United Utilities Group PLC
23 November 2022

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

Investment strategy and Systems Thinking delivering for customers…

- Investment in sophisticated real time planning and integrated network has enhanced our water supply resilience
- Additional investment announced in May driving 21% reduction in water quality contacts
- Dynamic Network Management investment helping to deliver lowest ever levels of sewer flooding
- On track to deliver leakage target; helped by early investment, latest innovations and detection techniques
- Sector leading customer support package with c£280m support in AMP7 helping more than 200,000 households
- Strong supporter of the CCW's[1] proposal for a national social tariff to help customers right across the country
- Investing in the North West's future, with our biggest ever intake of graduates and apprentices

…and the environment

- Awarded highest 4-star environmental rating in the EA's annual assessment for the fifth time in seven years
- Progressing with Better Rivers programme; 29% reduction in spills[2] last year and further improvement this year
- Supporting the Government's ambitious environmental targets with investment plans enabling an early start
- Environmental programmes for AMP8 and beyond expected to drive significant increases in sector investment

Operational and financial resilience

- Strong capital programme delivery with 98% of AMP7 base programme let and 65% already delivered
- Power commodity prices locked-in on 96% of FY23 forecast consumption; at an average rate of £85/MWh
- Effective cost management helping to mitigate inflation impact; RCV and totex allowance indexed to inflation
- Cash collection remains strong with household bad debt stable at 1.8% in the first half of the year
- Lower consumption drives improved PCC performance, and £19m impact on revenue will be recovered in FY25
- On track to deliver £30m ODI reward for FY23; targeting c£200m for AMP7, almost five times our AMP6 reward
- Earnings mainly impacted by higher inflation on index-linked debt; underlying EPS[3] of -1.8p, down from 28.4p
- Inflation supporting AMP7 nominal RCV growth of 27.5%[4] and FY23 RoRE in excess of 7.9% earned in FY22
- Strong balance sheet; sector-leading credit rating and improved gearing[5] at 60% benefitting from RCV inflation
- Pension position resilient to recent market challenges, with headroom for further de-risking
- Dividend in line with AMP7 policy, supported by strong operational and financial performance

Key financials

	Six months ended	
	30 September 2022	**30 September 2021**
Revenue	£919.3m	£932.3m
Reported and underlying operating profit[3]	£258.5m	£332.8m
Reported earnings per share (pence)	51.8p	(31.7)p
Underlying earnings per share[3] (pence)	(1.8)p	28.4p
Interim dividend per ordinary share (pence)	15.17p	14.50p
Net regulatory capital spend	£334.5m	£303.2m
RCV gearing[5]	60%	62%

[1] Consumer Council for Water
[2] As reported against a 2020 baseline
[3] Underlying measures are defined in the tables on pages 13 to 15
[4] Includes returns to be received as revenues in AMP8 and inflation assumptions based on a consensus from a selection of banks and HM
[5] Treasury Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited's shadow (adjusted for actual spend and timing difference) RCV

Steve Mogford, Chief Executive Officer, said:

"We continue to focus on the areas that matter most to our stakeholders, delivering sustainable operational improvements for customers and the environment, demonstrating financial resilience and improving regulatory performance, all while providing sector-leading affordability support.

"The North West is home to many of the most deprived communities across the country, and many people are deeply worried about the rising cost of living, which is why we work hard to help customers who are struggling to pay their bills. £280 million of affordability support is being provided to more than 200,000 households between 2020 and 2025, reflecting both customer social tariffs and company contributions. We believe that affordability support should not be a postcode lottery, which is why we are a strong supporter of the Consumer Council for Water's proposal for a national social tariff to help households with their water bills.

"During what has been a difficult macro environment we have shown both operational and financial resilience. While we have not been immune to the impact of inflation, we are well placed compared to many as a result of our tight cost management, effective hedging strategy, and regulatory mechanisms providing further mitigation to rising costs.

"Our responsible, long term approach to investing and deployment of Systems Thinking is delivering sustainable improvements and creating long-term value for our stakeholders. We are improving water quality, have achieved our lowest ever level of sewer flooding, and are on track to meet our leakage reduction target. The Environment Agency has recognised our efforts again by awarding us the highest 4-star ranking for our performance in its latest assessment – the fifth time we have received this status in the last seven years. Storm overflows are a huge area of focus for us, and for the sector, and our Better Rivers, Better North West programme sets out a clear plan of action to reduce their use and improve the environment. It's a big task but we are already making progress having reduced reported spills by 29% last year and making further progress this year.

"There is more that we would like to be able to do. The Environment Agency recently identified new statutory requirements that companies will be required to deliver in the next regulatory period, AMP8, and beyond. While we are strong supporters of this ambitious programme of environmental improvements, the rate of change must consider affordability and deliverability, and we are working with regulators to determine the pace of investment. Our resilient financial position, supported by our Systems Thinking approach, sees us well placed to deliver more for all our stakeholders for the long term."

Enquiries

For further information on the day, please contact:

Gaynor Kenyon – Corporate Affairs Director	+44 (0) 7753 622 282
Anna Oberg – Investor Relations Manager	+44 (0) 7435 939 112
Graeme Wilson – Tulchan Communications	+44 (0) 2073 534 200

Presentation webcast and conference call details

We will be hosting a live virtual presentation at 9.00am on Wednesday 23 November 2022, which can be accessed via the following link:
http://www.unitedutilitiestv.live/

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

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

OPERATIONAL PERFORMANCE

We have continued to improve operational performance in the first half of this year, focused on delivering our purpose of providing great water and more for the North West. Customers and the environment are benefitting from our operational excellence and investment in the areas that matter most to our stakeholders, and these sustainable performance improvements are earning outcome delivery incentive (ODI) rewards.

We have improved water quality for customers, with a resilient water supply and our lowest ever level of sewer flooding, whilst providing sector-leading affordability support. We are consistently one of the leading companies in the industry on environmental performance, with the highest four star rating from the Environment Agency, and we are making good progress against our river pledges with significant reductions in spills from storm overflows, having already delivered a 29 per cent reduction in reported spills last year (from a 2020 baseline), and with further improvement expected this year.

We, alongside the rest of the country, have been navigating a backdrop of considerable political and economic uncertainty in recent months, but our robust financial risk management approach and tight cost control gives us a strong relative position and we remain confident that we will continue to deliver long-term value for all our stakeholders.

Providing great water for customers

We continue to perform well on Ofwat's measure of customer satisfaction, C-MeX. Our combined score for the first half of the year sees us in the top half for the industry, the highest of the listed companies, and fourth out of all water and wastewater companies. We work hard to resolve any issues that do arise, with only 3 per cent of complaints reaching stage 2, making us an upper quartile industry performer.

It is pleasing that so many customers are happy with the service we are providing, but we continue to strive to do even better. We are making great progress on water quality, which was one of the areas targeted by the additional investment we announced in May. The work we have been doing on mains cleaning to reduce discolouration at customers' taps has helped us achieve a 21 per cent reduction in taste, smell and appearance contacts from customers. This was an area where we incurred an ODI penalty last year but are currently on track for a reward this year.

During September we ran Water Quality First week, an internal event highlighting the crucial roles different teams across the company play in providing great water all the way from source to tap. We received great employee engagement, all helping to highlight the important work we are doing and the improvements we are making in water quality for customers.

We are also working to do more on reducing leakage, building on a track record of having met our leakage target for 16 consecutive years. Recognising this as an area of increased importance to stakeholders in recent years, we committed early start investment before the beginning of AMP7 and we are on track to deliver our target to reduce leakage by 15 per cent by 2025, having reduced leakage by 7 per cent so far this AMP. This has been delivered using the latest innovations and detection techniques, including the use of Pressure Management Valves, installation of over 72,000 sensors across our pipe network, and rapid machine-learning technology that can pinpoint the exact location and size of a leak with a greater than 85 per cent success rate just based on the unique sound it makes.

The country experienced particularly dry weather this summer, and we saw just 63 per cent of the long-term average rainfall expected in the North West during July and August, with some areas in our region receiving less than half of the rainfall we would typically expect.

As a result of ground movement caused by this dry weather, we experienced three atypically large pipe bursts, resulting in an increase in the level of supply interruptions, but our teams worked around the clock to fix the damaged pipes as well as deploying our tanker fleet and setting up bottled water stations to ensure customers continued to receive water during the time in which mains supply was impacted. This has resulted in an £8 million increase in operating costs in the first half of the year, including a £1 million provision for net amounts we may be liable to pay in future periods.

Our water resilience performance through this dry summer was very good. We avoided the need for any restrictions on water use for customers in the North West as a result of our proactive customer engagement activities and the previous investment we have made to develop a sophisticated real time water production planning system together with the ability to move large volumes of water around our integrated network.

Protecting and enhancing the environment

We were awarded the top four star rating in the Environment Agency's most recent annual performance assessment for 2021, making us an Industry Leading Company for the fifth time in the last seven years. This is a great achievement against the backdrop of a continuously evolving and tougher assessment regime.

We had the lowest overall levels of pollution in the sector, having delivered a 33 per cent reduction in pollution incidents since the start of AMP7, and we are on track to improve even further this year. We also have the lowest levels of serious pollution incidents in recent years, with only one incident in the last three years (2019-2021).

River health is an ongoing priority, and our 'Better Rivers, Better North West' programme detailed our pledges and targets for kick-starting a river revival across the region, supported by £230 million base investment across AMP7 that will lead to 184 kilometres of improved waterways. In addition to this £230 million, part of the reinvestment of outperformance we announced in May is being used to accelerate these plans and get a head start on future requirements.

Spills from storm overflows are a big area of focus for the whole industry as part of improving river health. Following keen interest from the public and Government, and publication of the new Environment Act 2021, ambitious targets have been set for a progressive but substantial reduction in spill frequency across the country.

Storm overflows help to minimise the risk of sewer flooding in periods of heavy rainfall by allowing heavily diluted wastewater to be released directly to the environment. The North West receives 28 per cent more average annual rainfall than other regions and the industrial legacy of our region means we have a much higher proportion of combined sewers, with 55 per cent of our network taking both waste and surface water compared with the industry average of 27 per cent. The combined result of these unique characteristics means that more rain is collected more often in our region than any other wastewater system in the country. As a result of these new national requirements and the regional imbalance in the level of rainfall that enters sewers, new targets to reduce spill frequency indicate a substantial investment need over the longer term, with DEFRA comimissioned estimates suggestingthat over 60 per cent of the sector investment necessary to meet their targets needing to be made in the North of the country. We are still early in the process of scoping and costing our environmental programme for AMP8, but as a result of these targets and other drivers coming out of the Environment Act, early indications point to an investment that could be significantly higher than the average level over the last two AMP periods. Given the size of this potential investment, we are in discussions with regulators about balancing the pace of investment in light of affordability and deliverability considerations, and the investment needed to meet these new environmental requirements is likely to run over successive AMP periods.

