United Utilities Group PLC
25 November 2020

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

Supporting customers, colleagues and communities through the COVID-19 pandemic

- Maintaining resilient and reliable services to over 7 million people
- Helping 142,000 customers facing financial difficulties through support schemes
- Increased eligibility for social tariff to help a further c45,000 customers
- Playing key role in regional economy – no employees furloughed and continuing to recruit

Strong and confident start to the new regulatory period (AMP7)

- Positive momentum coming into AMP7 through £130m additional investment in 2019/20
- Accelerating £500m AMP7 capital investment and scope extended by £150m
- Delivering service improvements sooner and supporting 17,700 jobs in the supply chain
- On track to deliver c£10m ODI reward for 2020/21
- Leading the way on customer satisfaction

Responsible, long-term commitment to ESG

- 7% real reduction in average household bills in 2020/21
- Number of customers supported through Priority Services scheme increased to 110,000
- Zero serious pollution incidents; best performing company for the second year in a row
- On track for industry leading 4* environmental performance for 2020
- Supporting local communities including funding for local foodbanks to deliver 600,000 meals
- Opportunity Action Plan launched outlining our commitment to the Social Mobility Pledge
- Achieved World Class status on Dow Jones Sustainability Index for the 14th consecutive year
- Committed to provide £71m AMP7 funding to support customers struggling to pay their bills

Strong financial performance and robust balance sheet

- Underlying[1,2] profit after tax of £174m down 16%, reflecting new price control
- Customer debtor position and household cash collection remain strong
- Household bad debt stable in the first half at 1.8%
- Strong balance sheet; A3 stable credit rating with Moody's
- Pension schemes fully funded on a low dependency basis
- Reaffirming responsible AMP7 dividend policy of growth in line with CPIH inflation

Key financials

	Six months ended	
	30 September 2020	**30 September 2019**
Revenue	£894.4m	£935.5m
Reported operating profit	£318.5m	£383.0m
Underlying operating profit[1]	£319.1m	£391.7m
Reported profit after tax	£162.0m	£158.6m
Underlying profit after tax[1,2]	£174.0m	£207.2m
Interim dividend per ordinary share (pence)	14.41p	14.20p
Net regulatory capital spend[3]	£276.4m	£255.0m
RCV gearing[4]	63%[5]	62%

[1] Underlying profit measures are defined in the underlying profit measures tables on pages 23 and 24
[2] Approach used to derive underlying profit after tax excludes the impact of deferred tax to better reflect the regulatory revenue allowances, with prior year numbers restated for comparability
[3] Net regulatory capital spend excludes infrastructure renewals expenditure, with prior year numbers restated for comparability
[4] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited's shadow RCV (outturn prices)
[5] September 2020 gearing based on new definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments

Steve Mogford, Chief Executive Officer, said:

"Our focus throughout the COVID-19 pandemic has been on supporting customers, protecting our colleagues and maintaining essential services. We have continued to provide high quality water and wastewater services to more than three million households in the North West thanks to the extraordinary hard work and dedication of my colleagues, many of whom are key workers.

"Average customer bills have reduced by 7 per cent in real terms this year but we recognise that for many in our region, these are still challenging times. For those struggling to pay their bills, we offer the sector's widest range of financial assistance schemes. We have also acted swiftly to increase the number of customers eligible for reduced tariffs.

"Despite the pandemic, our operational performance in this first year of the new regulatory period is on track. We are accelerating our capital expenditure to bring forward benefits and help support 17,700 jobs in the supply chain. We recognise the role that we can play in a successful society, economy and a thriving natural environment and are confident in our ability to deliver our AMP7 plans to achieve this.

"We now have a clearer understanding of the impact of COVID-19 on our business which remains robust and supported by a strong balance sheet. This, together with a stabilised inflation outlook supported by central bank policy and government actions, gives us the confidence to reaffirm our responsible AMP7 dividend policy of growth in line with CPIH inflation."

Enquiries

For further information on the day, please contact:

Gaynor Kenyon – Corporate Affairs Director	+44 (0) 7753 622 282
Robert Lee – Head of Investor Relations	+44 (0) 7500 087 704
Graeme Wilson – Tulchan Communications	+44 (0) 2073 534 200

Presentation webcast and conference call details

We will be hosting a webcast presentation at 9.00am on Wednesday 25 November 2020, which can be accessed via the following link:
investis-live.com/united-utilities/5f9930bd5236e30a00675c6d/eadp
or via a live listen-only call facility by dialling:
UK: 0203 868 4725 or 0800 098 8116
Passcode: 007961

The presentation slides will be available from 8.30am on our website shortly before the presentation commences at the following link:
unitedutilities.com/corporate/investors/Results-and-presentations/full-and-half-year-results/

Following conclusion of the presentation the webcast will be available on demand via the same link.

OPERATIONAL PERFORMANCE

This year sees the transition from AMP6 to AMP7, with us committed to delivering further improvements in operational performance and customer service. We are continuing to protect and enhance the environment, with a £2.3 billion investment programme in the AMP7 Final Determination, all while reducing the average customer bill in real terms and supporting more vulnerable customers than ever before.

We made a flying start to AMP7 by investing an additional £130 million in 2019/20, thanks to the clarity provided by us earning fast-track status in the PR19 regulatory assessment, and this has helped us deliver a strong start to this new period. The COVID-19 pandemic has introduced a unique set of challenges, and our primary focus has been on maintaining essential water and wastewater services for customers while safeguarding and protecting our employees and those they come into contact with. We postponed only a small number of non-essential tasks during the lockdown, and have continued with plans to accelerate our capital programme into the early years of AMP7 to deliver service improvements early, as we did successfully in AMP6.

We have not furloughed any employees, and continue to recruit young people through our graduate and apprentice programmes. We have performed extremely well in these difficult circumstances, with high levels of customer satisfaction and resilient services in times of significantly increased demand, and we acted swiftly to increase the number of customers eligible for our social tariff alongside the extensive support we already provide to customers struggling with affordability and vulnerability.

Our key performance indicators (KPIs)

We reported against a range of operational KPIs in AMP6 that were aligned to our strategic themes as a means to demonstrate how we operate in order to work towards our vision and deliver our purpose. These three strategic themes of “The best service to customers”, “At the lowest sustainable cost” and “In a responsible manner” are not changing and our operational KPIs for AMP7 support these strategic themes. Our purpose “to provide great water and more for the North West” means we aim to create long-term value for all our stakeholders, therefore we feel it is appropriate to report against operational KPIs in AMP7 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 through active engagement and investment, developing strong relationships and building partnerships where we work together to generate solutions. We also look after beautiful landscapes and beaches 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 our community investment, and we target increasing our investment by at least 10 per cent over 2020 to 2025, compared with the average between 2010 and 2020.

The average community investment we made between 2010 and 2020 was £2.6 million per annum. Based on the levels of community investment we have made during the six months to 30 September 2020, we will meet our target this year.

- **Helping young people**
  We work with local schools and training facilities to promote skills for the future, including youth programmes that support young people not in education, employment or training (NEETs) to help improve social mobility in our region and break down barriers in bringing people from all backgrounds into employment. It is estimated this programme has generated over £9 million of social value through avoided welfare costs and new employment. We are also supporting the Kickstart programme, offering training and meaningful work placements for an initial 250 young people with scope to increase further next year. During the school closures brought about by the pandemic lockdown, our education team created a home learning hub that supported teachers and children across the region, and even extending overseas, with materials for home schooling. Recruitment of apprentices and graduates has continued uninterrupted, with the help of some online challenges, skills sessions and live streamed assessments during the period while face to face interaction was limited. We currently have 36 graduates and 88 apprentices on scheme, with plans to create a further 62 new apprentice opportunities later this year.

- **Social mobility**
  In October we hosted the sector's first Social Mobility Summit, an online event at which more than 100 organisations joined us for the launch of our Opportunity Action Plan – another first for the sector – which aims to identify and share best practice and leading edge thinking from businesses that are successful in promoting social mobility, including case studies from our own employees.

- **Charitable support**
  Our ongoing charitable support, including the Board's voluntary salary reduction, has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next 8 years.

- **Community engagement**
  We build trust with local communities through effective engagement, whether that is around large capital projects or day to day management of our landholdings. Our consultation for the Haweswater Aqueduct Resilience Programme – HARP – was stopped in its tracks by COVID-19, half way through the traditional face to face exhibitions. We changed approach, developed a virtual consultation, with accessible content advertised through letters and social media, and, as a result, we have seen better engagement. We received over 100 per cent more feedback compared to the traditional approach with over 8,000 hits to the specific HARP section of the website. 69 per cent of all feedback has been supportive of the plans.

- **Access to our land for recreational use**
  As a result of COVID-19 restrictions, there has been a marked increase in the number of visitors to our catchment land to enjoy the countryside and benefit from open spaces. While the majority of visitors have respected the countryside, sadly a small minority have not. Our teams have worked hard to address this anti-social behaviour and we are developing a campaign, alongside some onsite enhancements, to better connect visitors to the land and to encourage them to behave 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. Despite the challenging environment we are now operating in during the pandemic, customer satisfaction has remained high in the first half of this year. Reliable access to clean water has been more important than ever before. During the first half of the year, our net demand has increased by 3 per cent, with peak periods showing a 22 per cent increase, but we have continued to provide a robust service for customers throughout. Serving the most economically deprived areas in the country, we are always mindful of the need to help customers that struggle to pay their bills. We reduced average household bills by 7 per cent this year in real terms, have committed to provide £71 million in financial support to customers over AMP7, and have an extensive range of schemes offering financial assistance and tailored support for customers struggling with affordability and vulnerability.

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.
During the first half of the year we are ranked 6th out of 17 companies, the highest listed company, and we are on track for a reward in this first year of C-MeX performance.

- **Brand perception**
  As well as recognising the emphasis we place on delivering a great and reliable service for customers, the new C-MeX measure for AMP7 places much more importance on positive brand recognition, as it comprises scoring not only from customers we have dealt with but also from any other person across our region. We ranked 5th in the latest perception survey, and we continue to work to improve brand recognition and perception across the work we do – such as informative signage and public engagement where we are conducting work, social media activity, and local weather sponsorship. We continue to undertake various initiatives to help customers save money further through water saving tips and gadgets, and to help reduce sewer flooding with the help of our 'what not to flush' campaign.

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

  Overall, we are pleased with the progress we have made in the first half of the year. We are delivering strong performance against a number of measures including our pollution ODI reflecting our leading performance in this area; our hydraulic flooding risk ODI where we are benefiting from targeted investment; our ODI that measures the number of customers we lift out of water poverty where we continue to implement innovative ways to engage with our hard to reach customers and are working with the Department of Work and Pensions (DWP); and our ODI around reducing the number of void properties where we have developed an app so our employees can visually identify empty properties as they complete their everyday activities, contributing to a 28,000 reduction in the number of void properties in the first half of the year.

  In some areas such as leakage, interruptions to water supply and internal sewer flooding, our targets are challenging. Recognising that there is more that we can do to improve in these areas, we invested an additional £100 million in 2019/20, targeted at improving performance and we remain confident that we will see the benefits of this investment.

  In order to protect supply during the dry weather in late spring we needed to make greater use of ground water sources. As a result, we received higher volumes of contacts from customers regarding the taste and odour of their water supply. This is likely to result in a penalty for this specific ODI in the current year but overall, based on our current performance across the full basket of ODIs, we would anticipate earning a net ODI reward for 2020/21 of around £10 million.

- **Cash collection**

  Despite the impact of COVID-19, our overall cash collection in the first half of the year has remained strong, with current year cash collection performing slightly ahead of collection rates to the same point last year. We are encouraged by the continued growth in our direct debit volumes, now over 70 per cent and one of the highest across the industry. Overall, the proportion of customers on a payment plan has continued to increase to 83 per cent despite the challenging economic environment.

