued £3 million of costs which is an increase on the first half of last year as in 2020/21 we did not accrue costs until the full year. Our total contribution to the central pot since the beginning of AMP7 is £9 million. In contrast, we have led or supported on projects that have secured funding from the scheme of over £30 million, which will reimburse companies funding the successful projects that drive forward the innovation agenda.

Household bad debt was 1.8 per cent of regulated revenue, and has therefore reduced from the 2.2 per cent we reported for the year to 31 March 2021. This represents a return to pre-pandemic levels as we continue to manage the impact of COVID-19.

Profit before tax

	£m
Underlying – six months to 30 September 2020	238.2
Underlying operating profit increase	14.3
Underlying net finance expense increase	(51.4)
Share of JVs losses	(4.3)
Underlying – six months to 30 September 2021	**196.8**
Adjusted items *	15.9
Reported – six months to 30 September 2021	**212.7**

* Adjusted items are set out on pages 22 to 24.

Underlying profit before tax was £197 million, £41 million lower than the first half of last year. This reflects the £14 million increase in underlying operating profit, more than offset by a £51 million increase in underlying net finance expense and an increase in the share of underlying losses of joint ventures of £4 million, (from a £2 million share of gains in the first half of 2020/21 to a £2 million loss in the first half of this year).

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 22 to 24. Reported profit before tax increased by £12 million to £213 million reflecting the £14 million increase in reported operating profit and a £2 million reduction in reported net finance expense (including fair value movements), partly offset by the £4m increase in the share of underlying losses of joint ventures.

- Net finance expense

  The underlying net finance expense of £134 million was £51 million higher than the first half of last year, when we compare on a consistent basis, mainly due to the impact of higher RPI inflation on the group's index-linked debt partly offset by lower interest on index-linked debt.

  The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £103 million, compared with a net charge of £41 million last year. Interest on index-linked debt of £17 million was £8 million lower than the first half of last year while interest on non-index linked debt of £42 million is the same as it was for the first half of last year. The remaining £3 million decrease from the last half year primarily relates to movements in capitalised borrowing costs and pension interest.

  Reported net finance expense of £118 million was £2 million lower than the first half of last year, reflecting the £51 million increase in underlying net finance expense with this being offset by a £53 million increase in net fair value gains on our debt and derivative portfolio, excluding interest on derivatives and debt under fair value option, from a £37 million net loss in the first half of last year to a £16 million net gain in the first half of this year.

- Joint ventures

  For the six months to 30 September 2021, we recognised a £1.8 million loss in the income statement relating to our joint venture Water Plus. For the six months to 30 September 2020, our share of joint venture profits of £2.5 million related solely to our share in AS Tallinna Vesi. On 31 March 2021, the group completed the disposal of its stake in AS Tallinna Vesi.

  Further details can be found in note 10 of these condensed consolidated financial statements.

Profit after tax and earnings per share

	PAT £m	**Earnings per share Pence/share**
Underlying – six months to 30 September 2020	199.1	*29.2p*
Underlying profit before tax decrease	(41.4)	
Underlying tax decrease	36.2	
Underlying – six months to 30 September 2021	**193.9**	***28.4p***
Adjusted items *	(410.1)	
Reported – six months to 30 September 2021	**(216.2)**	***(31.7)p***

* Adjusted items are set out on pages 22 to 24.

Underlying profit after tax of £194 million was £5 million lower than the first half of last year, and underlying earnings per share decreased from 29.2 pence to 28.4 pence, principally reflecting the £41 million reduction in underlying profit before tax partly offset a £36 million lower underlying tax charge largely due to the impact of the

capital allowances super deductions, announced in the March 2021 Chancellors Budget and lowering the current tax charge significantly in the current period.

The group reported a loss after tax of £216 million for the first half of this year, compared with a £162 million reported profit after tax in the first half of last year. This £378 million reduction largely reflects the one-off deferred tax charge of £382 million to restate the brought forward tax liability at the new 25 per cent future headline rate. Reported basic earnings per share decreased from 23.8 pence to a reported basic earnings per share of (31.7) pence.

- Tax

  We continue to be fully committed to paying our fair share of tax and acting in an open and transparent manner in relation to our tax affairs, and are delighted to have been accredited with the Fair Tax Mark again in 2021 for the third year running.

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

  We paid corporation tax of £7 million in the period, which represents an effective cash tax rate on underlying profits of 3 per cent, 16 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation. For the current period, the cash tax is significantly lower due to the impact of the capital allowances super deductions, announced in the March 2021 Chancellors Budget and affecting our eligible plant and machinery additions in 2022 and 2023.

  The current tax charge was £5 million in the six months to 30 September 2021, compared with £34 million in the previous half year.

  For the six months to 30 September 2021, we recognised a deferred tax charge of £42 million, compared with £5 million for the same period last year. This excludes the £382 million one-off deferred tax charge reflecting the new 25 per cent future headline rate.

  The total effective tax rate, after adjusting for the one-off deferred tax charge for changes in the headline rate of tax was 22 per cent for the six months to 30 September 2021, compared with 19 per cent in the previous half year; the increase reflecting the current year deferred tax charge being calculated at 25 per cent.

  In the period, there were £56 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes.

Dividend per share

The Board has proposed an interim dividend of 14.50 pence per ordinary share in respect of the six months ended 30 September 2021. This is an increase of 0.6 per cent compared with the interim dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The inflationary increase of 0.6 per cent is based on the CPIH element included within the allowed regulated revenue increase for the 2021/22 financial year (i.e. the movement in CPIH between November 2019 and November 2020).

The interim dividend is expected to be paid on 1 February 2022 to shareholders on the register at the close of business on 17 December 2021. The ex-dividend date is 16 December 2021. The election date for the Dividend Reinvestment Plan is 11 January 2022.

Cash flow
Net cash generated from continuing operating activities for the six months to 30 September 2021 was £471 million, £72 million higher than the £399 million in the first half of last year. The group's net capital expenditure was £288 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost. Cash flow capex differs from regulatory capex, since the latter is based on capital work done in the period, rather than actual cash spent.

Pensions
As at 30 September 2021, the group had an IAS 19 net pension surplus of £821 million, compared with a net pension surplus of £689 million at 31 March 2021. This £132 million increase principally reflects increases in asset returns partly offset by an increased RPI inflation assumption. The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. The IAS 19 position remains volatile to changes in credit spread and changes in mortality, neither of which have been hedged at this current time. This is primarily due to difficulties hedging against credit spread volatility over long durations, and, for mortality, there is lower volatility in the short term and relatively high hedging costs. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it use a prudent, fixed credit spread assumption.

Further detail on pensions is provided in note 11 ('Retirement benefit surplus') of these condensed consolidated financial statements.

Financing

Net debt	**£m**
At 31 March 2021	7,305.8
Cash generated from operations	(535.5)
Fair value movements	(17.6)
Net capital expenditure	288.0
Dividends	196.6
Indexation	92.8
Interest	58.2
Tax	6.7
Other	5.8
At 30 September 2021	**7,400.8**

The group's gross borrowings at 30 September 2021 had a carrying value of £8,463 million. The fair value of these borrowings was £10,088 million. This £1,625 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has increased from £1,404 million at 31 March 2021 due primarily to a decrease in credit spreads.

Cash and short-term deposits at 30 September 2021 amounted to £656 million.

Net debt at 30 September 2021 was £7,401 million, compared with £7,306 million at 31 March 2021. This comprises gross borrowings of £8,463 million net of cash of £656 million and net derivative assets hedging specific debt instruments of £406 million.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, cash interest, indexation interest and tax.

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 30 September 2021. This is the same level of gearing as at 31 March 2021 and remains within our target range of 55 to 65 per cent.