We were an early adopter of spill monitoring and have one of the largest installed bases in the sector, with 100 per cent coverage to be achieved by 2023. Our Better Rivers programme is delivering improvements that support our target of at least a 33 per cent reduction in spills by 2025, from a 2020 baseline. We have already made great headway, delivering a 29 per cent reduction last year, and our progress so far this year suggests that we will exceed this target. We are conscious that performance can be significantly influenced by weather and while we are extremely pleased with the progress delivered so far, we recognise that there is more we could do, both individually and as a sector. The Government has asked us to go faster, and we have responded by identifying additional investment that could be spent in AMP7 but would be fully recovered in AMP8.

As well as heavy rainfall exceeding sewer capacity, sewer blockages can result in an eventual spill. This is one of the areas helped by our £100 million investment in Dynamic Network Management (DNM), a state-of-the-art digital solution that uses a network of sensors and artificial intelligence that provides a real-time picture of what's happening in our sewers, allowing prediction and proactive detection of deviations from expected levels of performance in our wastewater network. These alerts mean preventative activities can be taken by our operational teams to avoid sewer blockages from forming. DNM is now in operation and our investment is already achieving success, contributing to our best ever sewer flooding performance as well as helping us to reduce spills from storm overflows.

Providing sector-leading affordability support

The North West is home to many of the most deprived neighbourhoods in England, and supporting customers that are struggling with their bills has long been one of our top priorities. With many households across our region seriously impacted by recent cost of living increases, this is now even more important.

We are helping over 200,000 customers, more than ever before, through our extensive range of affordability schemes. We monitor customer payment behaviour to proactively identify customers who may be struggling to pay and use targeted early intervention communications to increase awareness of available support and flexible payment plans, as well as water efficiency advice. We have revamped our affordability webpages to simplify key messaging and improve accessibility of support and we use a range of methods, including social media and our data share arrangement with the DWP, to ensure we can get help to a wide range of people who need it. We were the first water company to utilise Open Banking technology, which gives customers the ability to share their account details so we can expedite the process of verifying their eligibility for our support schemes, meaning a process that could take two weeks can be done in just minutes.

We actively engage with customers to offer advice and awareness to help deliver reductions in water demand, particularly around dry weather periods like we saw this summer, and per capita consumption has reduced by around 11 per cent so far this year. This helps customers to keep their bills down (both water bills for metered customers, and energy bills where they are using less heated water), whilst also improving regional water resource resilience and ODI performance. We are making significant progress in eliminating voids, finding properties that are using water but not being billed, which helps to keep average customer bills lower as well as earning ODI rewards.

As a result of the cost of living challenges households are currently facing, there is a higher level of uncertainty around the potential impact on cash collection. However, it is encouraging to see that our proactive engagement, innovative solutions and tailored assistance has meant that we have more customers on direct debits and payment plans than ever before. Cash collection so far this year has been particularly strong, remaining on target despite the challenging current economic environment. This all supports our lowest ever level of bad debt, at 1.8 per cent of regulated revenue.

We are strong supporters of the national social tariff proposal put forward by the Consumer Council for Water. This measure would level up affordability support so it is not a postcode lottery and provide much needed help to struggling families across the country during these challenging times.

Supporting and developing our people

We have delivered over 10,000 days of training over the first half of this year, with around 45 per cent being delivered remotely or via e-learning, ensuring a cost efficient and effective delivery built on adaptations made during the pandemic. In addition to remote learning, we continue to deliver best-in-class practical training at our technical training centre, supplemented by our ‘on the road’ programme at key satellite sites in the north of our region to minimise travel time.

As a large employer in the North West with over 6,000 employees, we are committed to recruiting from all areas of our communities and have been shortlisted for both the Social Mobility and Inclusive Culture initiatives in the Inclusive Company Awards 2022. We are committed to developing younger generations across the region, having welcomed 90 new apprentices and graduates in September. Our pipeline of future operational leaders is strengthened through our Aspiring Manager talent development programme, in partnership with Manchester Metropolitan University, which has been completed by over 20 employees graduating with degrees in Business Management this summer and is preparing to welcome the next intake. 92 per cent of previous graduates on this programme have secured promotions or role changes.

We continue to make progress on our diversity and inclusion strategy, having sponsored the first ever North West Diversity and Inclusion Summit in April and piloted our ‘Stepping Up’ programme to support development of ethnic minority colleagues, as well as continuing to support the 10,000 Black Interns programme. We held our inaugural Employee Network AGM and Inclusion Awards, celebrating colleagues’ contributions to championing inclusion in the workplace and our local communities. We continue to receive external recognition for our efforts, ranking for the third consecutive year in the top one per cent of over 850 companies across Europe in the Financial Times’ Statista Diversity Survey.

We launched a new electric car salary sacrifice scheme in May, enabling our employees to access benefits that help them play a part in mitigating climate change. This has received significant interest with over 120 orders already placed.

Delivering our AMP7 regulatory contract and preparing for AMP8

We are one of the top performing companies on customer ODI rewards, on track for our largest annual reward of £30 million this year, and continuing to target a net reward of £200 million for AMP7. This is supported by strong performance in areas such as minimising pollution incidents, water service resilience, lifting customers out of water poverty, and eliminating voids, as well as the investment we have made to improve performance in areas such as sewer flooding and discolouration of water, where our performance has been weaker.

We are not immune to widespread macro challenges resulting from high levels of inflation, but we are relativley well placed. We have 98 per cent of our base capital programme for AMP7 on contract, with 65 per cent already delivered at this halfway point in the five-year period, and we have power commodity prices locked-in on 96 per cent of our forecast consumption for this financial year at an average price of £85/MWh compared to the market cap of £211/MWh. Meanwhile we continue to seek efficiencies and exploit technology and innovation to help us deliver our total expenditure (totex) efficiently.

We are building an ambitious plan for the 2025-30 period, AMP8, and we are confident that our strong and resilient corporate and financial structure, supported by our Systems Thinking approach and a culture that seeks to continually improve, innovate and invest for sustainable long term performance, sees us well placed to continue to deliver for all our stakeholders in this regulatory period and beyond.

Over the last 8 weeks we have released a series of short videos showcasing a few of the ways we are using innovation and technology to develop sustainable ESG solutions for some of the modern challenges water companies face with an increasing population, urbanisation of the landscape, and a changing climate. We wil continue to apply this forward-thinking approach in our plans for AMP8 and beyond, helping us deliver further improvements in performance and resilience. The videos can be viewed at: https://www.unitedutilities.com/corporate/responsibility/esg-playlist/

FINANCIAL PERFORMANCE

Revenue for the six months to 30 September 2022 decreased by 1 per cent, mainly driven by lower consumption than predicted which more than offsets the allowed regulatory revenue increase but will be recovered in FY25. Household cash collection has remained robust and bad debt is stable at 1.8 per cent of regulated revenue, supported by our sector-leading affordability support schemes and use of innovative tools and techniques. As set out in our trading update of 27 September 2022, the current difficult macro-environment has impacted financial performance in the first half of the year. Operating profit was down £74 million, driven by the decrease in revenue and a combination of inflationary increases on input costs, increased investment in infrastructure renewals expenditure (IRE) and the impact of incidents resulting from dry weather over the summer.

While inflation has impacted both our reported and underlying financial performance, we continue to focus on tight cost management, and this, alongside effective power hedging, is helping to lessen the impact of inflation on our cost base. Furthermore, our regulatory mechanism provides mitigation through inflationary uplifts to our totex allowance and the Regulatory Capital Value (RCV). The regulatory performance of the business remains robust and we are on track to deliver an improved return on regulatory equity (RoRE) this year.

We continue to have one of the strongest balance sheets in the sector, with RCV gearing comfortably within our target range and an industry-leading, fully funded pension position which has been resilient to the recent market challenges. Both of these support a sector-leading stable A3 credit rating with Moody's.

Revenue

	£m
Six months to 30 September 2021	932.3
Regulatory revenue changes -1.3 per cent real reduction in allowed wholesale revenues and 4.6 per cent uplift in line with CPIH inflation	29.8
Non-household consumption impact	(37.9)
Household consumption impact	(17.5)
Other	12.6
Six months to 30 September 2022	**919.3**

Revenue was down £13 million, at £919 million, largely reflecting lower consumption more than offsetting the allowed regulatory revenue increase.

In the first half of 2022/23 we have had a £30 million increase in the revenue cap, largely incorporating a 4.6 per cent CPIH-linked increase partly offset by a 1.3 per cent real reduction in allowed wholesale revenues.

Non-household revenue has decreased by £38 million compared with the first half of last year and household consumption has decreased by £18 million, both largely in reflection of changes in consumption, which was atypically high in the first half of last year.

For both domestic and business customers we had predicted a slower return to the lower, pre-pandemic consumption levels than we are actually seeing. In part, this has been driven by our active engagement and awareness campaigns to help deliver reductions in water demand. This has resulted in a £19 million under-recovery against allowed revenues for the first half of the year. Under the revenue control, this consumption impact is recoverable in two years' time.

Operating profit

	£m
Underlying and Reported – six months to 30 September 2021	332.8
Revenue decrease	(13.0)
Inflationary increases	(36.2)
Costs driving ODI performance	(8.8)
Dry weather costs	(8.4)
SaaS costs	(3.0)
Other	(4.9)
Underlying and Reported – six months to 30 September 2022	**258.5**

Operating profit at £259 million was £74 million lower than the first half of last year, largely reflecting the decrease in revenue and the combination of inflationary increases in our core costs, alongside the impact of one-off incidents resulting from dry weather over the summer.

As expected, inflationary pressures have impacted input costs resulting in a £36 million increase. The largest increases have been to power and chemical costs while we have experienced smaller inflationary increases to labour and other contract costs.

The £9 million of additional infrastructure renewals expenditure driving ODI performance is targeted at improving performance against specific customer ODIs. This is primarily spend associated with investments in Dynamic Network Management and improving water quality.

The drier summer months led to ground movement and resulted in three atypically large pipe bursts in our water network, resulting in a £8 million cost to repair our network, support customers and pay appropriate compensation.

The IFRS Interpretations Committee decision during the prior year in respect of configuration costs associated with Software as a Service means that costs of £3m in the first half of the year are treated as operating costs whereas previously they were accounted for as fixed asset additions.

Our bad debt position has remained strong, stable at our lowest ever level of household bad debt of 1.8 per cent of regulated revenue.