  We are recognised as a leader in credit management and collections across all industries, not just water, most recently winning the Utilities & Telecoms Team of the Year at the 2020 Credit Awards, and also the Best Use of Technology award for the implementation of a new debt management system. 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.

  In the current year, we have enhanced our credit reference sharing process to include another agency with a greater high street focus. This will further extend our footprint and improve our collections activity, and is just one example of our comprehensive approach to collections activity, supporting our ability to collect cash from customers who have the ability to pay, but attempt to avoid doing so.

- **Affordability**

  When the country first went into lockdown we saw a peak in demand for affordability support. The initiatives we delivered over AMP6 enabled us to respond efficiently and effectively, and our Payment Break scheme played a key role in our response, giving customers the breathing space they required.

  The nature of the pandemic and the significant impact it is having on customers' lives has meant we have had to consider the appropriateness of continuing our normal billing and collection activities and the most suitable means of engagement. While as an industry we took steps to pause collection activity, our COVID response encouraged customers to contact us if they had been impacted financially by the pandemic and found themselves struggling to pay. We carried out targeted activities aligned to specific customer segments and changes in customer behaviour to engage with customers, actively promoting our range of affordability support, ensuring customers knew they could talk to us about their water bill, and highlighting alternative ways to pay.

  We have an extensive range of schemes available to help customers and around 142,000 are currently benefiting from that help, representing around 5 per cent of our household customer base. Recognising affordability is even more important during the pandemic, we took swift proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19. This augments our support schemes this year with an additional £15 million to help customers keep out of debt and means we can support an additional 45,000 customers who have been furloughed, are claiming through the self-employed income support scheme (SEISS) or are now unemployed, by reducing their water bill to an affordable amount. This enables us to help 4.5 times more customers with lower bills, and so far this year we have helped over 190 per cent more customers than the same period last year. We promoted the new scheme directly to customers, via partner organisations and the North West based Hardship Hub to increase overall awareness. We have committed to provide £71

million in financial support to customers over AMP7, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic.

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 have continued to invest in skills training throughout the pandemic and have accelerated our digital strategy to support new ways of working. The health and wellbeing of our employees is paramount and keeping them safe during the pandemic remains our primary concern. During lockdown earlier this year, we moved 60 per cent of our workforce to home working and the remainder continued working at our COVID-secure facilities. Around 80 per cent of our employees were designated as key workers and, although we stopped a small number of non-essential tasks during lockdown, we have now largely returned to business as usual within COVID guidelines, delivering our essential services to customers.

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.

This year we achieved 84 per cent engagement, which is equal to 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 3 per cent increase from 2019 engagement levels and is better than the UK Norm and the Utilities Norm. In December 2019 we ranked in the top 20 of Glassdoor's Best Places to Work in the UK, which is voted for by current and former employees themselves, and we are pleased to see our score has continued to improve further since then.

- **Protecting colleagues through the COVID-19 pandemic**

  During the pandemic we have facilitated home working for over 3,000 of our employees. We conduct quarterly display screen equipment (DSE) self-assessments, have made over 430 referrals to physiotherapy, and provided additional kit to support with optimal home set up. As well as facilitating home working for more than half of our employees, we have introduced a range of measures to ensure those who are still working on sites and in the field are able to do so in a COVID-secure way. We conducted risk assessments across all our operational sites and carried out a number of control measures to ensure they met the government's requirements for COVID-secure workplaces. This included temperature checking stations, extra sanitation provisions, safe desks and one-way procedures in offices to ensure social distancing can be maintained. Additional personal protective clothing was provided and we have adapted new ways of working for our front line field employees. We adapted the way we carry out our mandatory health surveillance checks to virtual assessments and more recently COVID-secure face-to-face assessments.

  A huge area of focus has been on the wellbeing needs of our colleagues, including mental health support, during this difficult time. With the involvement of over 200 trained mental health supporters and wellbeing champions across the business, we have delivered initiatives to help build resilience across our workforce. This includes delivery of several bitesize webinars on topics such as mental health, stress control, and managing change to around 2,000 people over 20 webinars. We have been encouraged by the take up of the zero suicide alliance e-learning module which now includes a specific module on COVID-19 and isolation, and have produced new resource packs and initiatives to help our workers through winter. Crucially, we engage regularly with managers, providing awareness of the support services available and how to make best use

of them and the widely introduced Wellness Action Plans, in order to enable managers to have wellbeing conversations with their teams.

We have not furloughed any employees, but we are aware that our employees and their families are not immune from the hardships caused by the economic impacts of this pandemic, therefore we have established a staff outreach scheme that provides financial support to employees whose families are struggling financially as a direct result of the pandemic.

- **Training and development**
  Our technical training academy established in February 2014 has provided skills development and certification to over 2,500 people to date, including programmes for those individuals not in education, employment or training (NEETs). Many people have received multiple training opportunities such that in total, around 9,000 technical training instances have been delivered over that period. The academy is the only Ofsted accredited training facility in the water sector and we are currently rated as 'good'.

- **Ensuring everyone goes home safe and well**
  Over the last couple of years our focus on health, safety and wellbeing has been on behaviours and the part they play in accidents and the culture across our organisation. Having spent a number of years focusing on site standards, asset condition, training, PPE, etc. it was clear from our root cause analysis that behaviours play a key part in many of the accidents we have had. We delivered our Home Safe & Well Behavioural Safety programme to everyone in the company and are embedding a culture of looking after ourselves and each other, to ensure we all go home safe and well.

  We are seeing improvements in a number of important performance measures, including the number of accidents, the severity of accidents and an increase in hazard and near miss reporting. Our employee accident frequency rate for the 12 months to the end of September was 0.090 accidents per 100,000 hours worked, representing an 18 per cent improvement on our performance at this point last year (0.110). Our contractor accident frequency also showed improvement, with 0.061 accidents per 100,000 hours worked, compared to 0.113 to the end of September 2019. Our aim by 2030 is that no one will be harmed while working on our behalf, and we will actively promote, support and improve their wellbeing.

- **Committed to equality, diversity and inclusion**
  We want fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every part of our community. We are supporting employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. There are active and supported employee networks representing all colleagues including LGBT+; GENq; disabled and multi-cultural groups. We were the first water company, as a signatory to the social mobility pledge, to launch our opportunity action plan which states how we will deliver on our commitments to reaching those in our society who have found it harder to access opportunity and development.

  Our gender pay gap has improved and is now better than the UK average, and our bonus gap has followed an improving trend over the last four years with both our mean and median bonus gap reducing since last year. We are working hard to improve how we attract women into the industry, and developing women within our existing workforce. We are seeing good progress with increasing numbers of female graduates and apprentices in our talent pipeline, 30 per cent of our

Group Board are women, and 93 per cent of our current female workforce recommend United Utilities as an employer.

Environment

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. It is of great importance 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 delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, increasing our renewable energy production and ensuring zero emissions energy usage. We remain committed to mitigating climate change, and in May 2020 we announced six climate change mitigation pledges to reduce our carbon footprint. We share the water sector's ambition to achieve carbon net-zero by 2030.

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 most recent assessment for 2019, we maintained our industry leading performance with no serious pollution incidents, and overall were categorised as a 'good' or 3* company. This leaves some room for improvement against our target, and so we are pleased that for 2020 we are on track to achieve 4* industry leading status in the next assessment.

- **Improving water quality across the North West**

  We are committed to improving the quality of rivers and bathing waters in our region and to reducing the waste that goes to landfill, making beneficial use of waste where possible, including energy generation from bioresources and generating high quality fertiliser for farmers. We recently launched our Catchment Systems Thinking (CaST) approach, detailing our plans for improving the North West's watercourses through partnership working and holistic thinking, at a virtual event attended by non-governmental organisations (NGOs), academics, businesses, regulators, environment groups and local authorities. Our innovative CaST approach, which looks at a river catchment as an entire system rather than a series of isolated issues, has already brought multiple benefits, such as pollutant reduction and flood risk management along watercourses in Cumbria and Lancashire. We are creating an online portal to facilitate ongoing discussion and partnership working, which is due to go live in early 2021, and we have pledged a £300,000 CaST Fund, for which charities and community groups will be able to bid, in order to boost the idea of working collaboratively with other agencies to address the challenges facing the environment, and we hope this will help to unlock additional external funding to support environmental improvements in the North West.

- **Natural capital**

  We have worked with stakeholders and regulators to assess the North West natural assets, the goods and services they provide and the value these provide over time. For example, the North West's woodland is not only a source of timber – it also stores carbon, slows the flow of water across land, is home to wildlife and provides areas for recreation and enjoyment for the public. Creating a baseline of the value of this natural capital will enable us to identify how these assets can be managed and how, by working in partnership, we can protect and enhance the environment of the North West. We are focused on enhancing the natural capital of the region through our investment and operations, to ensure long term resilience of catchments and ecosystems. In AMP7 we have a natural capital ODI, which supports the identification and delivery

of nature-based solutions. We are working in partnership with environmental NGOs, local authorities and other stakeholders to deliver collaborative solutions and explore the development of green markets.

- **Supporting customers in conserving water**
  As part of a drive to influence behaviours in order to reduce the amount of water consumed from the environment, we trialled two innovative water saving campaigns during the summer where we pledged support for a valued local charity in return for people being more water efficient. Customers in Blackburn collectively saved 100 million litres of water over three months in return for a £25,000 donation to the East Lancashire Hospice, and customers in West Cumbria earned £25,000 for Hospice at Home West Cumbria by saving 150 million litres in under two months. This approach helped to align the interests of customers, their communities and the environment, and we were impressed with the response we received.

Investors

Our pioneering systems thinking approach and culture of innovation have been fundamental to the improvements we have delivered in recent years, and continue to play a big part in our strategy for AMP7 and beyond. Our operational transformation saw us exceed our AMP6 targets and end the regulatory period as one of the best performers in the industry. The acceleration of our capital programme in AMP6 helped us deliver improvements early and we are adopting the same strategy for AMP7 with around £500 million of our total expenditure brought forward mostly into the first two years of the five-year period. Securing fast-track status in the PR19 regulatory review gave us early certainty of our targets for AMP7 and allowed us to make a flying start. We invested around £130 million last year, comprising £100 million from outperformance earned during AMP6 and around £30 million transitional investment, to improve our operational performance further and drive better performance against our AMP7 ODIs. Our AMP7 totex will be extended by around £150 million through additional enhancement projects at Bolton and Vyrnwy.

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 provide an update on our performance at the end of each full year.

- **Total expenditure (totex)**
  Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector. Thanks to the strong performance we delivered in AMP6 we start AMP7 at the target totex run rate, with confidence we can deliver our AMP7 scope within our Final Determination totex allowance and our plans have us delivering the committed outcomes, investing to drive further efficiencies and delivering ODI outperformance. We operate many long-term assets that are essential to providing a reliable service for customers that is resilient to climate change, and long-term planning is needed to assess, plan and execute large capital projects. Our AMP7 totex will be extended by around £150 million, which will be remunerated through regulatory mechanisms, with this expenditure facilitating enhancement of our wastewater treatment facility in Bolton and work on our critical Vyrnwy aqueduct.

  Excluding infrastructure renewals expenditure (IRE), we invested just over £3 billion over AMP6, including £350 million additional investment of outperformance earned over the period, and the Final Determination for AMP7 sees us investing a further £2.3 billion over 2020–25. We have invested £276 million in net regulatory capital expenditure in the first six months of the year, and

this spend has been delivered effectively with our Time Cost Quality index (TCQi) expected to remain high for the year, above 90 per cent. We have successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct, a critical asset that delivers around a third of our total water production to 2.5 million people in Cumbria, Lancashire and Greater Manchester. Replacement of the remaining sections of the aqueduct will be undertaken under a direct procurement for customers (DPC) approach.

While our goal is to deliver totex outperformance, we will invest totex where we are confident we can deliver greater ODI performance through improved customer or environmental outcomes.