- Cost of debt

As at 30 September 2021, the group had approximately £3.1 billion of RPI-linked instruments and £0.4 billion of CPI or CPIH-linked instruments held as debt. In recent years, in response to Ofwat's decision to transition away from RPI inflation linkage, the group has entered into a number of transactions swapping RPI-linked cash flows to CPI-linked cash flows or swapping floating rate cash flows to CPI-linked cash flows. As a result, including these swaps, the group has RPI-linked debt exposure of £3.0 billion at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt exposure at an average real rate of –0.6 per cent.

A higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 4.4 per cent being higher than the rate of 3.0 per cent for the six months to 30 September 2020. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 2.2 to 2.4 per cent for the remainder of the AMP7 regulatory period.

- Credit ratings

UUW's senior unsecured debt obligations are rated A3 with Moody's Investors Service (Moody's), A- with Fitch Ratings (Fitch) and BBB+ with Standard & Poor's Ratings Services (S&P) and all on stable outlook. United Utilities PLC's (UU PLC's) senior unsecured debt obligations are rated Baa1 with Moody's, A- with Fitch and BBB- with S&P, all on stable outlook.

- Debt financing

The group has access to the international debt capital markets through its €7 billion euro medium-term note (EMTN) programme. The EMTN programme is updated at least annually and this year's update is expected to be completed shortly, which will include an increase to the programme limit and redenomination to £10 billion. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

In total over 2020-25, we expect to raise around £2.4 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.1 billion, taking advantage of attractive rates available and extending our liquidity position out to February 2025.

In November 2020, we published our new sustainable finance framework, through which we expect to raise financing based on our strong ESG credentials alongside conventional issuance. This replaces the green funding we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. We issued our debut sustainable bond in January 2021, raising £300 million maturing in October 2029 and subsequently swapped to CPI-linkage.

In August 2021, we raised around £73 million of term funding via the issue off our EMTN Programme of JPY11 billion privately placed note swapped to GBP with a 9-year maturity, and in September 2021 we priced a £100 million fixed note with a 7-year maturity, the proceeds of which were received in early October.

Since March 2021, we have extended £100 million of revolving credit facilities for a further year. The group has also amended the documentation for all of its existing revolving credit facilities to remove references to LIBOR and replace with SONIA.

- Interest rate management

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

  Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 30 September 2021, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of –0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

  Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis.

- Liquidity

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

  At 30 September 2021, we had liquidity out to February 2025, comprising cash and short-terms deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme. In October 2021, UUW prepaid a £100 million floating rate loan a year ahead of its scheduled maturity, this being efficient use of our available liquidity.

  We consider that we operate a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. Our cash is held in the form of short-term money market deposits with prime commercial banks.

  We operate a bilateral rather than a syndicated approach to our 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.

OUTLOOK

We have continued with the great start that we have made to AMP7, benefitting from the acceleration of our AMP7 investment programme. This investment, coupled with our Systems Thinking approach, is delivering operational excellence and regulatory outperformance, and is enabling us to drive further value for our shareholders. We remain confident in our target of cumulative net outperformance of around £150 million against our customers ODIs for AMP7.

2021/22 FULL YEAR GUIDANCE

- **Revenue** is expected to be around 2 per cent higher than 2020/21, largely reflecting higher overall consumption by our customer base.
- **Underlying operating costs** are expected to be higher year-on-year reflecting inflationary increases net of efficiencies coming through core costs and IRE is expected to increase as we continue to invest in DNM. We remain confident that we can deliver our AMP7 scope within our Final Determination totex allowance.
- **Underlying finance expense** is expected to be higher year-on-year as higher inflation impacts our index-linked debt.
- **Capex** in 2021/22 is expected to be in the range of £625 million to £675 million reflecting the ongoing acceleration of our AMP7 programme, the extension to our AMP7 totex allowance and our continued investment in long-term sustainable performance.
- We remain confident in targeting a **net customer ODI reward** of around £20 million, which is consistent with our overall target for AMP7 of around £150 million reward.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union as well as adopted by the UK, in the group's consolidated income statement, which can be found on page 28. As such, they represent non-GAAP measures.

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

We simplified our approach to APMs and no longer, as a matter of course, adjust our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and routine prior years' tax matters. These changes first came into effect for the full year to March 2021. In the tables that follow we show the prior period APMs on the updated basis based on our new definition of APMs for comparative purposes.

In addition, a reconciliation of the group's average effective interest rate has been presented, together with a prior period comparison. In arriving at net finance expense used in calculating the group's effective interest rate, underlying net finance expense is adjusted to add back net pension interest income and capitalised borrowing costs in order to provide a view of the group's cost of debt that is better aligned to the return on capital it earns through revenue.

Adjusted item	Rationale
Adjustments not expected to recur	
Profit on disposal of joint ventures	This relates to the disposal of the group's 35.3% stake in its Estonian joint venture, AS Tallinna Vesi, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macro-economic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	6 months ended 30 September 2021 £m	*Re-presented* 6 months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Operating profit per published results	**332.8**	**318.5**	**602.1**
Underlying operating profit	**332.8**	**318.5**	**602.1**

Net finance expense	**£m**	**£m**	**£m**
Finance expense	(127.5)	(132.0)	(103.5)
Investment income	9.2	12.1	25.0
Net finance expense per published results	**(118.3)**	**(119.9)**	**(78.5)**
Adjustments:			
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(15.9)	37.1	(54.3)
Underlying net finance expense	**(134.2)**	**(82.8)**	**(132.8)**

	£m	**£m**	**£m**
Share of (losses)/profits of joint ventures	**(1.8)**	**2.5**	**(9.3)**
Profit on disposal of joint ventures	-	-	36.7
Adjustments:			
Profit on disposal of AS Tallinna Vesi joint venture	-	-	(36.7)
Underlying profit on disposal of joint ventures	**-**	**-**	**-**
Profit before tax per published results	**212.7**	**201.1**	**551.0**
Adjustments:			
In respect of operating profit	-	-	-
In respect of net finance expense	(15.9)	37.1	(54.3)
In respect of profit on disposal of joint ventures	-	-	(36.7)
Underlying profit before tax	**196.8**	**238.2**	**460.0**
(Loss)/Profit after tax per published results	**(216.2)**	**162.0**	**453.4**
Adjustments:			
In respect of profit before tax	(15.9)	37.1	(91.0)
Deferred tax adjustment	423.9	5.1	18.4
Tax in respect of adjustments to underlying profit before tax	2.1	(5.1)	2.2
Underlying profit after tax	**193.9**	**199.1**	**383.0**

Earnings per share	**£m**	**£m**	**£m**
(Loss)/profit after tax per published results (a)	(216.2)	162.0	453.4
Underlying profit after tax (b)	193.9	199.1	383.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	(31.7)	23.8	66.5
Underlying earnings per share, in pence (b/c)	28.4	29.2	56.2
Dividend per share, in pence	14.50p	14.41p	43.24p

In arriving at net finance expense used in calculating the group's effective interest rate, management adjusts underlying net finance expense to add back pension income and capitalised borrowing costs in order to provide a view of the group's cost of debt that is better aligned to the return on capital it earns through revenue.

Average effective interest rate	**6 months ended 30 September 2021**	**6 months ended 30 September 2020**	**Year ended 31 March 2021**
	£m	**£m**	**£m**
Underlying net finance expense	(134.2)	(82.8)	(132.8)
Adjustments:			
Net pension interest income	(7.3)	(8.7)	(17.5)
Adjustment for capitalised borrowing costs	(21.4)	(17.0)	(30.4)
Net finance expense for effective interest rate	**(162.9)**	**(108.5)**	**(180.7)**
Average notional net debt	**(7,372)**	**(7,257)**	**(7,315)**
Average effective interest rate	**4.4%**	**3.0%**	**2.5%**

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk management

Our approach to risk management, including how we identify and assess risk and the oversight and governance process, remains unchanged from that detailed on pages 100 to 102 of our Annual Report for the year ended 31 March 2021.