Profit before tax

	£m
Underlying – six months to 30 September 2021	196.8
Underlying operating profit decrease	(74.3)
Underlying net finance expense increase	(132.4)
Share of JVs profits increase	2.0
Underlying loss before tax – six months to 30 September 2022	**(8.0)**
Adjusted items including fair value gains *	434.2
Reported profit before tax – six months to 30 September 2022	**426.3**

* Adjusted items are set out on pages 13 to 15.

Underlying loss before tax was £8 million, £205 million lower than the underlying profit before tax in the first half of last year. This reflects the £74 million decrease in underlying operating profit and an increase in underlying net finance expense of £132 million, slightly offset by a reduction in share of losses of joint ventures of £2 million, from a £1.8 million share of losses in the first half of last year to a small £0.2 million share of profits. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 13 to 15.

Reported profit before tax increased by £214 million to £426 million reflecting a £255 million decrease in reported net finance expense (including fair value movements), from a £119 million net finance expense in the first half of last year to a £136 million net finance income, £2 million reduction in share of losses of joint ventures and a £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited, partly offset by the £74 million decrease in reported operating profit.

The allowed inflationary increase in the current financial year is based on CPIH in November of the previous financial year. This means that rising inflation is reflected in core costs and the cost of index-linked debt sooner than it is reflected in increased revenue. We therefore are reporting a reduction in earnings in the current year with the uplift to revenue based on current inflation expected to follow in revenues in 2023/24.

- Net finance expense/income

	£m
Underlying net finance expense– six months to 30 September 2021	134.2
Indexation (including the impact of inflation swaps) increase	186.2
Capitalised borrowing costs increase	(41.5)
Net pension interest income increase	(7.1)
Interest on index linked debt and derivatives decrease	(3.5)
Interest receivable on short-term bank deposits and loans to JVs increase	(2.8)
Interest on non-index linked debt and derivatives increase	1.1
Underlying net finance expense – six months to 30 September 2022	**266.6**
Adjusted items – fair value gains *	(403.0)
Reported net finance income– six months to 30 September 2022	**(136.4)**

* Adjusted items are set out on pages 13 to 15.

The underlying net finance expense of £267 million was £132 million higher than the first half of last year, mainly due to the non-cash impact of significantly higher inflation on our index-linked debt.

The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £290 million, compared with a net charge of £103 million in the first half of last year, resulting in an increase of £187 million. Offsetting this increase are £42 million higher capitalised borrowing cost and £7 million higher net pension interest income. Interest payable on index-linked debt (including the impact of inflation swaps) of £13 million is £4 million lower than the first half of last year. Interest receivable on short-term bank deposits and loans to JVs is £3 million higher than the first half of last year and interest payable on non-index linked debt and derivatives is £1 million higher than the first half of last year.

The £267 million underlying net finance expense included in the income statement for the year compares with £54 million net cash interest paid included in the statement of cash flows. This £213 million difference is due to non-cash inflation uplifts on index linked debt and derivatives of £290 million, less capitalised borrowing costs of £63 million and net pension interest income of £14 million, both of which are also non-cash items.

Reported net finance income of £136 million was £254 million higher than the £118 million net finance expense in the first half of last year, reflecting the £387m increase in net fair value gains on our debt and derivative instruments excluding interest on derivatives and debt under fair value option, from £16 million in the first half of last year to £403 million in the first half of this year. This is partially offset by the £132 million increase in underlying finance expense.

- Joint ventures

  For the six months to 30 September 2022, we recognised a £0.2 million profit in the income statement relating to our joint venture Water Plus, compared with a £1.8 million net share of losses from joint ventures in the first half of last year. Further details can be found in note 11 of these condensed consolidated financial statements.

Profit/(loss) after tax and earnings per share

	PAT £m	Earnings per share Pence/share
Underlying – six months to 30 September 2021	193.9	*28.4p*
Underlying profit before tax decrease	(204.7)	
Underlying tax increase, including the impact of capital allowance 'super deductions'	(1.4)	
Underlying – six months to 30 September 2022	**(12.2)**	***(1.8)p***
Adjusted items *	365.2	
Reported – six months to 30 September 2022	**353.0**	***51.8p***

* Adjusted items are set out on pages 13 to 15.

Underlying loss after tax of £12 million was £206 million lower than the first half of last year, and underlying earnings per share decreased from 28.4 pence to (1.8) pence, as the £205 million reduction in underlying profit before tax is increased slightly by a £1 million increase in underlying tax.

The group has a reported profit after tax of £353 million for the first half of this year, compared with a £216 million reported loss after tax in the first half of last year. This £569 million difference reflects the £214 million increase in reported profit before tax, and a £355 million decrease in deferred tax largely due to a one-off charge in the first half of last year to restate the brought forward deferred tax liability at the new 25 per cent future headline rate. Reported basic earnings per share increased from (31.7) pence to 51.8] pence.

- Tax

  We continue to be fully committed to paying our fair share of tax and acting in an open and transparent manner in relation to our tax affairs, and are delighted to have been accredited with the Fair Tax Mark again in 2022 for the fourth year running.

  In addition to corporation tax, the group makes further contributions to the public finances, typically of around £200 million per annum, in the form of business rates, employer's national insurance contributions, environmental taxes, other regulatory service fees such as water abstraction charges as well as employment taxes on behalf of our 6,000 strong workforce.

  We paid corporation tax of £2 million in the period and also received a provisional repayment of corporation tax of £18 million which relates to prior years' UK tax matters. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation. For the current period, the cash tax paid is low due to the impact of the capital allowances super deductions, announced in the March 2021 Chancellor's Budget and affecting our eligible plant and machinery additions in 2022 and 2023.

  The current tax charge was £4 million in the six months to 30 September 2022, compared with £5 million in the previous half year.

  For the six months to 30 September 2022, we recognised a deferred tax charge of £69 million, compared with £42 million for the same period last year. The prior year figure excludes the £382 million one-off deferred tax charge reflecting the 25 per cent future headline rate.

  The total effective tax rate, was 17 per cent for the six months to 30 September 2022, compared with 22 per cent in the previous half year; the decrease being mainly due to the non-taxable profit on the disposal of United Utilities Renewable Energy Ltd and an increase in capital allowances "super-deductions".

  In the period, there were £21 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes and on hedge effectiveness.

Dividend per share

The Board has proposed an interim dividend of 15.17 pence per ordinary share in respect of the six months ended 30 September 2022. This is an increase of 4.6 per cent compared with the interim dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The 4.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2022/23 financial year (i.e. the movement in CPIH between November 2020 and November 2021).

The interim dividend is expected to be paid on 1 February 2023 to shareholders on the register at the close of business on 23 December 2022. The ex-dividend date is 22 December 2022. The election date for the Dividend Reinvestment Plan is 11 January 2023.

Cash flow
Net cash generated from continuing operating activities for the six months to 30 September 2022 was £401 million, £70 million lower than £471 million in the first half of last year, but continuing to facilitate ongoing investments and helping to support our dividend policy.

The group's net capital expenditure was £331 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure, which is treated as an operating cost.

Pensions
As at 30 September 2022, the group had an IAS 19 net pension surplus of £824 million, compared with a surplus of £1,017 million at 31 March 2022. This £193 million decrease has principally resulted from experience losses recognised in the period due to actual inflation being higher than assumed at 1 April 2022, as well as increases in discount rate assumptions more than offset by increases in net yields reducing the schemes assets by a greater amount that the liabilities. A significant rise in yields occurred following the Government's "mini-budget" announced on 23 September 2022 and had wider implications for many UK pension schemes. As a result of our clear and robust policies, our schemes were able to successfully navigate what was an extremely challenging set of market conditions.

Further detail on pensions is provided in note 12 ('Retirement benefit surplus') of these consolidated financial statements.

Financing

Net debt	**£m**
At 31 March 2022	7,570.0
Cash generated from operations	(439.0
Net capital expenditure	330.7
Indexation including the impact of inflation swaps	289.5
Dividends	197.7
Interest	53.7
Net proceeds from disposal of subsidiary	(90.5)
Other	83.4
At 30 September 2022	**7,828.7**

Net debt at 30 September 2022 was £7,829 million, compared with £7,570 million at 31 March 2022. This comprises gross borrowings with a carrying value of £8,264 million, net derivative liabilities hedging specific debt instruments of £30 million and indexation in inflation swaps of £67m, net of cash and short-term deposits of £532 million.

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

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend and timing difference) regulatory capital value of £13.1 billion, was 60 per cent at 30 September 2022. This is slightly lower than gearing of 61 per cent as at 31 March 2022, and remains comfortably within our target range of 55 to 65 per cent.

- Cost of debt
  As at 30 September 2022, the group had approximately £3.3 billion of RPI-linked instruments and £0.4 billion of CPI or CPIH-linked instruments held as debt. In recent years, in response to Ofwat's decision to transition away from RPI inflation linkage, the group has entered into a number of transactions swapping RPI-linked cash flows to CPI-linked cash flows or swapping floating rate cash flows to CPI-linked cash flows. As a result, including these swaps, the group

has RPI-linked debt exposure of £3.3 billion at an average real rate of 1.3 per cent, and £1.2 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

A significantly higher inflation charge compared with the same period last year contributed to the group's average effective interest rate of 9.0 per cent being higher than the rate of 4.5 per cent for the six months to 30 September 2021. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt. More information on this can be found on page 15.

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

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

- Debt financing
  The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme. The MTN programme is updated at least annually and this year's update is expected to be completed shortly. The MTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

  In total over 2020-25, the group had a term funding requirement of around £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. Coming into this AMP the group was already pre-funded for the first two years, and so far in AMP7, we have raised around £1.7 billion, taking advantage of attractive rates available and extending our liquidity position out to February 2025. Through combined financing and liquidity, the group has sufficient funding through to almost the end of AMP7.

  In the six months to 30 September 2022 we raised £385 million of term funding. £235m was raised through two bilateral loans with Export Development Canada (EDC) both with 8-year maturities. AAA-rated EDC is a financial Crown Corporation and Canada's Export Credit Agency that looks to promote trade with Canadian firms worldwide. This followed collaboration with EDC in relation to some of the innovation activities that we have undertaken. A further £150m bilateral loan with a 10 year maturity was entered into with one of the group's relationship banks.

  Since March 2022, we have renewed £50 million of revolving credit facilities for a further 5-year term and entered into £50 million of new revolving credit facilities for a 5-year term.