- **Outcome delivery incentives (ODIs)**
  We are on track for a net ODI reward of around £10 million for the first year of AMP7, although the actual outcome will naturally depend on performance over the second half of the year. Across AMP7 in total we are targeting a net ODI reward in excess of the £44 million we achieved in AMP6.

  Unlike AMP6, ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore any net reward earned this year will be reflected in an increase to revenues earned in 2022/23.

  The “Customer” section above provides more detail on the ODIs where we are performing well and others where the targets are challenging. We see opportunities across a number of ODI targets, and our systems thinking approach and early investment have and will continue to help us drive performance improvements. We plan to host a capital markets event in early 2021 where we will discuss our plans in more detail.

- **Financing**
  On financing performance, we have consistently issued debt at efficient rates that compare favourably with the industry average, 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. This delivered significant financing outperformance during AMP6 and the rates we have already locked in for AMP7 compare favourably with the price review assumptions.

  We have published our new sustainable finance framework, allowing us to raise financing based on our strong ESG credentials. This replaces the green funding we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit, therefore we expect funding raised through our sustainable finance framework to sit alongside conventional issuance going forward.

- **ESG performance**
  We have achieved World Class status on Dow Jones Sustainability Index for the 14th consecutive year, and were assessed by the Environment Agency as the best performing company on pollution for the second year in a row with no serious pollution incidents. We were ranked 9th best in the Global Real Estate Sustainability Benchmark (GRESB) disclosure assessment of 264 global companies, which rates the quality of public domain information about our sustainability governance, implementation and operational performance data, and our stakeholder engagement practices.

Suppliers

Our activities support around 17,700 jobs in the supply chain, and the acceleration of our capital programme in the first two years of AMP7 will play a part in helping to generate jobs and income for the North West economy during the current difficult economic climate. 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, which is why we are launching a new approach to responsible supply chain management for AMP7 called United Supply Chain (USC). USC recognises suppliers as an extension of the United Utilities family and suppliers are asked to become signatory to our Responsible Sourcing Principles as a minimum. Those suppliers who are integral to our operations are expected to become leaders and to work jointly with us to deliver improvements across economic, social and governance areas and improve value to our customers. We will be offering suppliers free resources to learn more about the Responsible Sourcing Principles via our partnership with Supply Chain Sustainability School.

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 period April – September the average number of days taken to pay our suppliers was 13 days which is reflective of our efforts to accelerate payment to suppliers by 7 days during the COVID-19 pandemic. We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements.

- **Supporting suppliers through the COVID-19 pandemic**
  During the COVID-19 pandemic we have continued to work closely with our supply chain and issued guidance reinforcing Government guidelines to protect employees, suppliers and customers while maintaining delivery of critical services.

- **Improving access for small businesses with big ideas**
  We have recently launched our third Innovation Lab, opening our doors to collaborate with innovative companies on unique solutions to tackle business challenges. Since 2018, through our Innovation Lab process, we have collaborated with 15 companies, helping to break down barriers to working with us for small businesses and bringing new entrants to the sector and jobs to the North West. Previous labs have led to long-term commercial partnerships including FIDO (Free Intelligent Domain Observers), which was selected as part of our 2019 Innovation Lab and used our test rig and live environment to trial and enhance the design of its previously untested prototype, using sensors and artificial intelligence to facilitate faster leak detection.

FINANCIAL PERFORMANCE

Revenue for the six months to 30 September 2020 was down 4.4 per cent on the same period last year, largely reflecting the average customer bill reduction we have delivered for this first year of the new AMP7 regulatory period. The impact of the COVID-19 pandemic and related lockdown periods have seen non-household revenues decrease by around £40 million, with an increase in household revenue of around £26 million as a result of more time spent at home and the hot, dry weather towards the end of spring. Our household bad debt performance and cash collection have remained strong in the first half of this year, and we have provided further financial assistance to customers who are struggling in this difficult time.

We continue to invest in our assets, bringing forward capital expenditure and seeing an increase in IRE in the period. Underlying operating profit has reduced 18.5 per cent on the same period last year, largely reflecting lower revenue and higher IRE. Our financing performance remains strong and we have benefitted from lower short-term inflation reducing our net finance expense, while being reassured by a more stable medium and long-term inflationary outlook that has given the board confidence to re-affirm the dividend policy, intended to grow by CPIH inflation annually to 2025.

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 2019	935.5
Wholesale revenue forecast incentive mechanism (WRFIM) adjustments in the six months to 30 September 2019*	6.4
Regulatory revenue changes - 6.6 per cent real average bill reduction and 1.5 per cent uplift in line with CPIH inflation	(39.7)
Non-household consumption decreased	(39.5)
Household consumption increased	25.5
Other	6.2
Six months to 30 September 2020	**894.4**

* Annual regulatory adjustment for volume differences – Wholesale Revenue Forecasting Incentive Mechanism

Revenue was down £41 million, at 894 million, largely reflecting the £40 million reduction from the new pricing regime in this, the first year of AMP7, incorporating a 6.6 per cent real reduction in average household bills and a 1.5 per cent CPIH-linked increase.

In the non-household market we have seen a £40 million reduction in revenue due to lower consumption and businesses being assessed as temporarily vacant during the COVID-19 lockdown. While in the household market we have seen a £26 million increase in revenue as a result of people initially being locked down at home, a continuation of working from home longer term and the warm weather towards the end of spring. Due to around 54 per cent of the household customer base being on an unmeasured charge, the net impact on revenue is a £14 million reduction despite net consumption being 3 per cent higher in the first half of this year.

In the second half of the year we expect the impact on non-household revenue to be broadly consistent with the first half, while the impact on household revenue is likely to be reduced as it will not benefit from the increased consumption due to the warm weather. We are therefore guiding that

full year revenue to 31 March 2021 will be between £60 million and £110 million lower than last year, with the volume impact estimated as between £10 million and £60 million. Under the revenue control, this volume impact is recoverable in two years' time.

Operating profit

	£m
Underlying – six months to 30 September 2019	391.7
Revenue decrease	(41.1)
Infrastructure Renewals Expenditure increase	(15.3)
Depreciation and amortisation increase	(3.5)
Property rates increase	(5.9)
Employee costs increase	(4.7)
Other underlying operating costs increase	(2.1)
Underlying – six months to 30 September 2020	**319.1**
Adjusted items *	(0.6)
Reported – six months to 30 September 2020	**318.5**

* Adjusted items are set out on pages 23 and 24.

Underlying operating profit at £319 million was £73 million lower than the first half of last year. This principally reflects the £41 million reduction in revenue, and also a £15 million increase in IRE as a result of ongoing work to optimise the performance of our network, including adverse weather related expenditure of £3 million. Property rates are £6 million higher in the first half of this year largely reflecting an £8 million rates refund received in the first half of last year. Employee costs are £5 million higher as a result of a lower AMP7 capital programme meaning a marginal reduction in capitalised costs with only 45 per cent of employment related costs charged to capital programmes this AMP. We have incurred £3 million of extra COVID related costs, which along with the £3 million of adverse weather related expenditure, have been absorbed within our cost base. In total this is £6 million of expenditure which has not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £65 million lower than the first half of last year, reflecting the decrease in underlying operating profit partially offset by lower restructuring costs in this period.

Adjusted items of £0.6 million in the six months to 30 September 2020 relate to restructuring costs. Adjusted items totalling £114 million were made in the full year to 31 March 2020, including £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 23 to 24 and more detail can be found in our announcement of results for the year to 31 March 2020. Adjusted items of £8.7 million in the six months to 30 September 2019 related to restructuring costs.

Household bad debt has been held at 1.8 per cent of revenue over the first half of this year. As COVID-19 restrictions continue, we are seeing businesses make more redundancies and this could impact customers' ability to pay, but as at today we are comfortable in the adequacy of the £17 million additional bad debt provision that we took at the end of last year.

Profit before tax

	£m
Underlying – six months to 30 September 2019	244.0
Underlying operating profit decrease	(72.6)
Underlying net finance expense decrease	33.5
Share of JVs (prior year loss to current year profit)	8.2
Underlying – six months to 30 September 2020	**213.1**
Adjusted items *	(12.0)
Reported – six months to 30 September 2020	**201.1**

* Adjusted items are set out on pages 23 and 24.

Underlying profit before tax was £213 million, £31 million lower than the first half of last year. This reflects the £73 million reduction in underlying operating profit, a £34m decrease in underlying net finance expense, and our share of joint ventures which moved from a £6 million loss in the first half of last year to a £2 million profit in the first half of this year.

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 23 and 24. Reported profit before tax increased by £6 million to £201 million reflecting the £65 million reduction in reported operating profit more than offset by a £62 million reduction in reported net finance expense, including fair value movements, and the underlying movement in share of joint ventures described above.

- **Net finance expense**
  The underlying net finance expense of £109 million was £34 million lower than the first half of last year, predominantly due to lower inflation applied to our index-linked debt. Interest of £42 million on non-index linked debt was £4 million lower than the first half of last year due to lower rates locked in on debt and associated swaps. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £41 million, compared with a net charge of £70 million in the first half of last year.

  Reported net finance expense of £120 million was £62 million lower than the first half of last year, principally reflecting a £36m decrease in the fair value losses on debt and derivative instruments compared to the first half of last year, and lower inflation applied to our index-linked debt.

- **Joint ventures**
  For the year to 31 March 2020, our share of Water Plus losses amounted to £51 million of which £46 million was recognised in the income statement, comprising our £14 million share of Water Plus's underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19. As a result, our long-term interest in Water Plus was written down to £nil. Further losses, including £5 million of our share of Water Plus's underlying losses for the year to 31 March 2020 and a further £6 million share of losses for the six months to 30 September 2020, are not recognised in the income statement. Further details can be found in note 11 of these condensed consolidated financial statements.

  Our £2.5 million share of profits of joint ventures in the six months to 30 September 2020 relates solely to our share in AS Tallinna Vesi, while the share of losses of joint ventures in the first half of last year comprised a £3.6 million share of profits from AS Tallinna Vesi more than offset by a £9.3 million share of losses from Water Plus.

Profit after tax and earnings per share (EPS)

	PAT (£m)	EPS (Pence/share)
Underlying – six months to 30 September 2019 **	207.2	*30.4p*
Underlying profit before tax decrease	(30.9)	
Underlying tax increase	(2.4)	
Underlying – six months to 30 September 2020	**174.0**	***25.5p***
Adjusted items *	(12.0)	
Reported – six months to 30 September 2020	**162.0**	***23.8p***

* Adjusted items are set out on pages 23 and 24.
** Underlying profit after tax for the six months to 30 September 2019 has been restated to reflect the change in presentation made from 31 March 2020 onwards to exclude the impact of deferred tax.

Underlying profit after tax of £174 million was £33 million lower than the first half of last year, and underlying earnings per share decreased from 30.4 pence to 25.5 pence, principally reflecting the £31 million reduction in underlying profit before tax and a £2 million higher underlying tax charge largely due to the pension deficit repair payment we made in the first half of last year.

Reported profit after tax increased by £3 million to £162 million, and reported basic earnings per share increased from 23.3 pence to 23.8 pence, principally reflecting the £6 million increase in the reported profit before tax partially offset by a £3 million increase in the reported tax charge as higher tax is charged on higher profits.

- **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 retained our Fair Tax Mark accreditation for another year.

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

  We paid corporation tax of £31 million in the period, which represents an effective cash tax rate on underlying profits of 15 per cent, 4 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling items to the headline rate of corporation tax continue to be allowable tax deductions on capital investment and pension payments, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

  We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We expect the average cash tax rate on underlying profits to remain below the headline rate of tax for the medium term. The key risk to sustaining this rate is any unexpected changes in tax legislation or practice and, as necessary, we would actively engage with the relevant authorities in order to manage this risk.

  The current tax charge was £34 million in the six months to 30 September 2020, compared with £24 million in the previous half year.

For the six months to 30 September 2020, we recognised a deferred tax charge of £5 million, compared with £12 million for the same period last year.