Key developments

Continuous improvement is a key feature of our business risk management framework. In the past six months we have continued to promote the cross cutting causal factor and consequence themes (see page 102 of our Annual Report) in risk assessments to improve maturity and to enable better understanding of interdependency and correlation. We have also improved our position on aligning contingency plans to risk.

Profile features

The risk profile is based on ten principal risks that reflect the primary and secondary business activities from which value can be gained, preserved or lost relative to the group's business model, future performance, solvency, liquidity and reputation. These principal risks are reported within our Annual Report for the year ended 31 March 2021 (see pages 104 to 107). They are underpinned by approximately 100 event-based risks which have been subject to half year risk assessment reflecting influences such as climate change, legislative and regulatory developments and challenges within the supply chain post Brexit and the after effects of the global pandemic, whilst also looking ahead to the next price review and our carbon reduction commitments.

The group's most significant event based risks

The most significant event-based risks represent the ten highest-ranked risks (see **1 to 10** below) by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact) and those risks which have been assessed as having a significantly high impact, but low likelihood (see **A to F** below). Depending on the circumstances, financial impacts will include loss of revenue, additional cost, fines, regulatory penalties and compensation. Reputational impact relative to our multiple stakeholders is also assessed, reported and considered as part of the mitigation.

1. **Carbon Commitments:** This risk focuses the capacity and capability to decarbonise Water and Wastewater activity relevant to the Public Interest Commitments (PIC) to achieve net zero by 2030 in light of the growth pressures, lack of technological advances or innovation and the fundamental change of approach required. **Control/Mitigation:** We will continue to develop near term initiatives such as process and energy emissions, woodland and peatland restoration, while responding to changing policy and technological landscape. We are also developing a long term strategy to reduce emissions and to fully understand and optimise potential decarbonisation initiatives and pathways.
2. **Price Review 2024:** This risk focuses the capacity and capability to develop a business plan that creates value for customers, communities, and the environment that is sustainable and resilient for the long term relative to the unique characteristics of the region we serve, in light of multiple influencing factors notably changing demographics, climate change and asset health. **Control/Mitigation:** We have established cross-cutting work streams and theme owners to identify the products and evidence required for the submission and we will maintain a close dialog with Ofwat throughout the process.
3. **Failure of the Haweswater Aqueduct:** The Haweswater Aqueduct is a key asset with current low resilience due to deterioration, with failure potentially resulting in water quality issues and/or supply interruptions to a large proportion of the UU customer base. **Control/Mitigation:** A capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP) by 2029.
4. **Flooding of the Wastewater Network (sewer flooding):** Equipment failure, collapses/bursts or inadequate hydraulic/ operational capacity to cope with extreme weather and population growth, resulting in sewer flooding. **Control/Mitigation:** Preventative maintenance and inspection regimes, customer campaigns and sewer rehabilitation programmes.
5. **Water Sufficiency event (Dry Weather):** Water Sufficiency is one of the most sensitive risks to climate, with the frequency of recent periods of extended hot, dry weather being evidence of changing circumstance and the potential for implementation of water use restrictions on customers. **Control/Mitigation:** UU produces a Water Resources Management Plan every five years which forecasts future demand and water availability

under repeats of historic droughts, adjusted for climate change. A statutory Drought Plan is also developed every 5 years setting out the actions UU will take in a drought situation.

6. **Failure to treat Sludge:** This risk relates to the interdependency between Wastewater and Bioresource treatment activity in light of changing demographics, asset health and legislative / regulatory change. Industrial Emissions Directive (IED) now applying to biological treatment of sewage sludge within AMP 7, with no investment assigned to this requirement is a key factor. **Control/Mitigation:** The Throughput, Reliability, Availability, and Maintainability (T-RAM) of our facilities is a key area of mitigation, with formal Service Level Agreements between the two core activities. In relation to IEDs, discussions at national level are being held to move the high capital cost improvements into PR24.
7. **Cybercrime:** Data and technology assets compromised due to malicious or accidental activity, leading to a major impact to key business processes and operations. **Control/Mitigation:** Multiple layers of control, including a secure perimeter, segmented internal network zones, access controls, constant monitoring and forensic response capability.
8. **Recycling of Biosolids to agriculture:** This risks represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. Referencing the EA's interpretation of the Farming Rules for Water (FRfW) regulations and the increasing threat to recycling a large proportion of biosolids. **Control/Mitigation:** UU is accredited to the UK Biosolids Assurance Scheme (BAS) which certifies that our treatment and recycling activities meet regulatory requirements and best practice. We also work closely with farmers and landowners and have robust standard operating procedures established with contractors.
9. **Failure to treat Wastewater:** Inadequate capacity and capability of wastewater treatment works, leading to environmental permit breaches. **Control/mitigation:** Improved Effective Operations and Maintenance (EO&M) programme and operating procedures including proactive maintenance, operative training and compliance audits.
10. **Mersey Valley Sludge Pipeline:** A key asset with current low resilience due to deterioration, with failure potentially resulting in serious pollution. **Control/Mitigation:** Overland inspections, flow and pressure monitoring take place to detect bursts. Incident response plans are in place and strategic planning is underway to determine a long term solution.

High impact, low likelihood risks

A. **Pension deficit:** The potential for the pension scheme funding deficit to increase because of life expectancy rates leading to additional contributions. **Control/mitigation:** Constant monitoring combined with hedging against interest rates, inflation and growth asset risk.

B. **Dam failure:** Uncontrolled release of a significant volume of water from reservoirs due to flood damage, overtopping, earthquake or erosion leading to catastrophic impacts downstream. **Control/mitigation:** Each reservoir is regularly inspected by engineers. Where appropriate, risk reduction interventions are implemented through a prioritised investment programme.

C. **Fair payment of tax:** Failure to maximise the available tax efficiencies and reliefs due to changing mechanisms. **Control/mitigation:** Tax policies and objectives cover: efficient structuring of commercial activities; maintaining a robust governance and risk management framework; and an open and transparent relationship with tax authorities.

D. **Disease pandemic:** Serious illness in a large proportion of the UK population and consequences to our workforce, the wider supply chain and macro economy. **Control/mitigation:** The incident management process would be invoked, supported by the Pandemic Response Plan. This includes the implementation of multi-channel communication with non-pharmaceutical interventions as per government guidance.

E. **Terrorism:** A significant asset to be compromised by terrorist activity leading to loss of supply, contamination and/or pollution. **Control/mitigation:** A risk-based protection of assets in line with the Security and Emergency Measures Direction (SEMD) and close liaison with the Centre for the Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.

F. **Process safety:** The unintentional generation and/or release of dangerous substances and explosive atmospheres in sludge digestion or other processes, resulting in a catastrophic incident **Control/mitigation:** The design and engineering of facilities, training and maintenance of equipment. Effective control points exist with alarms monitored remotely and statutory inspections.

Material litigation
The group robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible. Litigation of a material nature is regularly reported to the group board. Beyond that reported in previous years on the Argentina multiparty 'class action' and the Manchester Ship Canal Company matters (to which there have been no material developments), there is nothing specific to report on material litigation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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Classification – Half Year Results

Consolidated income statement

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Revenue (note 3)	**932.3**	894.4	1,808.0
Employee benefits expense	**(82.4)**	(78.6)	(161.8)
Other operating costs (note 4)	**(217.3)**	(201.0)	(431.9)
Allowance for expected credit losses – trade and other receivables	**(12.1)**	(11.7)	(28.7)
Other income	**2.5**	1.5	3.6
Depreciation and amortisation expense	**(207.6)**	(202.8)	(422.3)
Infrastructure renewals expenditure	**(82.6)**	(83.3)	(164.8)
Total operating expenses	**(599.5)**	(575.9)	(1,205.9)
Operating profit	**332.8**	318.5	602.1
Investment income (note 5)	**9.2**	12.1	25.0
Finance expense (note 6)	**(127.5)**	(132.0)	(107.2)
Allowance for expected credit losses – loans to joint ventures	**-**	-	3.7
Investment income and finance expense	**(118.3)**	(119.9)	(78.5)
Share of (losses)/profits of joint ventures (note 10)	**(1.8)**	2.5	(9.3)
Profit on disposal of joint venture	**-**	-	36.7
Profit before tax	**212.7**	201.1	551.0
Current tax charge	**(5.0)**	(34.0)	(79.2)
Deferred tax charge	**(42.3)**	(5.1)	(18.4)
Deferred tax charge – change in tax rate	**(381.6)**	-	-
Tax (note 7)	**(428.9)**	(39.1)	(97.6)
(Loss)/profit after tax	**(216.2)**	162.0	453.4

All of the results shown above relate to continuing operations.