- 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 2022, approximately 42 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 16 per cent of the group's net debt was in CPI or CPIH-linked form, representing around nine per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

- Liquidity

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

  At 30 September 2022, the group had liquidity out to February 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

  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

Our investment strategy and Systems Thinking approach is delivering value through sustainable operational excellence, driving improvements to what matters most to our stakeholders. While the current challenging macro environment is impacting financial performance, the economic performance of our business remains robust, supported by our strong balance sheet, effective hedging policies and tight cost control. We continue to target a cumulative net outperformance of around £200 million against our customer ODIs for AMP7, almost five times the reward earned in AMP6.

2022/23 FULL YEAR GUIDANCE

Revenue is expected to be around 1 per cent lower than 2021/22, largely reflecting the November 2021 CPIH inflation of 4.6 per cent, offset by the regulatory revenue reduction of 1.3 per cent and under-recovery in the current year due to lower than expected consumption. A £34 million expected impact from lower consumption will be recovered through increased revenue in FY25.

Underlying operating costs are expected to be around £130 million higher year-on-year. Approximately £80 million reflects inflationary pressures on operating costs, principally power, chemicals, labour and other contract costs. Around £30 million reflects increases in scope and includes the FY23 element of incremental infrastructure renewals expenditure in relation to the additional investment we previously announced. The remaining £20 million reflects atypical cost increases including dry weather costs incurred in the first half.

Underlying finance expense is expected to be around £165 million higher year-on-year based on our latest, market based inflation forecast. As at 31 March 2022, we had £4.3 billion of index-linked debt exposure, therefore every 1 per cent increase in inflation equates to an around £43 million higher interest charge. Our cash interest in 2021/22 was £118 million and we expect this to be broadly the same in 2022/23, with the overall increase in underlying net finance expense largely relating to the non-cash indexation of our index-linked debt.

Underlying tax is expected to be between a £5 million and £10 million charge for the year, as we continue to optimise the use of capital allowance 'super deductions' and efficiently manage the group's tax position.

Capital expenditure (capex) in 2022/23 is expected to be in the range of £660 million to £715 million, including the 2022/23 element of incremental capital expenditure in relation to the £765 million additional investment.

We are on track to deliver a **net customer ODI reward** of around £30 million, consistent with our investment plans and AMP7 target of around £200 million reward. With higher expected financing performance this year alongside our improving ODI performance, RoRE is expected to be higher than the 7.9% reported in FY22.

Our AMP7 **dividend** policy is to grow the dividend in line with CPIH inflation out to 2025, which for 2022/23 equates to an increase of 4.6 per cent based on November 2021 CPIH inflation.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 20. 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.

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

Adjusted item	**Rationale**
Adjustments not expected to recur	
Profit on disposal of subsidiary	This relates to the disposal of the group's subsidiary United Utilities Renewable Energy Limited, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macro-economic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option, which is set out in note 6 to the interim condensed consolidated financial statements, to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	6 months ended 30 September 2022 £m	6 months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Operating profit per published results	**258.5**	**332.8**	**610.0**
Underlying operating profit	**258.5**	**332.8**	**610.0**

	£m	£m	£m
Finance expense	117.3	(127.5)	(187.7)
Investment income	19.1	9.2	19.4
Net finance (income)/expense per published results	**136.4**	**(118.3)**	**(168.3)**
Adjustments:			
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(403.0)	(15.9)	(138.0)
Underlying net finance expense	**(266.6)**	**(134.2)**	**(306.3)**
Profit on disposal of subsidiary	31.2	-	-
Share of profits/(losses) of joint ventures	0.2	(1.8)	(1.8)
Profit before tax per published results	**426.3**	**212.7**	**439.9**
Adjustments:			
In respect of operating profit	-	-	-
In respect of net finance expense	(403.0)	(15.9)	(138.0)
In respect of profit on disposal of subsidiary	(31.2)	-	-
Underlying (loss)/profit before tax	**(7.9)**	**196.8**	**301.9**
Profit/(loss) after tax per published results	**353.0**	**(216.2)**	**(56.8)**
Adjustments:			
In respect of profit before tax	(434.2)	(15.9)	(138.0)
Deferred tax adjustment	69.0	423.9	562.5
Tax in respect of adjustments to underlying profit before tax	-	2.1	(0.7)
Underlying (loss)/profit after tax	**(12.2)**	**193.9**	**367.0**

Earnings per share

	£m	£m	£m
Profit/(loss) after tax per published results (a)	353.0	(216.2)	(56.8)
Underlying (loss)/profit after tax (b)	(12.2)	193.9	367.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	51.8	(31.7)	(8.3)
Underlying earnings per share, in pence (b/c)	(1.8)	28.4	53.8
Dividend per share, in pence	15.17p	14.50p	43.50p

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

Average effective interest rate	**6 months ended 30 September 2022 £m**	**6 months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
Underlying net finance expense	(266.6)	(134.2)	(306.3)
Adjustments:			
Net pension interest income	(14.4)	(7.3)	(14.3)
Adjustment for capitalised borrowing costs	(62.9)	(21.4)	(52.7)
Net finance expense for effective interest rate	**(343.9)**	**(162.9)**	**(373.3)**
Average notional net debt[1]	**(7,679)**	**(7,290)**	**(7,368)**
Average effective interest rate	**9.0%**	**4.4%**	**5.1%**
Effective interest rate on index-linked debt	13.7%	6.8%	7.0%
Effective interest rate on other debt	2.5%	2.6%	2.5%

[1] 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 on the group's index linked debt, and the sterling principal amount of the cross currency swaps relating to the group's foreign currency debt.

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk management

Our approach to risk management, including how we identify and assess risk, the oversight and governance process, and focus on continual improvement remains unchanged from that detailed in our Annual Report for the year ended 31 March 2022.

Risk profile

The business risk profile is based on the value chain of the company, with the ten principal risks representing inherent risk areas (primary and supportive) where value can be gained, preserved or lost relative to the performance, future prospects or reputation of the company. Underpinning the principal risks, the profile consists of approximately 100 event-based risks, each of which is allocated to one of the ten inherent risk areas based on the context of the event, enabling the company to consider interdependency and correlation of common themes and control effectiveness. Although the profile remains relatively static in terms of its headline inherent risk factors, risk assessments remains dynamic by reflecting new and emerging circumstances.

The common themes are under continuous review, however at present they are:

- **Causal factor themes**: Extreme weather/climate change; Demographic change; Legislative and regulatory change; Economic conditions; Asset health; and Culture.
- **Consequence themes**: Customers; Environment; Investors; and Employees.

The company's most significant event-based risks

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

Summarised below are the top ten ranking risks (1 – 10), and those assessed as having high impact, but low likelihood (A – F):

1. Price Review 2024 outcome

Risk exposure: This risk focuses on the ability to secure an adequately funded business plan that allows delivery for customers, communities, and the environment that is sustainable and resilient for the long term relative to the unique characteristics of the region we serve, in light of multiple influencing factors – notably changing demographics, climate change and asset health.

Control/mitigation: We have established cross-cutting work streams and theme owners to identify the products and evidence required for the submission and we will maintain a close dialogue with Ofwat throughout the process.

Assurance: Extensive customer research and several external providers have been commissioned for technical optioneering. Second line assurance is provided through a dedicated price review team and a PR24 programme board. An internal audit is scheduled and external assurance is currently under procurement.

2. Failure of the Haweswater Aqueduct

Risk exposure: The Haweswater Aqueduct is a key asset with current low resilience due to deterioration, with failure potentially resulting in water quality issues and/or supply interruptions to a large proportion of the United Utilities customer base.

Control/mitigation: A capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP) by 2032/33.

Assurance: Technical and geological advice and modelling have been sought throughout the programme development, with second line assurance including engineering technical governance. Independent assurance is provided by cyclical internal audits and external assurance over the competitively appointed provider.

3. Wastewater network failure

Risk exposure: Equipment failure, collapses/ bursts or inadequate hydraulic/operational capacity to cope with extreme weather and population growth, resulting in sewer flooding and non-compliant discharges from combined sewer overflows.

Control/mitigation: Preventative maintenance and inspection regimes, customer campaigns and sewer rehabilitation programmes and improved monitoring.

Assurance: Second line assurance provided by wholesale assurance, engineering technical governance and flood review panel. Subject to regular internal audits and external assurance of regulatory reporting.

4. Failure to meet the Totex efficiency challenge

Risk exposure: Totex efficiencies designed for AMP7 are under significant challenge through a combination of factors including supply chain issues, inflationary pressure on labour costs, and additional investment to deliver performance improvements.

Control/mitigation: We have further developed our approach to Integrated Business Planning (IBP) with the inclusion of a Strategic Programme Board and the development of an agreed prioritisation framework across the business including detailed efficiency tracking with sponsors assigned to each strategic project.

Assurance: Assurance is provided through the Quarterly Business Reviews, Integrated Business Planning (IBP), Strategic Programme Board and monthly monitoring against the Company Business Plan. Internal Audit undertake cyclical third line assurance over the business planning process.

5. Cyber

Risk exposure: Data and technology assets compromised due to malicious or accidental activity, leading to a major impact to key business processes and operations.

Control/mitigation: Multiple layers of control, including a secure perimeter, segmented internal network zones, access controls, constant monitoring and forensic response capability.

Assurance: Security stance reflects multiple sources of threat intelligence. The security steering group provides second line assurance, with independent assurance provided by cyclical internal audits and various technical audits by external specialists.

6. Water sufficiency event

Risk exposure: Water sufficiency is one of the most sensitive risks to climate change, with the frequency of recent periods of extended hot, dry weather being evidence of changing circumstance and the potential for implementation of water use restrictions on customers.

Control/mitigation: We produce a Water Resources Management Plan (WRMP) every five years, which forecasts future demand and water availability under repeats of historic droughts, adjusted for climate change. A statutory Drought Plan is also developed every five years, setting out the actions we will take in a drought situation.

Assurance: The WRMP and Drought Plan are subject to various second and third line assurance activities prior to publication.

7. Carbon commitments

Risk exposure: This risk focuses on the capacity and capability to decarbonise water and wastewater activity relevant to the Public Interest Commitments (PIC) to achieve net zero by 2030 in light of the growth pressures, lack of technological advances or innovation and the fundamental change of approach required.

Control/mitigation: We will continue to develop near-term initiatives to address process and energy emissions, and create woodland and restore peatland, while responding to an evolving policy and technological landscape. We are also developing a long-term strategy to reduce emissions and to fully understand and optimise potential decarbonisation initiatives and pathways.

Assurance: Water industry research and technical support combined with a climate change mitigation steering group provides second line assurance. An internal audit is scheduled and external assurance of emissions, regulatory reporting lines and science-based targets has been established.