The total effective tax rate was around 19 per cent for both the first half of this year and for the same period in the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium-term.

In the period, there were £43 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 14.41 pence per ordinary share in respect of the six months ended 30 September 2020. This is an increase of 1.5 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 1.5 per cent is based on the CPIH element included within the allowed regulated revenue increase for the 2020/21 financial year (i.e. the movement in CPIH between November 2018 and November 2019).

The interim dividend is expected to be paid on 1 February 2021 to shareholders on the register at the close of business on 18 December 2020. The ex-dividend date is 17 December 2020.

Our responsible AMP7 dividend policy targets a growth rate of CPIH inflation each year through to 2025. We now have a clearer understanding of the impact of COVID-19 on our business which remains robust and supported by a strong balance sheet. This, together with a stabilised inflation outlook supported by central bank policy and government actions, gives the Board the confidence to reaffirm the group's responsible AMP7 dividend policy of growth in line with CPIH inflation.

Cash flow

Net cash generated from continuing operating activities for the six months to 30 September 2020 was £399 million, broadly consistent with £364 million in the first half of last year. The group's net capital expenditure was £312 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 it is based on capital work done in the period, rather than actual cash spent.

Pensions

As at 30 September 2020, the group had an IAS 19 net pension surplus of £654 million, compared with a net pension surplus of £754 million at 31 March 2020. This £100 million decrease is predominantly due to the unwinding of a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme specific funding basis.

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

Financing

Net debt	**£m**
At 31 March 2020	7,361.4
Cash generated from operations	(495.6)
Dividends from joint ventures	(6.4)
Net capital expenditure	312.5
Dividends	193.7
Interest	65.8
Indexation	39.9
Tax	31.1
Extension of loans to joint ventures	29.5
Fair value movements and inflation on index-linked debt	38.4
Other	3.1
At 30 September 2020	**7,573.4**
Adjustments	(177.6)
At 30 September 2020 (new definition)	**7,395.8**

The group's gross borrowings at 30 September 2020 had a carrying value of £8,946 million. The fair value of these borrowings was £10,595 million. This £1,649 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 £470 million at 31 March 2020 due primarily to a decrease in credit spreads.

Cash and short-term deposits at 30 September 2020 amounted to £899 million.

Net debt at 30 September 2020 was £7,396 million, compared with £7,361 million at 31 March 2020. This comprises gross borrowings of £8,946 million and derivative liabilities of £188 million net of cash of £899 million and derivative assets of £662 million. This is then adjusted to exclude derivatives with a net liability of £178 million under our revised definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments and therefore gives a fairer reflection of the net debt amount we are contractually obliged to repay. This updated approach is now more consistent with that taken by the credit rating agencies and better reflects the regulatory economics. The change in definition reduces net debt by a further £178 million at 30 September 2020 compared to £135 million at 31 March 2020.

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, tax, loans to joint ventures and fair value movements.

The credit rating agencies also make a further adjustment for any IFRS pension deficit, which is not relevant for United Utilities given our IFRS pension surplus position.

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 63 per cent at 31 March 2020. This is slightly higher than the 62 per cent as at 31 March 2020 but remains within our target range of 55 to 65 per cent.

- **Cost of debt**
  As at 30 September 2020, the group had approximately £3.5 billion of RPI-linked debt at an average real rate of 1.4 per cent, and £0.8 billion of CPI-linked debt at an average real rate of -0.2 per cent.

A lower RPI inflation charge compared with the same period last year contributed to the group's average underlying interest rate of 3.0 per cent being lower than the rate of 4.0 per cent for the six months to 30 September 2019. The average underlying interest rate represents the underlying net finance expense divided by average debt.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis for the 2020-25 regulatory period at a net effective nominal interest rate of around 2.4 per cent (including credit spread but excluding the impact of cost of carry).

- **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 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. Since our full year results in May 2020 we have raised around £600 million, taking advantage of the attractive rates available and extending our liquidity position out to September 2022. Over this period, we have found central bank stimulus in response to the impact of COVID-19 to have been very supportive of strong investment grade issuers like ourselves and we would expect this to continue to be the case, providing us with efficient access to the debt capital markets going forward.

  We remain one of the sector leaders in the issuance of CPI-linked debt having previously issued £515 million of CPI-linked debt, in response to Ofwat's decision to transition away from RPI inflation linkage. Since our full year results on May 2020, we have increased the CPI-linkage in our debt portfolio by a further £250 million through taps of existing debt and new issuance, bringing the total to £765 million CPI-linked debt (£30 million of which settled after 30 September 2020). £50 million has subsequently been converted to CPIH-linkage, and therefore a perfect match to the regulatory regime.

  In June we issued a £300 million 22-year bond in fixed rate form, and in August we issued a USD35 million 11-year bond, which has been swapped to sterling floating rate debt.

  Since March 2020, we have renewed £50 million of revolving credit facilities with a relationship bank for a further five-year term, and extended £100 million of revolving credit facilities for a further three years, and £150 million of revolving credit facilities for a further year.

  We have also now 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.

- **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 2020, approximately 48 per cent of the group's net debt was in RPI-linked form, representing around 30 per cent of UUW's RCV, with an average real interest rate of 1.4 per cent. A further 11 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 7 per cent of UUW's RCV, with an average real rate of -0.2 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.

Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across a forthcoming regulatory period around the time of the price control determination. Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020-25 regulatory period, we have retained the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but have not supplemented this with the additional 'top up' fixing at the start of the new regulatory period.

- **Liquidity**

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

  At 30 September 2020, we had liquidity of £1.6 billion, comprising cash and short-terms deposits of £0.9 billion, plus committed undrawn revolving credit facilities of £0.7 billion. This liquidity is sufficient to meet forecast cash flows out to September 2022 and 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. Since our full year results in May 2020, we have been able to take advantage of attractive market conditions and have raised a further £600 million of new finance.

  We mentioned in our full year results announcement that the group had re-established a Euro Commercial Paper Programme, which would facilitate access to the Bank of England's Covid Corporate Financing Facility (CCFF), should the group need to do so. We said at the time that we did not expect to use this facility, it being put in place simply as a prudent contingency planning exercise. We can confirm that the group has not used the CCFF and, reflecting its robust liquidity position and term funding raised during the first half of the year, we do not intend to use it.

  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

It has been a unique start to a new regulatory period, having to adapt to the operating conditions necessary to protect customers, employees and supply chain partners through the COVID-19 pandemic. The United Utilities team has done a fantastic job of maintaining excellent service to customers despite all the challenges faced, demonstrating the flexibility and dedication of employees across the business, and we are providing support to struggling customers, employees and communities in one of the hardest hit regions in the UK.

Notwithstanding the challenges presented by COVID-19, we remain focused on delivering a strong performance against our targets for the new regulatory period, AMP7. We were well prepared, having been awarded fast track status in the price review process and having invested £130 million in the last year of AMP6 to give ourselves a flying start against our AMP7 targets. We have accelerated our capital investment plans, with plans to spend more over the early years of AMP7 than our original business plan in order to secure improvements earlier in the period for customers and the environment, along with accompanying ODI rewards and contributing to the 'Green recovery' in a region heavily affected by the pandemic.

Customer satisfaction remains high, we are delivering resilient operational performance and this is reflected in a positive ODI forecast for the 2020/21 financial year. We now also have a clearer understanding of the impact of COVID-19 on our business which remains robust and supported by a strong balance sheet. This, together with a stabilised inflation outlook, gives us the confidence to reaffirm the AMP7 dividend policy we announced earlier this year of growth in line with CPIH inflation

Further detail of the potential impacts of COVID-19 is provided in "Principal risks and uncertainties" on page 25.

2020/21 FULL YEAR GUIDANCE

- **Revenue** is expected to be in the range of £1.75 billion to £1.80 billion reflecting the known bill reduction for 2020/21 and the net impact of COVID-19 on both household and non-household consumption.
- **Underlying operating costs** are expected to be higher year-on-year reflecting small inflationary increases in core costs alongside higher IRE to maximise the performance of the network.
- **Underlying finance expense** is expected to be lower year-on-year due to lower inflation.
- **ODI reward** of around £10 million is expected for performance in 2020/21.

UNDERLYING PROFIT

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

Adjustments not expected to recur	
Adjusted item	**Rationale**
Bioresources asset write down	A strategic review of the group's Bioresources activities was undertaken in the second half of the year ended 31 March 2020, informed by the PR19 process and the group's zero-carbon commitments. This resulted in the likelihood of future economic benefit being derived from certain assets now being considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. This resulted in a material asset write down that was not considered to be part of the normal course of business, with similarly material write-downs not expected to reoccur in future years.
COVID-19	The group incurred significant costs resulting from the onset of the COVID-19 pandemic in the early part 2020, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment. The group's joint venture, Water Plus, was also significantly impacted, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses at 31 March 2020, feeding through to the group's share of losses from joint ventures. This also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the initial economic shock associated with early lockdown measures, these costs were not deemed to be representative of normal business performance when compared against prior periods.
Consistently applied presentational adjustments	
Adjusted item	**Rationale**
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value losses/(gains) on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro-economic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believes it is useful to adjust for this to provide a more representative view of performance.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believes it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
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. This adjustment has been made for the first time in the current year, with prior year comparatives re-presented to take account of this adjustment.
Agreement of prior years' tax matters	The agreement of prior years' tax matters can be significant, volatile and often related to final settlement of numerous prior year periods. Management adjusts for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management 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 2020 £m**	**6 months ended 30 September 2019 £m**	**Year ended 31 March 2020 £m**
Operating profit per published results	**318.5**	**383.0**	**630.3**
Bioresources asset write down	-	-	82.6
COVID-19 - expected credit loss on non-household receivables	-	-	1.4
COVID-19 - expected credit loss on household receivables	-	-	16.7
COVID-19 - operating expenses	-	-	1.1
Restructuring costs	0.6	8.7	11.8
Underlying operating profit	**319.1**	**391.7**	**743.9**
Net finance expense	**£m**	**£m**	**£m**
Finance expense	(132.0)	(193.9)	(313.0)
Investment income	12.1	11.7	24.0
Net finance expense per published results	**(119.9)**	**(182.2)**	**(289.0)**
Adjustments:			
COVID-19 - Expected credit losses on loans to JVs	-	-	5.0
Net fair value losses on debt and derivative instruments	27.1	62.6	76.3
Interest on swaps and debt under fair value option	10.0	10.1	16.5
Net pension interest income	(8.7)	(6.8)	(14.0)
Adjustment for capitalised borrowing costs	(17.0)	(25.7)	(40.6)
Underlying net finance expense	**(108.5)**	**(142.0)**	**(245.8)**
	£m	**£m**	**£m**
Share of profits/(losses) of joint ventures	**2.5**	**(5.7)**	**(38.1)**
Adjustments:			
COVID-19 - Water Plus impairment losses and expected credit losses	-	-	32.0
Underlying share of profits/(losses) of joint ventures	**2.5**	**(5.7)**	**(6.1)**
Profit before tax per published results	**201.1**	**195.1**	**303.2**
Adjustments:			
In respect of operating profit	0.6	8.7	113.6
In respect of net finance expense	11.4	40.2	43.2
In respect of share of losses of joint ventures	-	-	32.0
Underlying profit before tax	**213.1**	**244.0**	**492.0**
Profit after tax per published results	**162.0**	**158.6**	**106.8**
Adjustments:			
In respect of profit before tax	12.0	48.9	188.8
Deferred tax adjustment	5.1	12.4	157.5
Agreement of prior years' UK tax matters	-	-	(12.2)
Tax in respect of adjustments to underlying profit before tax	(5.1)	(12.7)	(11.3)
Underlying profit after tax	**174.0**	**207.2**	**429.6**
Earnings per share	**£m**	**£m**	**£m**
Profit after tax per published results (a)	162.0	158.6	106.8
Underlying profit after tax (b)	174.0	207.2	429.6
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)	23.8	23.3	15.7
Underlying earnings per share, in pence (b/c)	25.5	30.4	63.0
Dividend per share, in pence	14.41p	14.20p	42.60p

[1] Approach used to derive underlying profit after tax has been changed to exclude the impact of deferred tax to better reflect the regulatory revenue allowances, with prior year numbers restated for comparability

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 92 to 93 of our Annual Report for the year ended 31 March 2020.