Earnings per share (note 8)			
Basic	**(31.7)p**	23.8p	66.5p
Diluted	**(31.6)p**	23.7p	66.3p
Dividend per ordinary share (note 9)	**14.50p**	14.41p	43.24p

Consolidated statement of comprehensive income

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
(Loss)/Profit after tax	**(216.2)**	162.0	453.4
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness	**42.9**	4.9	9.3
Tax on items taken directly to equity (note 7)	**(10.7)**	(0.9)	(1.8)
Foreign exchange adjustments	**-**	1.3	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	**-**	-	4.0
Other comprehensive income that may be reclassified to profit or loss	**32.2**	5.3	9.9
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit pension schemes (note 11)	**123.4**	(109.3)	(82.7)
Change in credit assumptions for debt reported at fair value through profit or loss	**(7.5)**	(30.0)	(43.3)
Cost of hedging – cross currency basis spread adjustment	**1.8**	(7.5)	(12.7)
Tax on items taken directly to equity (note 7)	**(44.8)**	43.9	36.6
Other comprehensive income that will not be reclassified to profit or loss	**72.9**	(102.9)	(102.1)
Total comprehensive income	**(111.1)**	64.4	361.2

Consolidated statement of financial position

	30 September 2021 £m	30 September 2020 £m	31 March 2021 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**11,956.3**	11,648.9	11,799.0
Intangible assets	**170.4**	175.8	181.1
Interests in joint ventures and other investments (note 10)	**16.6**	44.4	0.1
Trade and other receivables	**68.6**	126.6	86.7
Retirement benefit surplus (note 11)	**821.1**	654.3	689.0
Derivative financial instruments	**458.3**	661.8	410.3
	13,491.3	13,311.8	13,166.2
Current assets			
Inventories	**18.9**	19.0	18.3
Trade and other receivables	**244.4**	244.7	229.2
Current tax asset	**8.6**	36.6	6.9
Cash and short-term deposits	**655.9**	899.0	744.1
Derivative financial instruments	**23.0**	0.1	14.4
	950.8	1,199.4	1,012.9
Total assets	**14,442.1**	14,511.2	14,179.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(825.5)**	(782.5)	(798.3)
Borrowings (note 12)	**(7,802.1)**	(8,092.8)	(7,797.0)
Deferred tax liabilities	**(1,928.9)**	(1,426.6)	(1,449.5)
Derivative financial instruments	**(106.3)**	(184.2)	(107.8)
	(10,662.8)	(10,486.1)	(10,152.6)
Current liabilities			
Trade and other payables	**(380.6)**	(323.4)	(322.7)
Borrowings (note 12)	**(660.7)**	(853.4)	(654.8)
Provisions	**(13.1)**	(13.1)	(11.1)
Derivative financial instruments	**(3.2)**	(3.9)	(6.9)
	(1,057.6)	(1,193.8)	(995.5)
Total liabilities	**(11,720.4)**	(11,679.9)	(11,148.1)
Total net assets	**2,721.7**	2,831.3	3,031.0
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Other reserves (note 16)	**369.8**	335.9	336.3
Retained earnings	**1,849.2**	1,992.7	2,192.0
Shareholders' equity	**2,721.7**	2,831.3	3,031.0

Consolidated statement of changes in equity

Six months ended 30 September 2021

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Loss after tax	-	-	-	(216.2)	(216.2)
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 11)	-	-	-	123.4	123.4
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(7.5)	(7.5)
Cash flow hedge effectiveness	-	-	42.9	-	42.9
Cost of hedging – cross currency basis spread adjustment	-	-	1.8	-	1.8
Tax on items taken directly to equity (note 7)	-	-	(11.2)	(44.3)	(55.5)
Foreign exchange adjustments	-	-	-	-	-
Total comprehensive income	-	-	33.5	(144.6)	(111.1)
Dividends (note 9)	-	-	-	(196.6)	(196.6)
Equity-settled share-based payments	-	-	-	2.6	2.6
Exercise of share options – purchase of shares	-	-	-	(4.2)	(4.2)
At 30 September 2021	**499.8**	**2.9**	**369.8**	**1,849.2**	**2,721.7**

Six months ended 30 September 2020

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020	499.8	2.9	336.7	2,122.7	2,962.1
Profit after tax	-	-	-	162.0	162.0
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 11)	-	-	-	(109.3)	(109.3)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(30.0)	(30.0)
Cash flow hedge effectiveness	-	-	4.9	-	4.9
Cost of hedging – cross currency basis spread adjustment	-	-	(7.5)	-	(7.5)
Tax on items taken directly to equity (note 7)	-	-	0.5	42.5	43.0
Foreign exchange adjustments	-	-	1.3	-	1.3
Total comprehensive income	-	-	(0.8)	65.2	64.4
Dividends (note 9)	-	-	-	(193.7)	(193.7)
Equity-settled share-based payments	-	-	-	1.4	1.4
Exercise of share options – purchase of shares	-	-	-	(2.9)	(2.9)
At 30 September 2020	**499.8**	**2.9**	**335.9**	**1,992.7**	**2,831.3**

Year ended 31 March 2021

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 31 March 2020	499.8	2.9	336.7	2,122.7	2,962.1
Profit after tax	-	-	-	453.4	453.4
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 11)	-	-	-	(82.7)	(82.7)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(43.3)	(43.3)
Cash flow hedge effectiveness	-	-	9.3	-	9.3
Cost of hedging – cross currency basis spread adjustment	-	-	(12.7)	-	(12.7)
Tax on items taken directly to equity (note 7)	-	-	0.6	34.2	34.8
Foreign exchange adjustments	-	-	(1.6)	-	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	-	-	4.0	-	4.0
Total comprehensive income	-	-	(0.4)	361.6	361.2
Dividends (note 9)	-	-	-	(291.9)	(291.9)
Equity-settled share-based payments	-	-	-	3.6	3.6
Exercise of share options - purchase of shares	-	-	-	(4.0)	(4.0)
At 31 March 2021	**499.8**	**2.9**	**336.3**	**2,192.0**	**3,031.0**

[1] Other reserves comprise the group's cumulative exchange reserve, merger reserve, cost of hedging reserve, and cash flow hedging reserve. Further detail of movements in these reserves is included in note 16.