8. Recycling of biosolids to agriculture

Risk exposure: This risk represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. Referencing the EA's interpretation of the Farming Rules for Water (FRfW) regulations and the increasing threat to recycling a large proportion of biosolids.

Control/mitigation: United Utilities is accredited to the UK Biosolids Assurance Scheme (BAS), which certifies that our treatment and recycling activities meet regulatory requirements and best practice. We also work closely with farmers and landowners and have robust standard operating procedures established with contractors.

Assurance: Wholesale assurance and engineering technical governance provide second line assurance. Subject to both cyclical internal and external audit.

9. Failure to treat sludge

Risk exposure: This risk relates to the interdependency between wastewater and bioresource treatment activity in light of changing demographics, asset health and legislative/regulatory change. Industrial Emissions Directive (IED) now applying to biological treatment of sewage sludge within AMP 7, with no investment assigned to this requirement is a key factor.

Control/mitigation: The Throughput, Reliability, Availability, and Maintainability (T-RAM) of our facilities is a key area of mitigation, with formal service level agreements between the two core activities. In relation to IEDs, discussions at national level are being held to move the high capital cost improvements into PR24.

Assurance: Wholesale assurance and engineering technical governance provide second line assurance. Subject to cyclical internal audit and ad-hoc external strategic reviews.

10. Price Volatility

Risk exposure: This risk reflects the inflationary pressures across all commodities, notably energy, associated with the post Brexit effects in the supply chain, the COVID-19 economic bounceback and the ongoing conflict in Ukraine.

Control/mitigation: Contract provision with suppliers, hedging policies, and supply arrangements manage volatility and minimise vulnerability in the contract and price risk with the suppliers including periods of fixed pricing and negotiation of CPI/H uplift on an annual basis. Operational optimisation programmes also seek to reduce exposure to price through efficient use.

Assurance: Market analysis and supplier engagement, combined with quarterly business reviews provide second line assurance. Due to the scale of procurement, an energy governance panel has oversight over procurement and use.

High impact, low likelihood risks

A. Erosion of Pension Scheme Surplus

Risk exposure: The potential for the pension scheme surplus to be eroded due life expectancy rates increasing, defaults on corporate bond investments and/or insufficient collateral being available to support the interest rate hedge.

Control/mitigation: Constant monitoring combined with hedging against interest rates, inflation and growth asset risk. Notwithstanding the above, the recent volatility in gilt yields has highlighted systemic issues with the use of Liability Driven Investment portfolios in pension schemes, and the ability to provide collateral under stressed market conditions. Immediate steps have been taken to mitigate risks in the short-term, however a full review of investment strategy will follow.

Assurance: Policy and oversight is led by the pensions review management group, taking into account advice from accountancy and pension specialists, and law firms. Pension governance is subject to periodic internal audits.

B. Financial Outperformance

Risk exposure: Failure to achieve financial outperformance due to macro economic conditions and efficiency challenges, impacting the cost of debt and delivery of the company business plan.

Control/mitigation: Interest rate and inflation management, ongoing monitoring of markets and regulatory developments, and company business planning.

Assurance: Second line assurance and oversight is provided by the board and treasury committee in addition to executive quarterly business reviews. Subject to cyclical internal audit reviews.

C. Dam failure

Risk exposure: Uncontrolled release of a significant volume of water from reservoirs due to flood damage, overtopping, earthquake or erosion leading to catastrophic impacts downstream.

Control/mitigation: Each reservoir is regularly inspected by engineers. Where appropriate, risk reduction interventions are implemented through a prioritised investment programme.

Assurance: Various sources of second line assurance, including supervising engineers, dam safety group, wholesale assurance and regular board reviews. Independent assurance is provided by panel engineers and internal audit.

D. Disease pandemic

Risk exposure: Serious illness in a large proportion of the UK population and consequences to our workforce, the wider supply chain and macro economy.

Control/mitigation: The incident management process would be invoked, supported by the Pandemic Response Plan. This includes the implementation of multi-channel communication with non-pharmaceutical interventions as per government guidance.

Assurance: Wholesale assurance provides second line assurance, with internal audit undertaking various reviews.

E. Terrorism

Risk exposure: A significant asset to be compromised by terrorist activity leading to loss of supply, contamination and/or pollution.

Control/mitigation: A risk-based protection of assets in line with the Security and Emergency Measures Direction (SEMD) and close liaison with the Centre for the Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.

Assurance: Security posture is based on various threat advisors. Second line assurance is provided by the security steering group. In addition, internal audit undertakes cyclical audits with external technical assurance being delivered by specialists.

Material litigation

In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal at the end of March 2022. The Court of Appeal has dismissed the main additional points raised by MSCC, although MSCC have now been granted leave to appeal to the Supreme Court. The final appeal is scheduled to be held in early March 2023 which may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses.

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. These forward-looking statements include without limitation any projections or guidance relating to the results of operations and financial conditions of the group as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and any strategic initiatives relating to the group, as well as discussions of our business plan and our assumptions, expectations, objectives and resilience with respect to climate scenarios. 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 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Revenue (note 3)	**919.3**	932.3	1,862.7
Staff costs (note 4)	**(95.2)**	(89.1)	(184.3)
Other operating costs (note 4)	**(257.6)**	(210.6)	(461.7)
Allowance for expected credit losses – trade and other receivables	**(11.2)**	(12.1)	(23.4)
Other income	**2.2**	2.5	4.4
Depreciation and amortisation expense	**(206.8)**	(207.6)	(418.2)
Infrastructure renewals expenditure	**(92.2)**	(82.6)	(169.5)
Total operating expenses	**(660.8)**	(599.5)	(1,252.7)
Operating profit	**258.5**	332.8	610.0
Investment income (note 5)	**19.1**	9.2	19.4
Interest payable (note 6)	**(262.6)**	(147.6)	(330.7)
Net fair value gains on debt and derivatives (note 6)	**379.9**	20.1	142.9
Allowance for expected credit losses – loans to joint ventures	**-**	-	0.1
Investment income and finance expense	**136.4**	(118.3)	(168.3)
Profit on disposal of subsidiary (note 7)	**31.2**	-	-
Share of profits / (losses) of joint ventures (note 11)	**0.2**	(1.8)	(1.8)
Profit before tax	**426.3**	212.7	439.9
Current tax charge	**(4.3)**	(5.0)	65.8
Deferred tax charge	**(69.0)**	(42.3)	(159.8)
Deferred tax charge – change in tax rate	**-**	(381.6)	(402.7)
Tax (note 8)	**(73.3)**	(428.9)	(496.7)
Profit/(loss) after tax	**353.0**	(216.2)	(56.8)

All of the results shown above relate to continuing operations.

Earnings per share (note 9)			
Basic	**51.8p**	(31.7)p	(8.3)p
Diluted	**51.6p**	(31.7)p	(8.3)p
Dividend per ordinary share (note 10)	**15.17p**	14.50p	43.50p

Consolidated statement of comprehensive income

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Profit/(loss) after tax	**353.0**	(216.2)	(56.8)
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness	**207.0**	43.8	107.5
Tax on hedge effectiveness taken directly to equity	**(51.8)**	(10.9)	(26.9)
Reclassification of cash flow hedge effectiveness to consolidated income statement	**(24.0)**	(0.9)	(0.9)
Tax on reclassification to consolidated income statement	**4.6**	0.2	0.2
Other comprehensive income that may be reclassified to profit or loss	**135.8**	32.2	79.9
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on defined benefit pension schemes (note 12)	**(208.2)**	123.4	313.6
Change in credit assumptions for debt reported at fair value through profit or loss	**16.4**	(7.5)	(4.1)
Cost of hedging – cross currency basis spread adjustment	**0.1**	1.8	-
Tax on items taken directly to equity	**68.5**	(44.8)	(109.4)
Other comprehensive income that will not be reclassified to profit or loss	**(123.2)**	72.9	200.1
Total comprehensive income	**365.6**	(111.1)	223.2

Consolidated statement of financial position

	30 September 2022 £m	30 September 2021 £m	31 March 2022 £m
ASSETS			
Non-current assets			
Property, plant and equipment	**12,321.2**	11,956.3	12,147.5
Intangible assets	**149.0**	170.4	160.8
Interests in joint ventures and other investments (note 11)	**16.8**	16.6	16.6
Inventories	**0.7**	-	0.4
Trade and other receivables	**73.7**	68.6	81.7
Retirement benefit surplus (note 12)	**823.5**	821.1	1,016.8
Derivative financial instruments	**754.2**	458.3	399.4
	14,139.1	13,491.3	13,823.2
Current assets			
Inventories	**24.0**	18.9	17.8
Trade and other receivables	**231.1**	244.4	222.7
Current tax asset	**60.7**	8.6	74.4
Cash and short-term deposits	**532.2**	655.9	240.9
Derivative financial instruments	**156.8**	23.0	58.0
	1,004.8	950.8	613.8
Total assets	**15,143.9**	14,442.1	14,437.0
LIABILITIES			
Non-current liabilities			
Trade and other payables	**(868.0)**	(825.5)	(835.2)
Borrowings (note 13)	**(7,943.2)**	(7,802.1)	(7,671.0)
Deferred tax liabilities	**(2,190.4)**	(1,928.9)	(2,148.1)
Derivative financial instruments	**(290.8)**	(106.3)	(136.7)
	(11,292.4)	(10,662.8)	(10,791.0)
Current liabilities			
Trade and other payables	**(395.3)**	(380.6)	(365.8)
Borrowings (note 13)	**(320.6)**	(660.7)	(308.8)
Provisions	**(12.8)**	(13.1)	(13.5)
Derivative financial instruments	**-**	(3.2)	(0.5)
	(728.7)	(1,057.6)	(688.6)
Total liabilities	**(12,021.1)**	(11,720.4)	(11,479.6)
Total net assets	**3,122.8**	2,721.7	2,957.4
EQUITY			
Share capital	**499.8**	499.8	499.8
Share premium account	**2.9**	2.9	2.9
Other reserves (note 17)	**552.1**	369.8	416.2
Retained earnings	**2,068.0**	1,849.2	2,038.5
Shareholders' equity	**3,122.8**	2,721.7	2,957.4