Key developments

Continuous improvement is a key feature of our business risk management framework. In recent years we have matured fundamental aspects of our enterprise-wide risk management approach. This has been delivered through focusing on inherent risk, cross-business assessment of control, response and recovery, as well as prevention and consideration of extreme impacts in addition to more routine impacts. These fully align to our business wide initiatives for Systems Thinking and resilience.

In the past six months we have combined the pre-existing risk and resilience policies and enhanced our assessment and reporting of risk appetite and tolerance.

Profile features

The risk profile is based on a set of ten principal risks that reflect the primary and secondary business activities from which value can be gained or lost relative to the groups business model, future performance, solvency, liquidity and reputation. These ten principal risks are fundamentally the same as reported within our Annual Report for the year ended 31 March 2020 (see pages 96 to 99).

These principal risks are underpinned by approximately 100 business risks. Although the profile remains relatively static in terms of its headline inherent risk factors, we have re-assessed our risk profile to ensure it reflects the changing nature of the political and regulatory environment, the transition between the regulatory Asset Management Periods (AMPs), a reduction in the Haweswater Aqueduct risk following a successful capital intervention, and emerging circumstances including those associated with COVID-19.

The COVID-19 pandemic has radically changed global economies, compounding a number of the risk exposures already captured within the business risk profile. These include risks in relation to financing performance, revenue and cash collection, supply chain and operational delivery risks for water and wastewater. As well as considering our existing risks, we continue to work with our trade body (Water UK) to understand additional potential scenarios, their associated implications and mitigation strategies. Brexit and now the risk of a No Deal with the EU has been on our radar for a number of years, primarily focusing on the supply chain complications and additional costs. Working with Water UK we have developed internal and cross sector contingency plans particularly in relation to essential chemicals for the treatment of water, wastewater and sludge.

The group's top ten event-based risks

The board regularly considers the group's most significant risks in our business risk profile and which underpin the principal risks. The following are summaries of the ten highest business risk exposures in an operational context (likelihood and impact) from across the group:

1. *Hydraulic and operational capacity of the wastewater network:* Partial failure of the wastewater network owing to hydraulic capacity, operational capacity or equipment failure relative to changing and extreme weather conditions. Impacts include sewer flooding and consequent penalties, additional cost, customer compensation and reputational damage. **Mitigation** includes the combination of the Drainage and Wastewater Management Plans (DWMP) and embedment of the Wastewater Network Operating Model. These include preventative maintenance, inspection regimes, asset condition surveys, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes.

2. *Failure of significant water supply systems:* The Haweswater Aqueduct is a key asset with current low resilience due to deterioration, potentially resulting in water quality issues and/or supply interruptions to a large proportion of the UU customer base. Potential impacts include penalties, additional cost, customer compensation and reputational damage. **Mitigation** includes capital projects for asset replacement, as well as extensive programmes of asset monitoring, surveys and maintenance. The replacement of section T02 which represented the highest risk of the entire system, has recently been completed successfully. However, the risk of a collapse or water quality issue in the other sections remains, albeit at a lower likelihood. The risk therefore retains a high ranking in the profile emphasising the importance of the Haweswater Aqueduct Resilience Programme (HARP) to replace the remaining sections by 2029.

3. *Unfavorable outcome at Price Review 2024:* One of many potential issues relates to the Totex allowances through AMP8 revenues for labour costs, due to the Office of National Statistics ASHE Index taking account of lower wages associated with the COVID-19 Furlough scheme. **Mitigation** includes reviewing the rule book once published and liaising with Ofwat accordingly.

4. E*xternal (or internal) factors leading to credit ratings downgrades:* Due to the macro-economic environment brought about by COVID-19, there is potential negative pressure relative to our ratings targets. **Mitigation** includes continuous monitoring and application of treasury policy formulated with the objective of managing key financial risks within defined parameters in order to maintain financial stability and resilience.

5. *Data and technological assets significantly compromised:* Data and technology assets could be significantly compromised due to malicious or accidental activity leading to a major impact to key business processes and operations. Potential consequences include penalties, additional costs, customer compensation and reputational damage, as well as impacts to business services, regulatory compliance, financial and operational performance. **Mitigation** includes multiple layers of control with an approach that covers people, process and technology. This includes a secure perimeter with segmented internal network zones and a core data network supported by infrastructure and system access controls, with constant monitoring and 24/7 incident and forensic response capability.

6. *Unfunded developer led projects:* Third party developers can request UU to reconfigure its network assets to accommodate their schemes. The growth in such schemes is expected to continue with the government's push to invest in infrastructure post COVID-19 infrastructure development and the Northern Powerhouse initiative. This increases the exposure to capital costs that sit above and beyond those forecast in our Company Business Plan. The biggest of these current schemes is HS2, which enters UU's region in two stages extending beyond AMP 8 with the most significant network reconfiguration in the second stage (stage 2b). **Mitigation** includes submitting a compelling case to ensure that the regulatory mechanism does not place excessive constraints on the ability to recover costs.

7. *Lower inflation and its effect on financial outperformance:* Failure to achieve AMP7 financing outperformance because of falling CPIH inflation impacting the effective real rate on embedded fixed rate nominal debt, resulting in a lower level of financing outperformance than expected. **Mitigation** includes board approval of our interest rates and inflation management strategies, ongoing monitoring of markets and regulatory developments against financial outperformance projections.

8. *Operational capacity and capability at wastewater treatment works:* Failure to adequately treat wastewater due to operational capacity and capability of wastewater treatment works, leading to environmental permit breaches, with potential impacts including penalties,

additional cost, customer compensation and reputational damage. **Mitigation** includes an improved Effective Operations & Maintenance (EO&M) programme and operating procedures including proactive maintenance, operative training and compliance audits.

9. *Serious pollution from wastewater treatment or network assets:* The unintended introduction of sewage and other pollutants into the environment due the capacity and /or capability of wastewater treatment or network assets, leading to extensive environmental impact and pollution with potential ODI penalties, prosecution fines, additional opex, capex and reputational damage. **Mitigation** includes our proactive strategy of identifying defects and collapses through the use of extensive field CCTV surveys, staff training and incident analysis. In addition we are developing a Pollution Incident Reduction Plan (PIRP) and are improving our capabilities further through the development of IDAS (Integrated Drainage Area Studies) and WwNM (Wastewater Network Management).

10. *Competition in the bioresources market:* Competition in the bioresources market following the reforms set out in the Water Act 2014, Water2020 and PR19 process, leading to a loss of business and reduced operational efficiency. **Mitigation** includes delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business.

Material litigation

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

LEI 2138002IEYQAOC88ZJ59
Classification – Half Year Results

Consolidated income statement

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Revenue (note 3)	**894.4**	935.5	1,859.3
Employee benefits expense (note 4)	**(78.6)**	(82.0)	(161.4)
Other operating costs (note 5)	**(201.0)**	(193.4)	(403.4)
Allowance for expected credit losses – trade and other receivables	**(11.7)**	(11.8)	(41.8)
Other income	**1.5**	2.0	3.4
Depreciation and amortisation expense	**(202.8)**	(199.3)	(482.8)
Infrastructure renewals expenditure	**(83.3)**	(68.0)	(143.0)
Total operating expenses	**(575.9)**	(552.5)	(1,229.0)
Operating profit	**318.5**	383.0	630.3
Investment income (note 6)	**12.1**	11.7	24.0
Finance expense (note 7)	**(132.0)**	(193.9)	(308.0)
Allowance for expected credit losses – loans to joint ventures	**-**	-	(5.0)
Investment income and finance expense	**(119.9)**	(182.2)	(289.0)
Share of profits/(losses) of joint ventures (note 11)	**2.5**	(5.7)	(38.1)
Profit before tax	**201.1**	195.1	303.2
Current tax charge	**(34.0)**	(24.1)	(38.9)
Deferred tax charge	**(5.1)**	(12.4)	(157.5)
Tax (note 8)	**(39.1)**	(36.5)	(196.4)
Profit after tax	**162.0**	158.6	106.8

All of the results shown above relate to continuing operations.

Earnings per share (note 9)			
Basic	**23.8p**	23.3p	15.7p
Diluted	**23.7p**	23.2p	15.6p
Dividend per ordinary share (note 10)	**14.41p**	14.20p	42.60p

Consolidated statement of comprehensive income

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Profit after tax	**162.0**	158.6	106.8
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness	**4.9**	1.5	(2.0)
Tax on items taken directly to equity (note 8)	**(0.9)**	(0.3)	0.4
Foreign exchange adjustments	**1.3**	1.7	1.3
Other comprehensive income that may be reclassified to profit or loss	**5.3**	2.9	(0.3)
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on defined benefit pension schemes (note 13)	**(109.3)**	105.9	154.6
Change in credit assumptions for debt reported at fair value through profit or loss	**(30.0)**	5.7	34.2
Cost of hedging – cross currency basis spread adjustment	**(7.5)**	1.5	1.3
Deferred tax adjustments in respect of prior years on net fair value gains	**-**	-	(2.4)
Tax on items taken directly to equity (note 8)	**43.9**	(145.1)	(157.1)
Other comprehensive income that will not be reclassified to profit or loss	**(102.9)**	(32.0)	30.6
Total comprehensive income	**64.4**	129.5	137.1

Consolidated statement of financial position

	30 September 2020 £m	30 September 2019 £m	31 March 2020 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**11,648.9**	11,359.1	11,510.9
Intangible assets	**175.8**	196.1	189.0
Interests in joint ventures and other investments (note 11)	**44.4**	69.9	46.9
Non-current assets held for sale (note 12)	**-**	11.7	-
Trade and other receivables	**126.6**	138.3	97.0
Retirement benefit surplus (note 13)	**654.3**	698.7	754.1
Derivative financial instruments	**661.8**	601.1	617.8
	13,311.8	13,074.9	13,215.7
Current assets			
Inventories	**19.0**	16.2	16.6
Trade and other receivables (note 14)	**244.7**	264.8	245.9
Current tax asset	**36.6**	25.5	37.7
Cash and short-term deposits	**899.0**	621.6	528.1
Derivative financial instruments	**0.1**	94.7	0.1
	1,199.4	1,022.8	828.4
Total assets	**14,511.2**	14,097.7	14,044.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(782.5)**	(736.2)	(761.2)
Borrowings (note 15)	**(8,092.8)**	(7,782.0)	(7,518.1)
Deferred tax liabilities	**(1,426.6)**	(1,303.7)	(1,462.6)
Derivative financial instruments	**(184.2)**	(137.4)	(135.4)
	(10,486.1)	(9,959.3)	(9,877.3)
Current liabilities			
Trade and other payables	**(323.4)**	(323.8)	(334.4)
Borrowings (note 15)	**(853.4)**	(730.5)	(845.0)
Provisions	**(13.1)**	(19.4)	(16.4)
Derivative financial instruments	**(3.9)**	(13.8)	(8.9)
	(1,193.8)	(1,087.5)	(1,204.7)
Total liabilities	**(11,679.9)**	(11,046.8)	(11,082.0)
Total net assets	**2,831.3**	3,050.9	2,962.1
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Other reserves (note 19)	**335.9**	342.4	336.7
Retained earnings	**1,992.7**	2,205.8	2,122.7
Shareholders' equity	**2,831.3**	3,050.9	2,962.1

Consolidated statement of changes in equity

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 losses on defined benefit pension schemes (note 13)	-	-	-	(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 8)	-	-	0.5	42.5	43.0
Foreign exchange adjustments	-	-	1.3	-	1.3
Total comprehensive income	-	-	(0.8)	65.2	64.4
Dividends (note 10)	-	-	-	(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**

Six months ended 30 September 2019

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

Year ended 31 March 2020

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 31 March 2019	499.8	2.9	338.3	2,269.8	3,110.8
Profit after tax	-	-	-	106.8	106.8
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	154.6	154.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	34.2	34.2
Cash flow hedge effectiveness	-	-	(2.0)	-	(2.0)
Cost of hedging – cross currency basis spread adjustment	-	-	1.3	-	1.3
Deferred tax adjustments in respect of prior years on net fair value gains	-	-	(2.4)	-	(2.4)
Tax on items taken directly to equity (note 8)	-	-	0.2	(156.9)	(156.7)
Foreign exchange adjustments	-	-	1.3	-	1.3
Total comprehensive income	-	-	(1.6)	138.7	137.1
Dividends (note 10)	-	-	-	(284.5)	(284.5)
Equity-settled share-based payments	-	-	-	1.5	1.5
Exercise of share options - purchase of shares	-	-	-	(2.8)	(2.8)
At 31 March 2020	**499.8**	**2.9**	**336.7**	**2,122.7**	**2,962.1**

[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 19.