Consolidated statement of cash flows

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Operating activities			
Cash generated from operations (note 14)	**535.5**	495.6	1,037.2
Interest paid	**(73.1)**	(68.7)	(136.7)
Interest received and similar income	**14.9**	2.9	7.4
Tax paid	**(6.7)**	(31.1)	(75.4)
Tax received	**-**	-	26.9
Net cash generated from operating activities	**470.6**	398.7	859.4
Investing activities			
Purchase of property, plant and equipment	**(278.7)**	(315.4)	(610.4)
Purchase of intangible assets	**(9.8)**	-	(33.6)
Grants and contributions received	**0.6**	2.9	5.0
Loans to joint ventures	**-**	(29.5)	(2.0)
Dividends received from joint ventures	**-**	6.4	6.4
Proceeds from disposal of investments	**-**	-	85.3
Net cash used in investing activities	**(287.9)**	(335.6)	(549.3)
Financing activities			
Proceeds from borrowings net of issuance costs	**72.7**	574.2	909.7
Repayment of borrowings	**(152.6)**	(75.1)	(703.5)
Dividends paid to equity holders of the company (note 9)	**(196.6)**	(193.7)	(291.9)
Exercise of share options – purchase of shares	**(4.2)**	(2.9)	(4.0)
Net cash (used in)/generated from financing activities	**(280.7)**	302.5	(89.7)
Net (decrease)/increase in cash and cash equivalents	**(98.0)**	365.6	220.4
Cash and cash equivalents at beginning of the period[1]	**733.6**	513.2	513.2
Cash and cash equivalents at end of the period[1]	**635.6**	878.8	733.6

[1] Cash and cash equivalent is stated net of £20.3 million (30 September 2020: £20.2 million; 31 March 2021: £10.5 million; 1 April 2020: £14.9m) of book overdrafts, which are included in borrowings in the statement of financial position. Book overdrafts, which result from normal cash management practices, represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 *'Interim Financial Reporting'* (IAS 34) as published by the International Accounting Standards Board (IASB) and adopted by the UK.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006, and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2021.

The comparative figures for the year ended 31 March 2021 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The annual financial statements for the year ended 31 March 2021 were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) and interpretations (IFRICs) as issued by the IASB and adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU) as well as adopted by the UK. There are currently no material areas of divergence between UK-adopted and EU-adopted IFRS, and this was also the case as at 31 March 2021.

The accounting policies, presentation and methods of computation used in these condensed consolidated interim financial statements are the same as those used in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2021.

Going concern

The interim condensed consolidated financial statements for the six months ended 30 September 2021 have been prepared on the going concern basis as the directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of their approval, and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed bank facilities, as well as considering the group's capital adequacy, along with a baseline plan that incorporates the expected economic impacts brought about by the COVID-19 pandemic. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe but reasonable downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; lower CPIH inflation; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the interim condensed consolidated financial statements, and that the severe but reasonable downside scenarios indicate that the group will be able to operate within the amounts and terms (including relevant covenants) of existing facilities. The interim condensed consolidated financial statements have therefore been prepared on a going concern basis.

Update on critical accounting judgements and key sources of estimation uncertainty associated with COVID-19

Since the onset of the COVID-19 pandemic at the beginning of the 2020 calendar year, the group has disclosed a number of associated critical accounting judgements and key sources of estimation uncertainty in its annual reports and financial statements for the years ended 31 March 2020 and 31 March 2021, and its interim condensed consolidated financial statements for the six months ended 30 September 2020. The most significant of these related to revenue recognition and the group's allowance for expected credit losses in respect of receivables, and accounting for the group's joint venture, Water Plus, although the level of judgement and estimation associated with the latter of these has reduced markedly following the restructuring of Water Plus's financing arrangements by its shareholders as described in note 10.

These judgements and estimates have been kept under review during the six months to 30 September 2021 in order to ensure that they reflect the most up-to-date information available as the situation has developed. An update on these is as follows:

Accounting estimate – unbilled revenue in respect of measured customers: The amount of revenue recognised for customers who have a water meter (measured customers) is directly impacted by their level of consumption. Estimation is required in relation to the volume of water and wastewater services provided to these customers where recent meter read data is not available.

Estimated usage is based on historical meter read data, judgement, and assumptions. Since 2020, consumption patterns have been significantly impacted by changes brought about by the COVID-19 pandemic. Household consumption has been above levels normally seen due to customers spending more time at home, while non-household consumption has been below normal levels as a result of temporary business closures resulting from lockdown measures.

While lockdown measures have eased during the period, household consumption remains higher than pre-pandemic levels. Customer behaviours appear to have changed as a result of the pandemic, with many household customers choosing to spend more time at home for a number of reasons, including international travel restrictions, businesses transitioning to hybrid working arrangements that facilitate increased levels of working from home, and other businesses moving employees to permanent home working. As a result, patterns of future usage in the longer term remain unclear.

However, over the course of the previous financial year, and as the current financial year has progressed, the group has seen an increase in the volume of household meter reads, which have now returned to pre-pandemic levels. Meter read data collected during the period therefore reflect the increased consumption brought about by the pandemic, together with current usage patterns. This in turn has been captured in actual bills and therefore the level of estimation has steadily reduced, with the system generated revenue accrual now largely aligned to independent automated meter read (AMR) data. AMR data is captured for around 25 per cent of all measured household customers, and has been extrapolated across the remaining measured household customer base. The reasonableness of this approach has been validated through an assessment of bills raised in the period.

During the prior year a number of code changes were introduced by Ofwat and MOSL in relation to the non-household retail market. These included the introduction of annual consumption adjustments which allowed retailers to reduce or suspend volumetric charges for customers impacted by the lockdown of their activities. As many of these adjustments were initially applied by retailers to broad sector groups, this inevitably included some end users who continued to consume above their yearly volume estimate. This resulted in a higher level of estimation being required in relation to non-household consumption than would normally be the case. These estimates were based on the latest available consumption information, considering the vacancy status of all premises during the period and recognising the number and timing of meter reads received. In the six month period to 30 September 2021, we have seen retailers begin to remove consumption adjustments, which together with an increase in meter reads has reduced the level of estimation required. Non-household wholesale revenue recognised during the period is around £7.5 million higher than the total in-period revenue estimated in the CMOS system as part of the normal settlement process (£16.1 million higher at 31 March 2021).

Accounting estimate – allowance for expected credit losses in respect of household trade receivables: The onset of the COVID-19 pandemic introduced a high level of uncertainty around how economic conditions may impact the recoverability of household receivables, with this uncertainty continuing throughout the year to 31 March 2021 and to date.

Cash collection over the six months to 30 September 2021 has been stronger than anticipated, and is higher than the current year collection rate at the same point in the prior year, although the economic situation remains uncertain at the interim reporting date. This is particularly the case as government support schemes such as furlough unwind, which could result in increased unemployment and therefore further impact the ability of some customers to pay. A range of collection scenarios have been considered taking account of current year cash collection rates as well as collection of prior year and legacy debt. This supports a bad debt charge of 1.8 per cent of household revenue at the interim reporting date.

This compares with a charge equivalent to 2.2 per cent of household revenue recognised for the year ended 31 March 2021 based on the average recovery of household trade receivables evidenced in that year and the year ended 31 March 2020. This was considered an appropriate indicator of expected future collection that encompassed a range of scenarios that have been experienced, including before the onset of the COVID-19 pandemic, periods of lockdown, and periods of recovery.

2. Segmental reporting

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

3. Revenue

	30 September 2021 £m	**30 September 2020 £m**	**31 March 2021 £m**
Wholesale water charges	**393.6**	375.5	751.0
Wholesale wastewater charges	**477.0**	461.8	941.5
Household retail charges	**35.0**	35.9	64.1
Other	**26.7**	21.2	51.4
	932.3	894.4	1,808.0

The £37.9 million increase in revenue for the six months ended 30 September 2021 compared with the same period in the prior year is largely attributable to the impact of the COVID-19 pandemic and measures to control the spread of the virus in each period. Customer tariffs for the 2020/21 financial year were set in December 2019 before the impact of the pandemic was known, whereas tariffs for the 2021/22 financial year were set in December 2020 and therefore factored in the forecast COVID-19 impacts on both household and non-household customers based on the best available data at that point in time. Actual consumption during the period has been above amounts forecasted when tariffs were set, with the impact of this being offset by known regulatory revenue reductions.

With lockdown restrictions easing during the six months to 30 September 2021, this in turn has resulted in an increase in non-household wholesale charge revenue compared with the same period in the prior year of £67.8 million, which has been partially offset by a reduction in household revenue of £29.4 million.