Consolidated statement of changes in equity

Six months ended 30 September 2022

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2022	499.8	2.9	416.2	2,038.5	2,957.4
Profit after tax	-	-	-	353.0	353.0
Other comprehensive income/(expense)					
Remeasurement losses on defined benefit pension schemes (note 12)	-	-	-	(208.2)	(208.2)
Change in credit assumption for debt reported at fair value profit or loss	-	-	-	16.4	16.4
Cash flow hedge effectiveness	-	-	207.0	-	207.0
Cost of hedging – cross currency basis spread adjustment	-	-	0.1	-	0.1
Tax on items taken directly to equity	-	-	(51.8)	68.5	16.7
Reclassification to income statement	-	-	(24.0)	-	(24.0)
Tax on reclassification to income statement	-	-	4.6	-	4.6
Total comprehensive income	-	-	135.9	229.7	365.6
Dividends (note 10)	-	-	-	(197.7)	(197.7)
Equity-settled share-based payments	-	-	-	2.8	2.8
Exercise of share options – purchase of shares	-	-	-	(5.3)	(5.3)
At 30 September 2022	**499.8**	**2.9**	**552.1**	**2,068.0**	**3,122.8**

Six months ended 30 September 2021

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Loss after tax	-	-	-	(216.2)	(216.2)
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 12)	-	-	-	123.4	123.4
Change in credit assumption for debt reported at fair value profit or loss	-	-	-	(7.5)	(7.5)
Cash flow hedge effectiveness	-	-	43.8	-	43.8
Cost of hedging – cross currency basis spread adjustment	-	-	1.8	-	1.8
Tax on items taken directly to equity	-	-	(11.4)	(44.3)	(55.7)
Reclassification to income statement	-	-	(0.9)	-	(0.9)
Tax on reclassification to income statement	-	-	0.2	-	0.2
Total comprehensive income	-	-	33.5	(144.6)	(111.1)
Dividends (note 10)	-	-	-	(196.6)	(196.6)
Equity-settled share-based payments	-	-	-	2.6	2.6
Exercise of share options – purchase of shares	-	-	-	(4.2)	(4.2)
At 30 September 2021	**499.8**	**2.9**	**369.8**	**1,849.2**	**2,721.7**

Year ended 31 March 2022

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Loss after tax	-	-	-	(56.8)	(56.8)
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 12)	-	-	-	313.6	313.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(4.1)	(4.1)
Cash flow hedge effectiveness	-	-	107.5	-	107.5
Tax on items taken directly to equity	-	-	(26.9)	(109.4)	(136.3)
Reclassification to income statement	-	-	(0.9)	-	(0.9)
Tax on reclassification to income statement	-	-	0.2	-	0.2
Total comprehensive income	**-**	**-**	**79.9**	**143.3**	**223.2**
Dividends (note 10)	-	-	-	(295.5)	(295.5)
Equity-settled share-based payments	-	-	-	4.8	4.8
Exercise of share options - purchase of shares	-	-	-	(6.1)	(6.1)
At 31 March 2022	**499.8**	**2.9**	**416.2**	**2,038.5**	**2,957.4**

[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 17.

Consolidated statement of cash flows

	Six months ended 30 September 2022	Six months ended 30 September 2021	Year ended 31 March 2022
	£m	£m	£m
Operating activities			
Cash generated from operations (note 15)	439.0	535.5	1,061.6
Interest paid	(57.7)	(73.1)	(121.9)
Interest received and similar income	4.0	14.9	3.6
Tax paid	(2.3)	(6.7)	(8.9)
Tax received	17.6	-	-
Net cash generated from operating activities	400.6	470.6	934.4
Investing activities			
Purchase of property, plant and equipment	(323.4)	(278.7)	(609.0)
Purchase of intangible assets	(8.3)	(9.8)	(19.5)
Grants and contributions received	1.0	0.6	1.8
Loans repaid by/(extended to) joint ventures	7.8	-	(13.0)
Net cash income on disposal of subsidiary (note 7)	90.5	-	-
Net cash used in investing activities	(232.4)	(287.9)	(639.7)
Financing activities			
Proceeds from borrowings net of issuance costs	396.3	72.7	173.7
Repayment of borrowings	(61.5)	(152.6)	(681.8)
Dividends paid to equity holders of the company (note 10)	(197.7)	(196.6)	(295.5)
Exercise of share options – purchase of shares	(5.3)	(4.2)	(6.1)
Net cash (used in)/generated from financing activities	131.8	(280.7)	(809.7)
Effects of exchange rate changes	-	-	1.5
Net (decrease)/increase in cash and cash equivalents	300.0	(98.0)	(513.5)
Cash and cash equivalents at beginning of the period(1)	220.1	733.6	733.6
Cash and cash equivalents at end of the period(1)	520.1	635.6	220.1

(1) Cash and cash equivalent is stated net of £12.1 million (30 September 2021: £20.3 million; 31 March 2022: £20.8 million; 1 April 2021: £10.5m) of book overdrafts, which are included in borrowings in the statement of financial position. Book overdrafts, which result from normal cash management practices, represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the six months ended 30 September 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 *'Interim Financial Reporting'* (IAS 34) as published by the International Accounting Standards Board (IASB) and adopted by the UK.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006, and should be read in conjunction with the group's annual report and financial statements for the year ended 31 March 2022.

The comparative figures for the year ended 31 March 2022 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The annual financial statements for the year ended 31 March 2022 were prepared in accordance with the requirements of the Companies Act 2006, and with UK-adopted international accounting standards. They were prepared on the going concern basis under the historical cost convention, except for the revaluation of financial instruments, accounting for the transfer of assets from customers and the revaluation of infrastructure assets to fair value on transition to IFRS.

The accounting policies, presentation and methods of computation used in these condensed consolidated interim financial statements are the same as those used in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2022.

Going concern

The interim condensed consolidated financial statements for the six months ended 30 September 2022 have been prepared on the going concern basis as the directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of their approval, and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed bank facilities, as well as considering the group's capital adequacy, along with a baseline plan reflecting current best estimates of forecasted future business performance. Liquidity forecasts used in the directors' going concern assessment reflect best estimates of the impact of high levels of inflation and interest (and volatility thereon) currently being experienced, and how this would be expected to impact the resources available to the group.

The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking.

The baseline position has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; lower CPIH inflation; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

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

Update on critical accounting judgements and key sources of estimation uncertainty

As the impact of the Ukraine war and the broader associated inflationary pressures continue to be felt, there remains a great deal of uncertainty in the current political and economic environment. We are mindful that unprecedented inflation levels are likely to drive further increases to the cost of living and may have a significant impact on many of the group's customers. The following are the critical accounting judgements and key sources of estimation uncertainty considered most likely to have an impact in the next 12 months, or that have been significant in recent years and may be impacted by ongoing developments:

*Accounting estimate - retirement benefit obligations:**

The group operates two defined benefit pension schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty.

In the immediate period leading up to 30 September 2022, there was significant volatility in UK bond markets following the government's "mini-budget". The significant rise in corporate bond yields relative to the start of the year has led to a materially higher IAS 19 discount rate. As required by IAS 19, we have reflected market conditions as at the balance sheet date. In addition, broader economic volatility has increased the level of estimation uncertainty associated with assets classified as 'level 3' within the IFRS 13 fair value hierarchy at 30 September 2022. Details of the assumptions used in calculating the schemes' assets and liabilities are set out in note 12.

*Accounting estimate – non-household credit note provisioning:***

In accordance with IFRS 15 *'Revenue from contracts with customers'*, revenue is only recognised where it is deemed probable of recovery. Any gross debt that is not expected to be recovered through future cash collection must be provided against through either an allowance for expected credit losses (non-collection) or credit note provision (incorrectly billed).

For any period, the credit note provision is built up across two types of loss which can be incurred against non-household revenue: allowances pending payment, and future pre-market allowances. The former relate to data changes following the final bill issued for a period (received approximately 16 months after the initial estimate for the period), while the latter relate to data changes resulting in a reduction in revenue recognised in a period pre-dating the non-household market.

At 30 September 2022 the total credit note provision in respect of non-household revenue was £18.0 million, compared with £21.0 million at 31 March 2022 and £24.5 million at 30 September 2021. While the provision has fallen by £3.0 million since 31 March 2022, this includes the impact of payments to non-household retailers of £7.5 million during the period in respect of allowances relating to periods from November 2018 to December 2020. The size of payments made in respect of these periods and additional claims received in respect of historic periods has therefore increased the average daily allowance values that are now reflected in the credit note provision. This increase offsets the reduction that might have been expected based on payments made in the year.

To forecast future pre-market allowances, historic information has been used. Determining the ageing analysis of allowances raised since the opening of the non-household market is not straightforward, and work is ongoing between wholesalers and retailers to improve the quality of market data. Notwithstanding the increases seen in the average daily allowance values, it is therefore reasonable to expect that the value of allowances relating to final bills for a period (referred to as 'RF' within the market mechanisms and received around 16 months after the initial estimate) to reduce over time, as data for more recent periods since the opening of the water retail market should not be subject to the same legacy issues as earlier periods. Had it been assumed that future average daily allowances continue at the current daily average, the credit note provision recorded at 30 September would have been £2.2 million higher than that recorded.

The forecast does not consider the impact of any large one-off allowances that could be received in the future, but we have no evidence from the data available to suggest that this would be probable.

*Accounting estimate – allowance for expected credit losses in respect of household trade receivables:***

As a result of the Covid-19 pandemic and more recently ongoing cost of living pressures, recent years have seen a higher level of uncertainty around how economic conditions may impact the recoverability of household receivables for a significant proportion of the group's customer base. A range of collection scenarios have been used to inform the allowance for expected credit losses charged to the income statement during the period. These take account of cash collection rates in the current year as well as in recent years incorporating the onset of the Covid-19 pandemic, periods of lockdown, and periods of recovery, as well as current levels of economic uncertainty in order to provide a range of views as to how recoverability of household receivables may be impacted by different conditions.

The group has historically used the average collection evidenced in the previous two years as a basis for estimating future collection, however cash collection during the current year has been particularly strong whereas in contrast the two year look-back period has also included periods impacted by the Covid-19 pandemic where collection was below what is typically seen. Accordingly, this approach used historically may not provide a representative view of future cash collection, particularly in light of current levels of economic uncertainty. Accordingly, we have taken a similar approach to that used as at 31 March 2022 and have calculated the allowance for expected credit losses based on the average cash collection history over the last four years, which is considered to give a more balanced position. This supports a charge equivalent to around 1.8 per cent of household revenue recorded during the period, which is broadly consistent with the position at 31 March 2022 and 30 September 2021.

Had average cash collection rates for the last two years been used instead of the last four years, the charge would have decreased by £1.1 million to 1.6 per cent of household revenue, however as at 30 September 2022 a charge of 1.8 per cent is considered to be appropriate given prevailing levels of uncertainty and recognising the level of estimation uncertainty associated with the assumptions made in forecasting the year end debt position upon which the allowance for expected credit losses is based.