Consolidated statement of cash flows

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Operating activities			
Cash generated from operations (note 17)	**495.6**	465.2	1,005.5
Interest paid	**(68.7)**	(72.4)	(149.4)
Interest received and similar income	**2.9**	4.5	9.9
Tax paid	**(31.1)**	(49.0)	(71.5)
Tax received	**-**	15.8	15.8
Net cash generated from operating activities	**398.7**	364.1	810.3
Investing activities			
Purchase of property, plant and equipment	**(315.4)**	(328.0)	(652.8)
Purchase of intangible assets	**-**	(13.1)	(27.2)
Proceeds from sale of property, plant and equipment	**-**	0.3	-
Grants and contributions received	**2.9**	19.5	34.7
Loans to joint ventures	**(29.5)**	9.9	34.5
Dividends received from joint ventures	**6.4**	4.9	4.9
Proceeds from investments	**-**	0.5	12.0
Net cash used in investing activities	**(335.6)**	(306.0)	(593.9)
Financing activities			
Proceeds from borrowings	**574.2**	475.2	805.4
Repayment of borrowings	**(75.1)**	(64.2)	(545.9)
Dividends paid to equity holders of the company (note 10)	**(193.7)**	(187.7)	(284.5)
Exercise of share options – purchase of shares	**(2.9)**	(1.9)	(2.8)
Net cash generated from/(used in) financing activities	**302.5**	221.4	(27.8)
Net increase in cash and cash equivalents	**365.6**	279.5	188.6
Cash and cash equivalents at beginning of the period	**513.2**	324.6	324.6
Cash and cash equivalents at end of the period	**878.8**	604.1	513.2

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006, and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2020.

The comparative figures for the year ended 31 March 2020 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 accounting policies, presentation and methods of computation are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2020.

Going concern

The interim condensed consolidated financial statements for the six months ended 30 September 2020 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 an assessment of the potential effects of the ongoing impact of COVID-19 on the group. The group has continued to successfully secure new debt financing since the onset of the COVID-19 pandemic, and therefore efficient access to capital can be reasonably assured.

The baseline plan used in the going concern assessment at 31 March 2020 has been updated to reflect current forecasts, which indicate a less severe COVID-19 impact than had been previously assumed. However, the situation remains highly uncertain, particularly given the resurgence of COVID-19 cases across the North West of England that has led to the introduction of new measures to contain the virus, which are likely to continue until at least the end of the current financial year.

This less severe impact reflects: CPIH averaging around 0.8 per cent for the current year (previously assumed to reduce to zero), and then forecast to average in the medium term at 1.8 per cent in line with forecasts of market observers (previously assumed to average 1.0 per cent); no material change in levels of bad debt, with household cash collection rates having been good (previously elevated bad debt levels persisting in the immediate term had been assumed); and good access to efficient financing, with no significant increase in the cost of new debt (previously the cost of new debt was assumed at elevated levels). In addition, we have seen business performance remain on track throughout the first wave of the COVID-19 pandemic without experiencing any significant operational impacts, and would expect this to continue in the foreseeable future.

In making their assessment the directors have subjected the updated baseline plan to a number of downside scenarios that are considered to be severe but plausible, in order to assess whether the group would be able to continue as a going concern should these materialise. These scenarios include: a lower inflationary environment, with CPIH remaining below 1.0 per cent across 2021/22 and averaging around 1.0 per cent through to at least 2025;

operational downsides including an increase in household bad debt and reduced outperformance on outcome delivery incentives (ODIs); and the impact of a significant unexpected one-off expense in the near term. These scenarios have also been brought together into a 'combined' downside scenario in order to model the group's ability to withstand an extreme event.

Mitigating actions were considered to include access to new debt finance; deferral of capital expenditure; close-out of derivative asset balances; access to additional equity; and deferral of dividends.

Having considered these matters, the directors do not believe there are any material uncertainties to disclose in relation to the group's ability to continue as a going concern for a period of at least 12 months following the approval of these interim condensed consolidated financial statements.

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

Following the onset of the COVID-19 pandemic at the beginning of the 2020 calendar year, and in light of the UK government's response, a number of associated critical accounting judgements and key sources of estimation uncertainty were disclosed in the group's annual report and financial statements for the year ended 31 March 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.

These judgements and estimates have been kept under review during the six months to 30 September 2020 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: Estimation is required in relation to the volume of water and wastewater services provided to measured customers where recent meter read data is not available. The amount of revenue recognised for these customers is directly impacted by their level of consumption.

Estimated usage is based on historical meter read data, judgement, and assumptions. Consumption patterns during the six months to 30 September 2020 have been significantly impacted by changes brought about by the COVID-19 pandemic. Household consumption has been above levels normally seen for this time of the year 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. This, together with a lower level of meter reading activity in the period due to COVID-19 restrictions, has resulted in a higher level of estimation being required than would normally be the case. As such, there is a higher degree of estimation uncertainty associated with revenue and accrued income recognised in the period in respect of measured customers.

Consumption patterns observed from automated meter read (AMR) data obtained during the period indicate that volumes supplied to measured household customers were around 15 per cent higher than has historically been the case. AMR data is captured for around 25 per cent of all measured household customers, and this increase has been extrapolated across the remaining measured household customer base in estimating the level of unbilled revenue to recognise for the period. The reasonableness of this approach has been validated through an assessment of bills raised in the period. If the actual increase in the volume of services provided was 5 per cent higher or lower than estimated (i.e. 20 per cent or 10 per cent higher than historical consumption trends rather than 15 per cent), revenue recognised for the six months to 30 September 2020 would be £8.6 million higher or lower respectively.

Between 23 March and 31 July 2020 around 18 per cent of non-household end user premises were flagged in the market as temporarily vacant, and therefore were not billed through the Central Market Operating System (CMOS) during this period. For non-household customers who were not flagged as temporarily vacant, the latest available consumption information for premises where at least two meter readings have been taken since 1 April 2020 indicates that volumes supplied during the period were around 10 per cent lower than has historically been the case. This information accounts for around 17.5 per cent of all occupied non-household end user premises. The observed reduction has been extrapolated across the remaining occupied non-household customer base in estimating the level of unbilled revenue to recognise for the period. If the actual reduction were 10 per cent higher

or lower than estimated (i.e. 20 per cent reduction or in line with historical consumption trends rather than a 10 per cent reduction), revenue recognised for the six months to 30 September 2020 would be £9.8 million lower or higher respectively.

Accounting estimate – allowance for expected credit losses in respect of trade receivables: At 31 March 2020 a specific increase of £16.7 million was applied to the group's expected credit loss assessment for household trade receivables based on judgements around the likely impact of the pandemic on the non-payment risk profile of the group's customer base on a segmented basis.

Although a high level of uncertainty remains around how current economic conditions could impact the recoverability of household receivables, particularly in light of the resurgence of COVID-19 cases and the government's response in implementing a second nationwide lockdown in England, no significant change in cash collection performance has been noted to date that would indicate that forecasts of expected credit losses should be changed.

Accounting estimate – allowance for expected credit losses in respect of loans extended to Water Plus: The significant economic impact of the COVID-19 pandemic has given rise to a significant increase in credit risk in respect of loans extended to the groups joint venture, Water Plus, which resulted in an allowance for expected credit losses of £5.0 million being recognised at 31 March 2020. This was based on a forward-looking estimate derived from Water Plus's latest board-approved business plan, as adjusted for the expected impact of COVID-19. During the six months to 30 September 2020 the expected impact of COVID-19 has become clearer, and clarity has emerged as to the likely availability and terms on which Water Plus may be able to obtain external financing. As a result, modelling of expected credit losses has been refined, with no material change to the level of allowance considered to be appropriate. Accordingly, no adjustment has been made to this allowance for expected credit losses.

Impact of new and revised standards

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

In September 2020, the EU endorsed 'phase 2' of the IASB's amendments to IFRS 9 *'Financial Instruments'*, IAS 39 *'Financial Instruments: Recognition and Measurement'* and IFRS 7 *'Financial Instruments: Disclosures'* to take account of the reform of interbank offered rates (IBORs) as a financial market benchmark reference rate, which will be replaced by alternative nearly risk-free benchmark rates, such as SONIA. The phase 2 amendments, which are effective for periods beginning on or after 1 January 2021, with early adoption permitted, focus on issues that might affect financial reporting during this reform ("replacement issues"). These amendments specifically address how impacts of the interest rate benchmark reform should be accounted for in respect of the modification of financial instruments and hedge accounting, provided changes are required as a direct result of the reform and are made on an economically equivalent basis. The group has chosen to adopt these amendments early for the year ending 31 March 2021, though this has had no impact on the interim condensed consolidated financial statements for the six months ended 30 September 2020.

As the group has a significant proportion of debt and derivative financial instruments designated in fair value hedge relationships that are linked to LIBOR, these phase 2 amendments will be applicable on modification of the instruments to be linked to the alternative nearly risk-free rates, as well as when changes to the fair value hedges are required as a result of the reform. The reliefs provided for in this amendment mean that upon transition to the nearly risk-free rates, no one-off charge or credit to the income statement will be recognised, provided the transition has occurred on an economically equivalent basis. The amendments also mean that the group expects no discontinuation of hedge accounting to be required upon transition to the new interest rate benchmarks, with modifications to the documentation permitted, provided these are directly related to the IBOR reform.

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 2020 £m	30 September 2019 £m	31 March 2020 £m
Wholesale water charges	**375.5**	398.4	784.8
Wholesale wastewater charges	**461.8**	465.4	939.5
Household retail charges	**35.9**	44.7	83.8
Other	**21.2**	27.0	51.2
	894.4	935.5	1,859.3

The £41.1 million reduction in revenue for the six months ended 30 September 2020 compared with the same period in the prior year is largely attributable to regulatory revenue changes going into the AMP7 regulatory price control period, which account for £39.7 million of this reduction and reflect a 6.6 per cent reduction in average household customer bills on a real basis, partly offset by CPIH increases of around 1.5 per cent.

The COVID-19 pandemic and measures to control the spread of the virus have resulted in increased consumption of water and wastewater services across the household customer base during the period as more customers have been staying at home, and also reduced consumption by businesses. This in turn has resulted in an increase in household revenue of £25.5 million in the period, but the impact of this has been more than offset by a £39.5 million reduction in wholesale charges to non-household retailers.

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 the financial year would typically be similar to that recognised in the second half.

4. Employee benefits expense

Included within employee benefits expense was £0.6 million (30 September 2019: £8.7 million; 31 March 2020: £11.8 million) of restructuring costs.