Given the nature of the group's operations, revenues are not typically materially impacted by seasonality or cyclicality, and therefore revenue recognised for the first half of the financial year would typically be similar to that recognised in the second half, though these trends can be impacted by changing patterns of consumption such as what has been experienced during the COVID-19 pandemic.

4. Other operating costs

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Hired and contracted services	**50.1**	45.9	96.3
Property rates	**46.5**	45.2	89.4
Materials	**40.7**	39.5	82.2
Power	**38.2**	38.5	83.6
Regulatory fees	**14.5**	14.5	28.0
Accrued innovation costs	**3.1**	-	6.2
Loss on disposal of property, plant and equipment	**3.0**	2.2	10.7
Insurance	**3.0**	2.6	5.2
Cost of properties disposed	**0.1**	0.1	2.6
Other expenses	**18.1**	12.5	27.7
	217.3	201.0	431.9

Other operating costs have increased compared with the same period in the prior year for a number of reasons, including inflationary increases on the group's core cost base, the accrual of costs relating to the Innovation in Water Challenge scheme operated by Ofwat for AMP7, which were not accrued in the same period in the prior year, as well as increased costs associated with the group's response to a number of incidents affecting customers. Additional costs have also been incurred during the period to improve performance for customers and the environment and therefore deliver a better outcome on our customer outcome delivery incentives.

During the six months to 30 September 2021 the group incurred around £2.5 million of operating costs that were directly attributable to its response to the ongoing effects of the COVID-19 pandemic, compared with £2.9 million for the six months to 30 September 2020. As such costs are now being incurred as part of the group's normal business activities, they have not been treated as adjusting items in arriving at the group's underlying profit measures included within the alternative performance measures set out on page 22 for either the six month periods ended 30 September 2021 and 30 September 2020, or the year ended 31 March 2021.

This is also the case for the £1.7 million of operating costs and £1.5 million of infrastructure renewals expenditure incurred in the six months to 30 September 2020 in response to a period of dry weather experienced over the spring and summer of that year that coincided with the first nationwide lockdown associated with the pandemic; costs incurred in response to dry weather in the six months to 30 September 2021 were minimal.

5. Investment income

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Interest receivable	**1.9**	3.4	7.5
Net pension interest income (note 11)	**7.3**	8.7	17.5
	9.2	12.1	25.0

6. Finance expense

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Interest payable	**147.6**	104.9	181.7
Net fair value (gains)/losses on debt and derivative instruments	**(20.1)**	27.1	(74.5)
	127.5	132.0	107.2

Interest payable is stated net of £21.4 million (30 September 2020: £17.0 million; 31 March 2021: £30.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the period. Interest payable includes a £92.8 million (30 September 2020: £39.9 million; 31 March 2021: £52.6 million) non-cash inflation expense in relation to the group's index-linked debt.

Net fair value gains on debt and derivative instruments includes £14.6 million income (30 September 2020: £11.4 million income; 31 March 2021: £21.5 million income) due to net interest on derivatives and debt held under fair value option, and £10.3 million expense (30 September 2020: £1.4 million expense; 31 March 2021: £1.3 million expense) due to non-cash inflation uplift on the group's index-linked derivatives.

7. Tax

The total effective tax rate, after adjusting for the one-off deferred tax charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate of tax, was 22 per cent for the current period, compared with 19 per cent in the previous half year; the increase being due to the current year deferred tax also being measured at the new future headline tax rate of 25 per cent. The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on capital investment and unrealised gains and losses on treasury derivatives.

For the current period, the current tax is significantly lower due to the impact of the capital allowances "super deductions", announced in the March 2021 Chancellors Budget and effecting our eligible plant and machinery additions in 2022 and 2023.

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

8. Earnings per share

Basic and diluted earnings per share are calculated by dividing (loss)/profit after tax by the weighted average number of shares in issue during the period.

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
(Loss)/profit after tax attributable to equity holders of the company – continuing operations	(216.2)	162.0	453.4
Weighted average number of shares in issue in millions			
Basic	681.9	681.9	681.9
Diluted	683.6	683.5	683.5
Earnings per share in pence			
Basic	(31.7)	23.8	66.5
Diluted	(31.6)	23.7	66.3

9. Dividends

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Dividends relating to the period comprise:			
Interim dividend	**98.9**	98.3	98.3
Final dividend	**-**	-	196.6
	98.9	98.3	294.9
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	98.3
Final dividend	**196.6**	193.7	193.6
	196.6	193.7	291.9

The interim dividends for the six months ended 30 September 2021 and 30 September 2020, and the final dividend for the year ended 31 March 2021, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2021 and 30 September 2020, and the consolidated financial statements at 31 March 2021, because they were approved after the reporting date.

The interim dividend of 14.50 pence per ordinary share (2020: interim dividend of 14.41 pence per ordinary share, final dividend of 28.40 pence per ordinary share) is expected to be paid on 1 February 2022 to shareholders on the register at the close of business on 17 December 2021. The ex-dividend date for the interim dividend is 16 December 2021.

10. Interests in joint ventures and other investments

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Joint ventures at the start of the period	**-**	46.8	46.8
Additions	**18.3**	-	-
Share of (losses)/profits of joint ventures	**(1.8)**	2.5	(9.3)
Less: Share of losses allocated to other components of long-term interest in joint ventures	**-**	0.1	14.2
Dividends received from joint ventures	**-**	(6.4)	(6.4)
Currency translation differences	**-**	1.3	(1.6)
Disposal of joint venture	**-**	-	(43.7)
Joint ventures at the end of the period	**16.5**	44.3	-
Other investments	**0.1**	0.1	0.1
Interests in joint ventures and other investments	**16.6**	44.4	0.1

Following the disposal of its interest in AS Tallinna Vesi (Tallinn Water) in March 2021, joint ventures mainly comprise the group's 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement.

10. Interests in joint ventures and other investments (continued)

As reported in the group's latest annual report, at 31 March 2021 a fully drawn £32.5 million revolving credit facility extended to Water Plus by United Utilities PLC, which was presented within amounts owed by related parties included within trade and other receivables, was considered to form part of the group's long-term interest in the Water Plus joint venture as there was a clear expectation that it would be converted to additional equity share capital. As such, the group's £14.2 million share of losses recognised in the income statement for the year then ended (comprising the groups share of Water Plus losses for the year of £8.9 million and £5.3 million of the group's previously unrecognised share of losses relating to prior years) was allocated against this fully drawn facility resulting in a net reported balance of £18.3 million. As at 30 September 2020 there was not the same expectation that this facility would be converted into additional equity share capital, and therefore no unrecognised losses relating to prior years were recognised against the related party receivable balance at that date.

The conversion of this facility to equity share capital was executed on 23 April 2021 and therefore the brought forward balance of £18.3 million has been included as an addition to the group's joint ventures balance during the period. Against this, the group has recognised its £1.8 million share of Water Plus losses for the six month period ended 30 September 2021.

Details of transactions between the group and its joint ventures are disclosed in note 18.

11. Retirement benefit surplus

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

	Six months ended 30 September 2021 % p.a.	**Six months ended 30 September 2020 % p.a.**	**Year ended 31 March 2021 % p.a.**
Discount rate	**2.05**	1.60	2.05
Pensions increases	**3.50**	3.10	3.35
Pensionable salary growth:			
ESPS	**3.50**	3.10	3.35
UUPS	**2.60**	1.90	2.45
Price inflation - RPI	**3.50**	3.10	3.35
Price inflation - CPI[1]	**2.90**	1.90	2.75

[1] The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.60 per cent pre-2030 and 3.40 per cent post-2030.

The discount rate is consistent with a high quality corporate bond rate with 2.05 per cent being equivalent to gilts + 75bps (30 September 2020: 1.60 per cent being equivalent to gilts + 95bps; 31 March 2020: 2.05 per cent being equivalent to gilts + 75bps). In order to align to emerging market practice and provide a more robust estimate, the population of high quality corporate bonds used in deriving the discount rate used to estimate the fair value of defined benefit obligations was expanded during the prior year to include those rated at least AA by one or more credit rating agencies, whereas previously the rate was derived based on bonds rated AA by two or more agencies.