*Judgements/estimates that could reasonably give rise to a material adjustment to the carrying value of assets or liabilities in the short term.
**Other judgements/estimates considered less likely to give rise to a material adjustment to the carrying value of assets or liabilities in the short term.

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 2022 £m	30 September 2021 £m	31 March 2022 £m
Wholesale water charges	**381.4**	393.6	776.5
Wholesale wastewater charges	**459.8**	477.0	946.3
Household retail charges	**43.4**	35.0	68.9
Other	**34.7**	26.7	71.0
	919.3	932.3	1,862.7

3. Revenue (continued)

The £13.0 million decrease in revenue for the half year ended 30 September 2022 compared with the same period in the prior year is largely attributable to lower consumption more than offsetting the allowed inflationary increase.

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

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

4. Other operating costs

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Materials	**61.7**	40.7	90.8
Power	**54.7**	38.2	99.6
Hired and contracted services	**48.7**	43.4	95.4
Materials	**61.7**	40.7	90.8
Property rates	**45.7**	46.5	90.5
Regulatory fees	**18.3**	14.5	28.4
Insurance	**9.6**	9.8	16.9
Loss on disposal of property, plant and equipment	**1.9**	3.0	3.9
Cost of properties disposed	**1.2**	0.1	3.0
Other expenses	**15.8**	14.4	33.2
	257.6	210.6	461.7

Other operating costs have increased compared with the same period in the prior year predominantly due to inflationary pressures, in particular on the cost of energy which has increased our power costs, as well as our materials costs for consumables such as chemicals, and inflationary pressures experienced by subcontractors that have been passed on to us, which are included within hired and contracted services.

In order to give a clearer view of the group's total staff costs, since 31 March 2022 wages and salaries and amounts charged to other areas including regulatory capital schemes have included the costs of non-permanent staff who have worked for the group, whose costs were previously included within hired and contracted services presented within other operating costs. Accordingly, these amounts for the six months to 30 September 2021 have been re-presented to show this information on a consistent basis, which has resulted in an increase in staff costs and reduction in the costs of hired and contracted services of £6.7 million compared with what was presented in the interim condensed consolidated financial statements for that period.

5. Investment income

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Interest receivable	**4.7**	1.9	5.1
Net pension interest income (note 12)	**14.4**	7.3	14.3
	19.1	9.2	19.4

6. Finance expense

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Interest payable	**262.6**	147.6	330.7
Net fair value gains on debt and derivatives	**(379.9)**	(20.1)	(142.9)
	(117.3)	127.5	187.8

Interest payable is stated net of £62.9 million (30 September 2021: £21.4 million; 31 March 2022: £52.7 million) of borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the period. Interest payable includes a £251.7 million (30 September 2021: £92.8 million; 31 March 2022: £227.9 million) non-cash inflation expense in relation to the group's index-linked debt.

Net fair value gains on debt and derivative instruments includes £14.7 million income (30 September 2021: £14.6 million income; 31 March 2022: £4.9 million income) due to net interest on derivatives and debt held under fair value option, and £37.8 million expense (30 September 2021: £10.3 million expense; 31 March 2022: £28.3 million expense) due to non-cash inflation uplift on the group's index-linked derivatives.

7. Profit on disposal of subsidiary

On 29 September 2022 the group sold the entire issued share capital of its wholly owned subsidiary United Utilities Renewable Energy Limited (UURE) to SEEIT Holdco Limited.

Profit on disposal is shown below and included within the group's consolidated income statement:

	30 September 2022 £m
Total consideration received	**98.5**
Total net assets disposed	**(63.8)**
Fees and transaction costs	**(3.5)**
Profit on disposal of subsidiary	**31.2**

7. Profit on disposal of subsidiary (continued)

Management does not consider UURE to meet the definition of a discontinued operation as set out in IFRS 5 *'Non-current assets held for sale and discontinued operations'* as it is not considered a separate major line of business for the group, accounting for around £3.5 million of external revenue included in the group's consolidated financial statements for the six months to 30 September 2022 (six months to 30 September 2021: £2.3 million; year to 31 March 2022: £3.5 million), with the majority of UURE's revenue relating to a long-term power purchase agreement with UUW that continues in place following the disposal. As such, no separate disclosures relating to discontinued operations have been included in the group's income statement or the notes to the interim financial statements.

The total consideration received in relation to the disposal of UURE is reconciled to the net cash income on disposal of the subsidiary per the consolidated statement of cash flows as follows:

	£m
Total consideration received	**98.5**
Cash and cash equivalents held by UURE disposed of	**(4.5)**
Fees and transaction costs	**(3.5)**
Net cash income on disposal of subsidiary	**90.5**

8. Tax

The total effective tax rate for the six months to 30 September 2022 was 17 per cent, compared with 22 per cent for the same period in the prior year, the decrease being mainly due to the non-taxable profit on the disposal of United Utilities Renewable Energy Limited and an increase in capital allowances "super-deductions". The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on capital investment and unrealised gains and losses on treasury derivatives.

The current tax charge of £4.3 million for the six months to 30 September 2022 reflects the impact of the capital allowances "super deductions", announced in the March 2021 Chancellor's Budget and affecting our eligible plant and machinery additions in 2022 and 2023.

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

9. Earnings per share

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

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Profit/(loss) after tax attributable to equity holders of the company – continuing operations	353.0	(216.2)	(56.8)
Weighted average number of shares in issue in millions			
Basic	681.9	681.9	681.9
Diluted	684.2	683.5	683.5
Earnings per share in pence			
Basic	51.8	(31.7)	(8.3)
Diluted	51.6	(31.7)	(8.3)

9. Earnings per share (continued)

As per paragraph 43 in IAS33 *'Earnings per share'*, when potential ordinary shares increase earnings per share, or decrease loss per share upon their conversion to ordinary shares, they are considered antidilutive. In line with the standard, antidilutive potential ordinary shares are excluded from the calculation of diluted earnings per share.

10. Dividends

	Six months ended 30 September 2022 £m	**Six months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
Dividends relating to the period comprise:			
Interim dividend	**103.4**	98.9	98.9
Final dividend	**-**	-	197.7
	103.4	98.9	296.6
Dividends deducted from shareholders' equity comprise:			
Interim dividend	**-**	-	98.9
Final dividend	**197.7**	196.6	196.6
	197.7	196.6	295.5

The interim dividends for the six months ended 30 September 2022 and 30 September 2021, and the final dividend for the year ended 31 March 2022, have not been included as liabilities in the respective condensed consolidated financial statements at 30 September 2022 and 30 September 2021, and the consolidated financial statements at 31 March 2022, because they were approved after the reporting date.

The interim dividend of 15.17 pence per ordinary share (year ended 31 March 2022: interim dividend of 14.50 pence per ordinary share, final dividend of 29.00 pence per ordinary share) is expected to be paid on 1 February 2023 to shareholders on the register at the close of business on 23 December 2022. The ex-dividend date for the interim dividend is 22 December 2022.

11. Interests in joint ventures and other investments

	Six months ended 30 September 2022 £m	**Six months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
Joint ventures at the start of the period	**16.5**	-	-
Additions	**-**	18.3	18.3
Share of profits/(losses) of joint ventures	**0.2**	(1.8)	(1.8)
Joint ventures at the end of the period	**16.7**	16.5	16.5
Other investments	**0.1**	0.1	0.1
Interests in joint ventures and other investments	**16.8**	16.6	16.6

The group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement.

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

The group's total share of Water Plus profits for the six months ended 30 September 2022 was £0.2 million (six months ended 30 September 2021: £1.8 million share of losses; year ended 31 March 2022: £1.8 million share of losses), all of which has been recognised in the income statement.

As reported in the group's annual report for the year ended 31 March 2021, at that date a fully drawn £32.5 million revolving credit facility extended to Water Plus by United Utilities PLC, which was presented within amounts owed by related parties included within trade and other receivables, was considered to form part of the group's long-term interest in the Water Plus joint venture as there was a clear expectation that it would be converted to additional equity share capital. As such, the group's £14.2 million share of losses recognised in the income statement for the year then ended (comprising the groups share of Water Plus losses for the year of £8.9 million and £5.3 million of the group's previously unrecognised share of losses relating to prior years) was allocated against this fully drawn facility resulting in a net reported balance of £18.3 million at 31 March 2021. The conversion of this facility to equity share capital was executed on 23 April 2021 and therefore the brought forward balance of £18.3 million was included as an addition to the group's joint ventures balance during the prior period.

Details of transactions between the group and its joint ventures and other investments are disclosed in note 19.

12. Retirement benefit surplus

The main financial assumptions used by the group'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 2022 % p.a.	**Six months ended 30 September 2021 % p.a.**	**Year ended 31 March 2022 % p.a.**
Discount rate	**5.35**	2.05	2.80
Pension increases	**3.80**	3.50	3.75
Pensionable salary growth: (pre-2018 service):			
ESPS	**3.80**	3.50	3.75
UUPS	**3.80**	3.50	3.75
Pensionable salary growth (post-2018 service):			
ESPS	**3.80**	3.50	3.75
UUPS	**3.15**	2.60	3.20
Price inflation - RPI	**3.80**	3.50	3.75
Price inflation - CPI(1)	**3.15**	2.90	3.20

(1) The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.90 per cent pre-2030 and 3.70 per cent post-2030.

The immediate period leading up to 30 September 2022 saw significant volatility in UK government bond markets following the "mini-budget" announced by the UK Government on 23 September 2022. This resulted in a significant rise in yields in a matter of days. On 28 September the Bank of England intervened in the markets to restore order which immediately offset some of the significant yield rises, although they remained volatile over the month end. As a result, as at 30 September we have seen a significant increase in corporate bond yields relative to the start of the year, leading to a materially higher IAS 19 discount rate. In accordance with the requirements of IAS 19 *'Employee benefits'*, the figures presented are reflective of market conditions as at the balance sheet date. It should be noted, however, given the volatility in the markets, that the assumptions could be materially different shortly before or after 30 September.

12. Retirement benefit surplus (continued)

This market volatility, together with volatility in the broader economic environment, has resulted in a higher degree of estimation uncertainty in respect of assets held by the group's defined benefit pension schemes that are classified as 'level 3' within the IFRS 13 fair value hierarchy, as prices are not directly observable in the market. The fair value of these assets at 30 September 2022 was £235.4 million, which includes an adjustment to reflect estimated movements in market values since the date of the last valuations performed in respect of these assets based on movements in indices identified as being reasonable proxies for the assets held. Had this adjustment not been included in the valuation, the defined benefit pension assets (and therefore the defined benefit pension surplus) would have been £11.9 million lower.