5. Other operating costs

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Hired and contracted services	**45.9**	47.2	96.6
Property rates	**45.2**	39.3	75.9
Materials	**39.5**	36.9	75.1
Power	**38.5**	36.6	78.9
Regulatory fees	**14.5**	14.1	28.3
Insurance	**6.1**	7.0	13.5
Loss on disposal of property, plant and equipment	**2.2**	2.1	13.9
Cost of properties disposed	**0.1**	-	0.4
Other expenses	**9.0**	10.2	20.8
	201.0	193.4	403.4

During the second half of the year ended 31 March 2020 the group incurred operating costs of £19.2 million relating to the COVID-19 pandemic, comprising £18.1 million in relation to incremental allowances for expected credit losses in respect of trade and other receivables, and £1.1 million of other operating costs relating to the direct response to the onset of the pandemic. Operating costs of £3.1 million and infrastructure renewals expenditure of £4.7 million were also incurred in response to Storms Ciara and Dennis in February 2020.

During the six months to 30 September 2020 the group incurred £2.9 million of additional operating costs relating to the COVID-19 pandemic, and £1.7 million of operating costs together with infrastructure renewals expenditure of £1.5 million in response to a period of dry weather experienced over the spring and summer that coincided with the first nationwide lockdown associated with the pandemic. As such costs are now deemed to be 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 group's alternative performance measures set out on pages 23 and 24.

6. Investment income

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Interest receivable	**3.4**	4.9	10.0
Net pension interest income (note 13)	**8.7**	6.8	14.0
	12.1	11.7	24.0

7. Finance expense

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Interest payable	**104.9**	131.3	231.7
Net fair value losses on debt and derivative instruments	**27.1**	62.6	76.3
	132.0	193.9	308.0

7. Finance expense (continued)

Interest payable is stated net of £17.0 million (30 September 2019: £25.7 million; 31 March 2020: £40.6 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. Interest payable includes a £39.9 million (30 September 2019: £70.9 million; 31 March 2020: £100.8 million) non-cash inflation expense in relation to the group's index-linked debt.

In addition to the £308.0 million finance expense at March 2020, an allowance for expected credit losses of £5.0 million was recognised during the second half of the prior year in relation to loans extended to the group's joint venture, Water Plus, following a significant increase in credit risk resulting from the impacts of the COVID-19 pandemic on Water Plus's operations. No further allowance for expected credit losses in relation to these balances has been recognised during the six months to 30 September 2020. (See note 21 for further details on these related party balances).

Net fair value gains on debt and derivative instruments includes £11.4 million income (30 September 2020: £9.5 million income; 31 March 2020: £16.0 million income) due to net interest on derivatives and debt held under fair value option, and £1.4 million expense (30 September 2019: £0.6 million income; 31 March 2020: £0.5 million income) due to non-cash inflation uplift on the group's index-linked derivatives.

8. Tax

The total effective tax rate for the current and prior period was in line with the headline rate of 19 per cent. The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on capital investment, pension contributions, and unrealised gains and losses on treasury derivatives.

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

9. Earnings per share

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

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Profit after tax attributable to equity holders of the company – continuing operations	162.0	158.6	106.8
Weighted average number of shares in issue in millions			
Basic	681.9	681.9	681.9
Diluted	683.5	683.2	683.6
Earnings per share in pence			
Basic	23.8	23.3	15.7
Diluted	23.7	23.2	15.6

10. Dividends

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Dividends relating to the period comprise:			
Interim dividend	**98.3**	96.8	96.8
Final dividend	**-**	-	193.7
	98.3	96.8	290.5
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	96.8
Final dividend	**193.7**	187.7	187.7
	193.7	187.7	284.5

The interim dividends for the six months ended 30 September 2020 and 30 September 2019, and the final dividend for the year ended 31 March 2020, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2020 and 30 September 2019, and the consolidated financial statements at 31 March 2020, because they were approved after the reporting date.

The interim dividend of 14.41 pence per ordinary share (2019: interim dividend of 14.20 pence per ordinary share, final dividend of 28.40 pence per ordinary share) is expected to be paid on 1 February 2021 to shareholders on the register at the close of business on 18 December 2020. The ex-dividend date for the interim dividend is 17 December 2020.

11. Interests in joint ventures and other investments

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Joint ventures at the start of the period	**46.8**	79.0	79.0
Share of profit/(losses) of joint ventures	**2.5**	(5.7)	(38.1)
Less: Share of losses allocated to other components of long-term interest in joint ventures	**0.1**	-	9.5
Dividends received from joint ventures	**(6.4)**	(4.7)	(4.9)
Currency translation differences	**1.3**	1.2	1.3
Joint ventures at the end of the period	**44.3**	69.8	46.8
Other investments	**0.1**	0.1	0.1
Interests in joint ventures and other investments	**44.4**	69.9	46.9

The group's interests in joint ventures mainly comprise its 50 per cent interest in Water Plus Group Limited (Water Plus) and its 35.3 per cent interest in AS Tallinna Vesi (Tallinn Water). Water Plus is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement. Joint management of Tallinn Water is based on a shareholders' agreement.

As reported in the group's latest annual report, the carrying value of the group's net investment in Water Plus was reduced to £nil at 31 March 2020 as a result of the group's share of Water Plus's significant losses for that year. These losses included the crystallisation of an impairment of goodwill and certain other intangible assets recognised by Water Plus, and a significant incremental charge to recognise additional expected credit losses in relation to trade and other receivables, both of which are largely attributable to the COVID-19 pandemic.

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

The group's total share of Water Plus losses for the six months ended 30 September 2020 was £5.9 million (30 September 2019: £9.3 million; 31 March 2020: £51.5 million), of which £0.1 million (30 September 2019: £9.3 million; 31 March 2020: £46.2 million) has been recognised in the Income Statement and £5.8 million (30 September 2019: £nil; 31 March 2020: £5.3 million) has not been recognised.

The £0.1 million recognised share of losses has been allocated to the zero coupon shareholder loan notes extended to Water Plus, offsetting a £0.1 million increase in the fair value of the group's receivable balance during the period, as these form part of the group's long-term interest in the joint venture.

As at 30 September 2020, the group's cumulative unrecognised share of Water Plus losses was £11.1 million (30 September 2019: £nil; 31 March 2020: £5.3 million).

As at 30 September 2020, the carrying value of the group's 35.3 per cent interest in Tallinn Water was £44.7 million (30 September 2019: £42.6 million; 31 March 2020: £46.8 million). Tallinn Water recognised a provision of EUR 10.8 million in its latest financial statements relating to possible third-party claims. The maximum potential undiscounted payments if potential claims were recognised by the courts would amount to EUR 27.1 million. If the value of actual claims exceed the amount provided in the future, this would impact the group's share of profits of the joint venture and the joint venture's carrying value under the equity method of accounting in the period in which this occurs.

Details of transactions between the group and its joint ventures are disclosed in note 21.

12. Non-current assets held for sale

On 3 December 2019 the group completed the disposal of its overseas investment in the Muharraq sewerage treatment plant (STP). Consideration for the disposal was equal to the fair value at which the asset was carried resulting in no gain or loss on disposal.

13. Retirement benefit surplus

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

	Six months ended 30 September 2020 % p.a.	**Six months ended 30 September 2019 % p.a.**	**Year ended 31 March 2020 % p.a.**
Discount rate	**1.60**	1.80	2.30
Pensions increases	**3.10**	3.25	2.80
Pensionable salary growth:			
ESPS	**3.10**	3.25	2.80
UUPS	**1.90**	1.95	1.60
Price inflation - RPI	**3.10**	3.25	2.80
Price inflation - CPI	**1.90**	1.95	1.60

13. Retirement benefit surplus (continued)

The discount rate is consistent with a high quality corporate bond rate with 1.60 per cent being equivalent to gilts + 95bps (30 September 2019: 1.80 per cent being equivalent to gilts + 90bps; 31 March 2020: 2.30 per cent being equivalent to gilts + 160bps). 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 period 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. This has resulted in a discount rate c5bps higher than would previously have been the case, which has in turn resulted in remeasurement losses and therefore the fair value of defined benefit obligations being c£30 million lower, and the net retirement benefit surplus being c£30 million higher.

At 30 September 2020, 31 March 2020 and 30 September 2019, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively, and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively, reflecting actual mortality experience. At both 30 September 2020 and 31 March 2020, mortality in retirement is based on CMI 2019 (30 September 2019: CMI 2018) long-term improvement factors, with a long-term annual rate of improvement of 1.50 per cent (31 March 2020 and 30 September 2019: 1.50 per cent).

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

	Six months ended 30 September 2020 £m	**Six months ended 30 September 2019 £m**	**Year ended 31 March 2020 £m**
Current service cost	**2.5**	3.1	6.1
Curtailments/settlements	**0.2**	3.3	4.6
Administrative expenses	**1.1**	0.7	1.6
Pension expense charged to operating profit	**3.8**	7.1	12.3
Net pension interest income credited to investment income (note 6)	**(8.7)**	(6.8)	(14.0)
Net pension expense charged before tax	**(4.9)**	0.3	(1.7)

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 2020 £m	**Six months ended 30 September 2019 £m**	**Year ended 31 March 2020 £m**
At the start of the period	**754.1**	483.9	483.9
Expense recognised in the income statement	**4.9**	(0.3)	1.7
Contributions less unregistered pension promise payments	**4.6**	109.2	113.9
Remeasurement (losses)/gains gross of tax	**(109.3)**	105.9	154.6
At the end of the period	**654.3**	698.7	754.1

13. Retirement benefit surplus (continued)

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

	30 September 2020 £m	**30 September 2019 £m**	**31 March 2020 £m**
Present value of defined benefit obligations	(3,550.2)	(3,671.4)	(3,057.6)
Fair value of schemes' assets	4,204.5	4,370.1	3,811.7
Net retirement benefit surplus	654.3	698.7	754.1

The £109.3 million remeasurement loss has principally resulted from a decrease in credit spreads during the year. The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement gain recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

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

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.

Defined contribution schemes

During the period, the group made £11.4 million (30 September 2019: £10.9 million; 31 March 2020: £22.5 million) of contributions to defined contribution schemes which are included in employee benefits expense.

14. Trade and other receivables

Included within total current trade and other receivables of £244.7 million (30 September 2019: £264.8 million; 31 March 2020: £245.9 million) were trade receivables comprising the following:

	30 September 2020 £m	**30 September 2019 £m**	**31 March 2020 £m**
Gross trade receivables	**156.5**	151.9	149.6
Allowance for expected credit losses	**(68.8)**	(50.3)	(71.4)
Net trade receivables	**87.7**	101.6	78.2

Within the allowance for expected credit losses of £68.8 million was £16.7 million (30 September 2019: £nil; 31 March 2020: £16.7 million) and £1.4 million (30 September 2019: £nil; 31 March 2020: £1.4 million) recognised to reflect increased expected credit losses on household and non-household trade receivables respectively arising as a result of the COVID-19 pandemic. This is based on judgements around the likely impact of the pandemic on the non-payment risk profile of the group's customer base on a segmented basis.

15. Borrowings

New borrowings raised during the six months ended 30 September 2020, all of which were issued under the Euro medium-term note programme, were as follows:

- On 3 June 2020, the group issued £300 million fixed rate notes due June 2042.
- On 15 June 2020, the group issued £75 million fixed rate notes as a fungible increase to £350 million fixed rate notes issued in prior years, due February 2031.
- On 25 June 2020, the group issued £50 million fixed rate notes as a fungible increase to £300 million fixed rate notes issued in the prior year, due July 2033.
- On 27 July 2020, the group issued £95 million CPI-linked notes, due July 2040.
- On 24 August 2020, the group issued USD35 million fixed rate notes due August 2031.
- On 29 September 2020, the group traded £30 million CPI-linked notes as a fungible increase to the £95 million CPI-linked notes issued earlier in the year, due July 2040. These notes have a settlement date of 6 October 2020 and therefore are not included in the consolidated statement of financial position as at 30 September 2020.