At 30 September 2021, 31 March 2021 and 30 September 2020, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively, and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively, reflecting actual mortality experience. At both 30 September 2021 and 31 March 2021, mortality in retirement is based on CMI 2020 long-term improvement factors, with a long-term annual rate of improvement of 1.25 per cent (30 September 2020: CMI 2019, long-term annual rate of improvement of 1.50 per cent).

11. Retirement benefit surplus (continued)

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

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Current service cost	**3.7**	2.5	4.9
Curtailments/settlements	**-**	0.2	0.6
Administrative expenses	**0.8**	1.1	3.0
Pension expense charged to operating profit	**4.5**	3.8	8.5
Net pension interest income credited to investment income (note 5)	**(7.3)**	(8.7)	(17.5)
Net pension income charged before tax	**(2.8)**	(4.9)	(9.0)

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

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the start of the period	**689.0**	754.1	754.1
Income recognised in the income statement	**2.8**	4.9	9.0
Contributions less unregistered pension promise payments	**5.9**	4.6	8.6
Remeasurement gains/(losses) gross of tax	**123.4**	(109.3)	(82.7)
At the end of the period	**821.1**	654.3	689.0

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

	30 September 2021 £m	30 September 2020 £m	31 March 2021 £m
Present value of defined benefit obligations	**(3,341.9)**	(3,550.2)	(3,295.7)
Fair value of schemes' assets	**4,163.0**	4,204.5	3,984.7
Net retirement benefit surplus	**821.1**	654.3	689.0

The £123.4 million remeasurement gain has principally resulted from increases in the RPI inflation assumption being more than offset by increases in asset returns.

As the 2018 valuation basis was consistent with a long-term target for self-sufficiency, the expectation is that the pension schemes will be fully funded on a low dependency basis without additional contributions from the company.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuation as at 31 March 2018 for both the group's ESPS and UUPS schemes. The triennial actuarial valuations as at 31 March 2021 were ongoing as at the 30 September 2021 reporting date, and were not at a sufficiently advanced stage to enable updated assumption estimates or member data to be incorporated into the calculation of the overall IAS 19 surplus. It is expected that progress ahead of the 31 March 2022 reporting date will enable these updates to be incorporated into the calculation of the IAS 19 surplus at that point.

11. Retirement benefit surplus (continued)

Defined contribution schemes

During the period, the group made £12.8 million (30 September 2020: £11.4 million; 31 March 2021: £23.4 million) of contributions to defined contribution schemes which are included in employee benefits expense.

12. Borrowings

New borrowings raised during the six months ended 30 September 2021, which were issued under the Euro Medium-Term Note programme, were as follows:

- On 27 August 2021, the group issued JPY11 billion fixed rate notes due August 2030.
- On 27 September 2021, the group traded £100 million fixed rate notes due October 2028. These notes have a settlement date of 4 October 2021 and therefore are not included in the consolidated statement of financial position as at 30 September 2021.

Borrowings at 30 September 2021 include £60.6 million in relation to lease liabilities (30 September 2020: £58.0 million; 31 March 2021: £60.0 million), of which £57.2 million (30 September 2020: £55.3 million; 31 March 2021: £56.7 million) was classified as non-current and £3.4 million (30 September 2020: £2.7 million; 31 March 2021: £3.3 million) was classified as current.

13. Fair values of financial instruments

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

	30 September 2021		**30 September 2020**		**31 March 2021**	
	Fair value £m	**Carrying value £m**	**Fair value £m**	**Carrying value £m**	**Fair value £m**	**Carrying value £m**
Financial assets at fair value through profit or loss						
Derivative financial assets – fair value hedge	**280.8**	**280.8**	459.3	459.3	275.6	275.6
Derivative financial assets – held for trading	**152.4**	**152.4**	200.0	200.0	142.6	142.6
Derivative financial assets – cash flow hedge	**48.1**	**48.1**	2.6	2.6	6.5	6.5
Investments	**0.1**	**0.1**	0.1	0.1	0.1	0.1
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities – fair value hedge	**(13.7)**	**(13.7)**	(0.2)	(0.2)	(12.6)	(12.6)
Derivative financial liabilities – held for trading	**(95.8)**	**(95.8)**	(187.5)	(187.5)	(102.1)	(102.1)
Derivative financial liabilities – cash flow hedge	**-**	**-**	(0.4)	(0.4)	-	-
Financial liabilities designated at fair value through profit or loss	**(388.0)**	**(388.0)**	(411.2)	(411.2)	(373.6)	(373.6)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(3,002.8)**	**(2,940.1)**	(2,797.9)	(2,763.5)	(2,913.6)	(2,895.5)
Other financial liabilities at amortised cost	**(6,697.4)**	**(5,134.7)**	(7,386.3)	(5,771.5)	(6,568.1)	(5,182.7)
	(9,716.3)	**(8,090.9)**	(10,121.5)	(8,472.3)	(9,545.2)	(8,141.7)

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair Value Measurement'* hierarchy of £2,630.0 million (30 September 2020: £2,524.7 million; 31 March 2021: £2,766.0 million) for financial liabilities in fair value hedge relationships, and £3,761.6 million (30 September 2020: £1,689.7 million; 31 March 2021: £2,321.6 million) for other financial liabilities at amortised cost.

13. Fair values of financial instruments (continued)

The £1,304.0 million increase in 'level 1' fair value liability measurements compared with the position at 31 March 2021 (30 September 2020: £2,033.0 million increase compared with 31 March 2020; 31 March 2021: £2,906.2 million increase compared with 31 March 2020) is largely due to an increase in the number of observable quoted bond prices in active markets at 30 September 2021. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data, which are classified as 'level 2' valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2021.

The principal reason for the increase in the difference between the fair value and carrying value of the group's borrowings at 30 September 2021 compared with the position at 31 March 2021 is a decrease in credit spreads during the period.

14. Cash generated from operations

	Six months ended 30 September 2021 £m	**Six months ended 30 September 2020 £m**	**Year ended 31 March 2021 £m**
Operating profit	**332.8**	318.5	602.1
Adjustments for:			
Depreciation of property, plant and equipment	**186.8**	182.2	379.8
Amortisation of intangible assets	**20.7**	20.6	42.5
Loss on disposal of property, plant and equipment	**3.0**	2.2	10.7
Amortisation of deferred grants and contributions	**(7.7)**	(7.1)	(15.0)
Equity-settled share-based payments charge	**2.6**	1.4	3.6
Changes in working capital:			
Increase in inventories	**(0.6)**	(2.4)	(1.7)
(Increase)/decrease in trade and other receivables	**(14.2)**	0.6	18.1
Increase/(decrease) in trade and other payables	**11.5**	(16.3)	2.5
Increase/(decrease) in provisions	**2.0**	(3.3)	(5.3)
Pension contributions paid less pension expense charged to operating profit	**(1.4)**	(0.8)	(0.1)
Cash generated from operations	**535.5**	495.6	1,037.2

15. Net debt

Movements in net debt during the period were as follows:

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
At the start of the period	**7,305.8**	7,227.5	7,227.5
Net capital expenditure	**288.0**	312.5	639.0
Dividends (note 9)	**196.6**	193.7	291.9
Interest	**58.2**	65.8	129.3
Inflation expense on index-linked debt (note 6)	**92.8**	39.9	52.6
Fair value movements including foreign exchange	**(17.6)**	(4.6)	34.5
Tax	**6.7**	31.1	48.5
Extension of loans to joint ventures	**-**	29.5	2.0
Proceeds from disposal of investment	**-**	-	(85.3)
Non-cash movements in lease liabilities	**1.6**	1.1	4.1
Other	**4.2**	1.3	5.3
Dividends from joint ventures	**-**	(6.4)	(6.4)
Cash generated from operations (note 14)	**(535.5)**	(495.6)	(1,037.2)
At the end of the period	**7,400.8**	7,395.8	7,305.8

Movements in net debt during the period are impacted by net cash generated from financing activities as disclosed in the consolidated statement of cash flows.