Borrowings at 30 September 2020 include £58.0 million in relation to lease liabilities (30 September 2019: £54.5 million; 31 March 2020: £57.6 million), of which £55.3 million (30 September 2019: £51.4 million; 31 March 2020: £54.7 million) was classified as non-current and £2.7 million (30 September 2019: £3.1 million; 31 March 2020: £2.9 million) was classified as current.

16. Fair values of financial instruments

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

	30 September 2020		**30 September 2019**		**31 March 2020**	
	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	**459.3**	**459.3**	491.6	491.6	395.7	395.7
Derivative financial assets – held for trading	**200.0**	**200.0**	202.2	202.2	222.0	222.0
Derivative financial assets – cash flow hedge	**2.6**	**2.6**	2.0	2.0	0.2	0.2
Investments[(1)]	**0.1**	**0.1**	0.1	0.1	0.1	0.1
Non-current assets held for sale[(1)]	**-**	**-**	11.7	11.7	-	-
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities – fair value hedge	**(0.2)**	**(0.2)**	-	-	-	-
Derivative financial liabilities – held for trading	**(187.5)**	**(187.5)**	(150.3)	(150.3)	(141.9)	(141.9)
Derivative financial liabilities – cash flow hedge	**(0.4)**	**(0.4)**	(0.9)	(0.9)	(2.4)	(2.4)
Financial liabilities designated at fair value through profit or loss	**(411.2)**	**(411.2)**	(409.6)	(409.6)	(397.5)	(397.5)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(2,797.9)**	**(2,763.5)**	(3,025.3)	(2,983.8)	(2,440.0)	(2,590.5)
Other financial liabilities at amortised cost	**(7,386.3)**	**(5,771.5)**	(6,498.2)	(5,064.6)	(5,996.0)	(5,375.1)
	(10,121.5)	**(8,472.3)**	(9,376.7)	(7,901.6)	(8,359.8)	(7,889.4)

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

16. Fair values of financial instruments (continued)

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 £2,524.7 million (30 September 2019: £2,627.6 million; 31 March 2020: £1,981.5 million) for financial liabilities in fair value hedge relationships, and £1,689.7 million (30 September 2019: £540.0 million; 31 March 2020: £199.9 million) for other financial liabilities at amortised cost.

The £2,033.0 million increase (30 September 2019: £169.8 million increase; 31 March 2020: £816.4 million decrease) in 'level 1' fair value liability measurements is largely due to an increase in the number of observable quoted bond prices in active markets at 30 September 2020. 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 2020.

The principal reason for the increase in the difference between the fair value and carrying value of the group's borrowings at 30 September 2020 compared with the position at 31 March 2020 is a decrease in credit spreads during the period.

17. Cash generated from operations

	Six months ended 30 September 2020 £m	**Six months ended 30 September 2019 £m**	**Year ended 31 March 2020 £m**
Operating profit	**318.5**	383.0	630.3
Adjustments for:			
Depreciation of property, plant and equipment	**182.2**	179.4	441.6
Amortisation of intangible assets	**20.6**	19.9	41.2
Loss on disposal of property, plant and equipment	**2.2**	2.1	13.9
Amortisation of deferred grants and contributions	**(7.1)**	(6.6)	(13.8)
Equity-settled share-based payments charge	**1.4**	0.2	1.5
Changes in working capital:			
Increase in inventories	**(2.4)**	(1.3)	(1.7)
Decrease/(Increase) in trade and other receivables	**0.6**	(16.0)	4.6
(Decrease)/Increase in trade and other payables	**(16.3)**	3.9	(10.1)
(Decrease)/Increase in provisions	**(3.3)**	2.6	(0.4)
Pension contributions paid less pension expense charged to operating profit	**(0.8)**	(102.0)	(101.6)
Cash generated from operations	**495.6**	465.2	1,005.5

18. Net debt

Movements in net debt during the period were as follows:

	Six months ended 30 September 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
At the start of the period	**7,361.4**	7,067.3	7,067.3
Net capital expenditure	**312.5**	321.3	645.3
Dividends (note 10)	**193.7**	187.7	284.5
Interest	**65.8**	67.9	139.5
Inflation expense on index-linked debt (note 7)	**39.9**	70.9	100.8
Fair value movements	**38.4**	21.4	58.8
Tax	**31.1**	33.2	55.7
Extension/(repayment) of loans to joint ventures	**29.5**	(9.9)	(34.5)
Proceeds from disposal of investment	**-**	-	(12.0)
Non-cash movements in lease liabilities[(1)]	**1.1**	54.5	60.9
Other	**2.0**	(2.8)	5.5
Dividends from joint ventures	**(6.4)**	-	(4.9)
Cash generated from operations (note 17)	**(495.6)**	(465.2)	(1,005.5)
At the end of the period – original definition	**7,573.4**	7,346.3	7,361.4
Adjustments to exclude the fair value impact of:			
Interest rate derivatives fixing future nominal interest rates	**(152.6)**	(136.0)	(120.6)
Inflation derivatives fixing future real interest rates[(2)]	**(27.2)**	(8.3)	(11.9)
Electricity derivatives fixing future electricity costs	**2.2**	1.1	(2.2)
At the end of the period – revised definition	**7,395.8**	7,203.1	7,226.7

[(1)]Non-cash movements in lease liabilities for the six months ended 30 September 2019 and the year ended 31 March 2020 include the impact of the initial adoption of IFRS 16 *'Leases'* on 1 April 2019, further details of which can be found in the group's annual report and financial statements for the year ended 31 March 2020.

[(2)]The adjustment for inflation derivatives includes their fair value less principal accretion.

Under both the original and revised definitions, 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 2020 £m	30 September 2019 £m	31 March 2020 £m
Borrowings	**8,946.2**	8,512.5	8,363.1
Derivative financial instruments (liabilities)	**188.1**	151.2	144.3
Derivative financial instruments (assets)	**(661.9)**	(695.8)	(617.9)
Cash and short-term deposits	**(899.0)**	(621.6)	(528.1)
Net debt – original definition	**7,573.4**	7,346.3	7,361.4
Adjustments to exclude the fair value impact of:			
Interest rate derivatives fixing future nominal interest rates	**(152.6)**	(136.0)	(120.6)
Inflation derivatives fixing future real interest rates	**(27.2)**	(8.3)	(11.9)
Electricity derivatives fixing future electricity costs	**2.2**	1.1	(2.2)
Net debt – revised definition	**7,395.8**	7,203.1	7,226.7

18. Net debt (continued)

During the period, the group has revised its definition of net debt in order to exclude the impact of derivatives that are not hedging specific debt instruments and therefore give a fairer reflection of the net debt amount the group is contractually obliged to repay. This updated approach is now more consistent with that taken by the credit rating agencies, and better reflects the regulatory economics.

Fair value movements includes net fair value losses on debt and derivative instruments of £61.1 million (30 September 2019: £53.9 million gain; 31 March 2020: £43.5 million loss) less net payment on swaps and debt designated at fair value of £22.7 million (30 September 2019: £33.1 million net receipt; 31 March 2020: £15.3 million net receipt) and foreign exchange gains on investments measured at fair value through profit or loss of £nil (30 September 2019: £0.6 million; 31 March 2020: £nil).

Notional net debt totals £7,349.4 million as at 30 September 2020 (30 September 2019: £7,206.3 million; 31 March 2020: £7,181.3 million). Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and short-term deposits, taking: the face value issued of any nominal sterling debt; the inflation accreted principal of the group's index-linked debt; and the sterling principal amount of the cross-currency swaps relating to the group's foreign currency debt.

19. Other reserves

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 8)	-	-	-	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**

Six months ended 30 September 2019

	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 2019	(3.7)	1,033.3	(703.6)	12.0	0.3	**338.3**
Changes in fair value recognised in other comprehensive income	-	-	-	1.5	(0.4)	**1.1**
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	1.9	**1.9**
Tax on items taken directly to equity (note 8)	-	-	-	(0.3)	(0.3)	**(0.6)**
Foreign exchange adjustments	1.7	-	-	-	-	**1.7**
At 30 September 2019	**(2.0)**	**1,033.3**	**(703.6)**	**13.2**	**1.5**	**342.4**

19. Other reserves (continued)

Year ended 31 March 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 2019	(3.7)	1,033.3	(703.6)	12.0	0.3	**338.3**
Changes in fair value recognised in other comprehensive income	-	-	-	1.3	(7.6)	**(6.3)**
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	5.6	**5.6**
Deferred tax adjustments in respect of prior years on net fair value gains	-	-	-	(2.4)	-	**(2.4)**
Tax on items taken directly to equity (note 8)	-	-	-	(0.2)	0.4	**0.2**
Foreign exchange adjustments	1.3	-	-	-	-	**1.3**
At 31 March 2020	**(2.4)**	**1,033.3**	**(703.6)**	**10.7**	**(1.3)**	**336.7**

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.

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

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

20. Commitments and contingent liabilities

At 30 September 2020 there were commitments for future capital expenditure contracted but not provided for of £377.3 million (30 September 2019: £249.8 million; 31 March 2020: £435.2 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 currently in its early stages. While the litigation's likely direction and the quantum of any compensation being claimed is uncertain at this stage, 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 (31 March 2020 and 30 September 2019: none).

21. 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 2020 £m	Six months ended 30 September 2019 £m	Year ended 31 March 2020 £m
Sales of services	**172.5**	221.8	438.3
Charitable contributions advanced to related parties	**-**	0.3	0.4
Purchases of goods and services	**-**	-	0.1
Interest income and fees recognised on loans to related parties	**1.2**	1.7	4.0
Amounts owed by related parties	**154.3**	172.6	147.9
Amounts owed to related parties	**4.6**	-	4.8

Sales of services to related parties mainly represent non-household wholesale charges to Water Plus that were billed and accrued during the period, with the reduction primarily due to lower levels of consumption by businesses during the period as a result of COVID-19. 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 2020 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £154.3 million (30 September 2019: £172.6 million; 31 March 2020: £147.9 million), comprising £29.8 million (30 September 2019: £38.9 million; 31 March 2020: £52.9 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £124.5 million (30 September 2019: £133.7 million; 31 March 2020: £95.0 million) relating to loans.

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

- £95.4 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £100.0 million outstanding net of a £4.6 million allowance for expected credit losses;
- £nil receivable being the £10.1m 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 £0.5 million allowance for expected credit losses, and £9.6 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 11). Of these recognised losses, £0.1 million was recognised during the period. This is a zero coupon shareholder loan with a total amount outstanding at 30 September 2020 of £12.5 million, comprising the £10.1 million receivable measured at fair value, and £2.4 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures, which has been reduced to £nil as a result of the allocation of the group's recognised share of joint venture losses against this balance; and
- £27.5 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million of non-current receivables was owed by other related parties at 30 September 2020.

The allowances for expected credit losses of £4.6 million and £0.5 million, recognised against the revolving credit facilities and zero coupon shareholder loan note respectively, together with the £9.6 million share of joint venture losses recognised against the interest-free shareholder loan note, primarily result from the impacts of the COVID-19 pandemic, which has resulted in Water Plus recognising significant losses during the year ended 31 March 2020, giving rise to a significant increase in credit risk.

21. Related party transactions (continued)

During the year, 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 2020, amounts owed to related parties were £4.6 million (30 September 2019: £nil; 31 March 2020: £4.8 million). Included within this amount is £4.5 million due to Water Plus for the surrender of consortium relief tax losses for the year ended 31 March 2020. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

22. Events after the reporting period

Apart from the issuance of £30 million CPI-linked notes traded on 29 September 2020 with a settlement date of 6 October 2020, as set out in note 15, 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 2020. 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
Philip Aspin
Stephen Carter
Mark Clare
Alison Goligher
Brian May
Paulette Rowe
Kathleen Shailer
Douglas Webb

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

………………………..	……………………….
Steve Mogford	Philip Aspin
24 November 2020	24 November 2020
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 2020 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 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Ian Griffiths
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
24 November 2020