Net debt at the end of each period comprised:

	30 September 2021 £m	30 September 2020 £m	31 March 2021 £m
Borrowings	**8,462.8**	8,946.2	8,451.8
Derivative financial instruments (liabilities)	**109.5**	188.1	114.7
Derivative financial instruments (assets)	**(481.3)**	(661.9)	(424.7)
Cash and short-term deposits	**(655.9)**	(899.0)	(744.1)
Net debt – as agreed to statement of financial position	**7,435.1**	7,573.4	7,397.7
Adjustments to exclude the fair value impact of:			
Interest rate derivatives fixing future nominal interest rates	**(49.9)**	(152.6)	(84.6)
Inflation derivatives fixing future real interest rates	**(32.5)**	(27.2)	(13.8)
Electricity derivatives fixing future electricity costs	**48.1**	2.2	6.5
Net debt – as adjusted to align to the group's definition	**7,400.8**	7,395.8	7,305.8

The group defines net debt as the sum of borrowings and derivative financial instruments, net of cash and short term deposits, and adjusted to exclude the impact of derivatives that are not hedging specific debt instruments. In presenting net debt in this way, the group aims to give a fair reflection of the net debt amount the group is contractually obliged to repay, consistent with the approach taken by credit rating agencies, and the regulatory economics of the group's arrangements. As the impact of derivatives that are not hedging specific debt instruments is excluded from the group's definition of net debt, fair value movements associated with these derivatives are not included in above reconciliation from the opening to closing net debt position.

16. Other reserves

Six months ended 30 September 2021

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2021	-	1,033.3	(703.6)	0.4	6.2	336.3
Changes in fair value recognised in other comprehensive income	-	-	-	1.8	44.2	46.0
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	(1.3)	(1.3)
Tax on items taken directly to equity (note 7)	-	-	-	(0.5)	(10.7)	(11.2)
At 30 September 2021	**-**	**1,033.3**	**(703.6)**	**1.7**	**38.4**	**369.8**

Six months ended 30 September 2020

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2020	(2.4)	1,033.3	(703.6)	10.7	(1.3)	336.7
Changes in fair value recognised in other comprehensive income	-	-	-	(7.5)	4.9	(2.6)
Tax on items taken directly to equity (note 7)	-	-	-	1.4	(0.9)	0.5
Foreign exchange adjustments	1.3	-	-	-	-	1.3
At 30 September 2020	**(1.1)**	**1,033.3**	**(703.6)**	**4.6**	**2.7**	**335.9**

Year ended 31 March 2021

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2020	(2.4)	1,033.3	(703.6)	10.7	(1.3)	336.7
Changes in fair value recognised in other comprehensive income	-	-	-	(12.7)	9.3	(3.4)
Tax on items taken directly to equity (note 7)	-	-	-	2.4	(1.8)	0.6
Foreign exchange adjustments	(1.6)	-	-	-	-	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	4.0	-	-	-	-	4.0
At 31 March 2021	**-**	**1,033.3**	**(703.6)**	**0.4**	**6.2**	**336.3**

The capital redemption reserve arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009. The merger reserve arose in the same year on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition.

The cost of hedging reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments.

On adoption of IFRS 9, the group designated a number of swaps hedging non-financial risks in cash flow hedge relationships in order to give a more representative view of operating costs. The cash flow hedge reserve reflects fair value movements relating to the effective part of swaps hedging non-financial risks that have been designated in cash flow hedge relationships in order to give a more representative view of operating costs.

17. Commitments and contingent liabilities

At 30 September 2021 there were commitments for future capital expenditure contracted but not provided for of £319.1 million (30 September 2020: £377.3 million; 31 March 2021: £336.7 million).

Since 2016, the group has received indications from a number of groups of property search companies (PSCs) that they intend to claim compensation for amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. In April 2020 a group of over 100 PSCs, comprising companies within the groups that had previously issued notice of intended claims, served proceedings on all of the water and sewerage undertakers in England and Wales, including United Utilities Water Limited, for an unspecified amount of compensation. This is an industry-wide issue with the litigation still in its early stages. The water and sewerage undertakers are working to agree with the claimants a list of material issues and fact patterns, although the litigation's likely direction and the quantum of any compensation being claimed remains uncertain at this stage.

However, based on the information currently available the likelihood of the claim's success is considered to be low, and any potential outflow is not expected to be material.

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no contingent liabilities to be disclosed (30 September 2020 and 31 March 2021: none).

18. Related party transactions

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

	Six months ended 30 September 2021 £m	Six months ended 30 September 2020 £m	Year ended 31 March 2021 £m
Sales of services	**183.1**	172.5	362.9
Charitable contributions advanced to related parties	**0.1**	-	-
Interest income and fees recognised on loans to related parties	**1.5**	1.2	3.7
Amounts owed by related parties	**96.8**	154.3	113.8
Amounts owed to related parties	**1.9**	4.6	2.4

Sales of services to related parties mainly represent non-household wholesale charges to Water Plus that were billed and accrued during the period. These transactions were on market credit terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

At 30 September 2021 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £96.8 million (30 September 2020: £154.3 million; 31 March 2021: £113.8 million), comprising £28.2 million (30 September 2020: £29.8 million; 31 March 2021: £27.1 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £68.6 million (30 September 2020: £124.5 million; 31 March 2021: £86.7 million) relating to loans.

18. Related party transactions (continued)

Included within these loans receivable were the following amounts owed by Water Plus:

- £66.4 million outstanding on a £100.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2023, bearing a floating interest rate of the Bank of England base rate plus a credit margin. This balance comprises £67.5 million outstanding net of a £1.1 million allowance for expected credit losses; and
- £0.8 million receivable being the £10.5 million fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.2 million allowance for expected credit losses, and £9.5 million of the group's cumulative recognised share of joint venture losses as the loan is deemed to be part of the group's long-term investment (see note 10). No losses were recognised against this loan during the six months to 30 September 2021 as all of the group's share of Water Plus losses for the period were recognised against the equity investment in the joint venture following the conversion of a £32.5 million revolving credit facility to equity share capital in April 2021. This is a zero coupon shareholder loan with a total amount outstanding at 30 September 2021 of £12.5 million, comprising the £10.5 million receivable measured at fair value, and £2.0 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A further £1.4 million of non-current receivables was owed by other related parties at 30 September 2021.

During the period, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £54.1 million, of which £32.1 million related to guarantees to United Utilities Water Limited.

At 30 September 2021, amounts owed to related parties were £1.9 million (30 September 2020: £4.6 million; 31 March 2021: £2.4 million). Included within this amount is £1.1 million due to Water Plus for the surrender of consortium relief tax losses. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

19. Events after the reporting period

Apart from the issuance of £100 million fixed rate notes traded on 27 September 2021 with a settlement date of 4 October 2021, as set out in note 12, there were no material events after the reporting date that required recognition or disclosure in the condensed consolidated financial statements for the period ended 30 September 2021. This issuance did not settle until after the reporting period, and therefore it has not been included in the condensed consolidated financial statements as it represents a non-adjusting event.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

Sir David Higgins
Steve Mogford
Phil Aspin
Mark Clare
Stephen Carter
Kath Cates
Alison Goligher
Paulette Rowe
Doug Webb

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

………………………..	……………………….
Steve Mogford	Phil Aspin
23 November 2021	23 November 2021
Chief Executive Officer	Chief Financial Officer

INDEPENDENT REVIEW REPORT TO UNITED UTILITIES GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

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

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

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

Ian Griffiths
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
23 November 2021