The discount rate is consistent with a high quality corporate bond rate, with 5.35 per cent being equivalent to gilts + 160bps (30 September 2021: 2.05 per cent being equivalent to gilts + 75bps; 31 March 2022: 2.80 per cent being equivalent to gilts + 110bps).

At 30 September 2022 and 31 March 2022 mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S3PA year of birth tables (30 September 2021: S2PA year of birth tables), with scaling factor of 109 per cent and 115 per cent for male pensioners and non-pensioners respectively (30 September 2021: 106 per cent and 109 per cent), and 110 per cent and 111 per cent for female pensioners and non-pensioners respectively (30 September 2021: 104 per cent and 105 per cent), reflecting actual mortality experience. At both 30 September 2022 and 31 March 2022, mortality in retirement is based on CMI 2021 long-term improvement factors, with a long-term annual rate of improvement of 1.25 per cent (30 September 2021: CMI 2020, long-term annual rate of improvement of 1.25 per cent).

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

	Six months ended 30 September 2022 £m	**Six months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
Current service cost	**3.0**	3.7	7.5
Administrative expenses	**1.1**	0.8	2.1
Pension expense charged to operating profit	**4.1**	4.5	9.6
Net pension interest income credited to investment income (note 5)	**(14.4)**	(7.3)	(14.3)
Net pension income before tax	**(10.3)**	(2.8)	(4.7)

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 2022 £m	**Six months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
At the start of the period	**1,016.8**	689.0	689.0
Net income recognised in the income statement	**10.3**	2.8	4.7
Contributions less unregistered pension promise payments	**4.6**	5.9	9.5
Remeasurement (losses)/gains gross of tax	**(208.2)**	123.4	313.6
At the end of the period	**823.5**	821.1	1,016.8

12. Retirement benefit surplus (continued)

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

	30 September 2022 £m	30 September 2021 £m	31 March 2022 £m
Present value of defined benefit obligations	**(2,118.4)**	(3,341.9)	(3,018.9)
Fair value of schemes' assets	**2,941.9**	4,163.0	4,035.7
Net retirement benefit surplus	**823.5**	821.1	1,016.8

The £208.2 million remeasurement loss has principally resulted from experience losses recognised in the period due to actual inflation being higher than assumed at 1 April 2022, as well as increases in the discount rate assumption being more than offset by increases in net yields reducing the schemes assets by a greater amount than the liabilities.

The latest finalised funding valuation was carried out as at 31 March 2021, and determined that the schemes were fully funded on a low-dependency basis without any funding deficit that requires additional contributions from the company over and above those related to current service and expenses.

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 2021 for both the group's ESPS and UUPS schemes.

Defined contribution schemes

During the period, the group made £14.4 million (30 September 2021: £12.8 million; 31 March 2022: £26.1 million) of contributions to defined contribution schemes which are included in employee benefits expense.

13. Borrowings

New borrowings raised during the six months ended 30 September 2022 were as follows:

- On 26 April 2022, the group executed a £100 million loan facility, due April 2030.
- On 29 July 2022, the group executed a £150 million loan facility, due June 2032.
- On 30 August 2022, the group executed a £135 million loan facility, due August 2030.

The group entered into two undrawn committed borrowing facilities in the period, and extensions to existing facilities were approved on a further two, with amounts available under these facilities totalling £100 million.

Borrowings at 30 September 2022 include £59.5 million in relation to lease liabilities (30 September 2021: £60.6 million; 31 March 2022: £60.9 million), of which £55.9 million (30 September 2021: £57.2 million; 31 March 2022: £57.6 million) was classified as non-current and £3.6 million (30 September 2021: £3.4 million; 31 March 2022: £3.3 million) was classified as current.

14. Fair values of financial instruments

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

	30 September 2022		30 September 2021		31 March 2022	
	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	**88.3**	**88.3**	280.8	280.8	156.3	156.3
Derivative financial assets – held for trading	**523.2**	**523.2**	152.4	152.4	190.1	190.1
Derivative financial assets – cash flow hedge	**299.5**	**299.5**	48.1	48.1	111.0	111.0
Investments	**0.1**	**0.1**	0.1	0.1	0.1	0.1
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities – fair value hedge	**(281.2)**	**(281.2)**	(13.7)	(13.7)	(87.4)	(87.4)
Derivative financial liabilities – held for trading	**-**	**-**	(95.8)	(95.8)	(49.8)	(49.8)
Derivative financial liabilities – cash flow hedge	**(9.6)**	**(9.6)**	-	-	-	-
Financial liabilities designated at fair value through profit or loss	**(384.7)**	**(384.7)**	(388.0)	(388.0)	(369.9)	(369.9)
Financial instruments for which fair value does not approximate carrying value						
Financial liabilities in fair value hedge relationships	**(2,193.2)**	**(2,187.7)**	(3,002.8)	(2,940.1)	(2,511.5)	(2,494.0)
Other financial liabilities at amortised cost	**(5,271.0)**	**(5,691.3)**	(6,697.4)	(5,134.7)	(6,283.7)	(5,115.9)
	(7,228.6)	**(7,643.5)**	(9,716.3)	(8,090.9)	(8,844.8)	(7,659.5)

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 £1,775.6 million (30 September 2021: £2,630.0 million; 31 March 2022: £2,206.6 million) for financial liabilities in fair value hedge relationships, and £529.3 million (30 September 2021: £3,761.6 million; 31 March 2022: £2,383.8 million) for other financial liabilities at amortised cost.

The £2,285.5 million decrease in 'level 1' fair value liability measurements compared with the position at 31 March 2022 (30 September 2021: £1,762.3 million increase compared with 31 March 2021; 31 March 2022: £497.2 million decrease compared with 31 March 2021) is largely due to a decrease in the number of observable quoted bond prices in active markets at 30 September 2022.

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 2022.

The principal reason for the decrease in the difference between the fair value and carrying value of the group's borrowings at 30 September 2022 compared with the position at 31 March 2022 is due to an increase in both the risk free rate and credit spreads.

15. Cash generated from operations

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
Operating profit	258.5	332.8	610.0
Adjustments for:			
Depreciation of property, plant and equipment	186.8	186.8	377.0
Amortisation of intangible assets	20.0	20.7	41.2
Loss on disposal of property, plant and equipment	1.9	3.0	3.9
Amortisation of deferred grants and contributions	(7.9)	(7.7)	(15.8)
Equity-settled share-based payments charge	2.8	2.6	4.8
Changes in working capital:			
(Increase)/decrease in inventories	(6.5)	(0.6)	0.1
(Increase)/decrease in trade and other receivables	(15.8)	(14.2)	13.2
Increase/(decrease) in trade and other payables	0.5	11.5	24.7
Increase/(decrease) in provisions	(1.4)	2.0	2.4
Pension contributions paid less pension expense charged to operating profit	(0.6)	(1.4)	0.1
Cash generated from operations	439.0	535.5	1,061.6

16. Net debt

Movements in net debt during the period were as follows:

	Six months ended 30 September 2022 £m	Six months ended 30 September 2021 £m	Year ended 31 March 2022 £m
At the start of the period	**7,570.0**	7,305.8	7,305.8
Net capital expenditure	**330.7**	288.0	626.7
Dividends (note 10)	**197.7**	196.6	295.5
Interest	**53.7**	58.2	118.3
Inflation expense on index-linked debt (note 6)	**251.7**	92.8	227.9
Fair value movements including foreign exchange	**(25.2)**	(17.6)	8.9
Net tax (receipt)/payment	**(15.4)**	6.7	2.4
(Repayment)/extension of loans to joint ventures	**(7.8)**	-	13.0
Net proceeds from disposal of subsidiary	**(90.5)**	-	-
Non-cash movements in lease liabilities	**0.8**	1.6	-
Other	**2.0**	4.2	4.4
Dividends from joint ventures	**-**	-	28.7
Cash generated from operations (note 15)	**(439.0)**	(535.5)	(1,061.6)
At the end of the period	**7,828.7**	7,400.8	7,570.0

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.

16. Net debt (continued)

Net debt at the end of each period comprised:

	30 September 2022 £m	**30 September 2021 £m**	**31 March 2022 £m**
Borrowings	**8,263.8**	8,462.8	7,979.8
Derivative financial instruments (liabilities)	**290.8**	109.5	137.2
Derivative financial instruments (assets)	**(911.0)**	(481.3)	(457.4)
Cash and short-term deposits	**(532.2)**	(655.9)	(240.9)
Net debt – as agreed to statement of financial position	**7,111.4**	7,435.1	7,418.7
Adjustments to exclude the fair value impact of:			
Interest rate derivatives fixing future nominal interest rates	**294.5**	(49.9)	55.5
Inflation derivatives fixing future real interest rates	**132.8**	(32.5)	(15.2)
Electricity derivatives fixing future electricity costs	**290.0**	48.1	111.0
Net debt – as adjusted to align to the group's definition	**7,828.7**	7,400.8	7,570.0

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

17. Other reserves

Six months ended 30 September 2022

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2021	-	1,033.3	(703.6)	0.4	86.1	416.2
Changes in fair value recognised in other comprehensive income	-	-	-	0.1	207.0	207.1
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	(24.0)	(24.0)
Tax on hedge effectiveness taken directly to equity	-	-	-	-	(51.8)	(51.8)
Tax on reclassifications to consolidated income statement	-	-	-	-	4.6	4.6
At 30 September 2022	**-**	**1,033.3**	**(703.6)**	**0.5**	**221.9**	**552.1**

17. Other reserves (continued)

Six months ended 30 September 2021

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2021	-	1,033.3	(703.6)	0.4	6.2	336.3
Changes in fair value recognised in other comprehensive income	-	-	-	1.8	43.8	45.6
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	(0.9)	(0.9)
Tax on hedge effectiveness taken directly to equity	-	-	-	(0.5)	(10.9)	(11.4)
Tax on reclassifications to consolidated income statement	-	-	-	-	0.2	0.2
At 30 September 2021	**-**	**1,033.3**	**(703.6)**	**1.7**	**38.4**	**369.8**

Year ended 31 March 2022

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2021	-	1,033.3	(703.6)	0.4	6.2	336.3
Changes in fair value recognised in other comprehensive income	-	-	-	-	107.5	107.5
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	(0.9)	(0.9)
Tax on hedge effectiveness taken directly to equity	-	-	-	-	(26.9)	(26.9)
Tax on reclassifications to consolidated income statement	-	-	-	-	0.2	0.2
At 31 March 2022	**-**	**1,033.3**	**(703.6)**	**0.4**	**86.1**	**416.2**

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

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

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

18. Commitments and contingent liabilities

At 30 September 2022 there were commitments for future capital expenditure contracted but not provided for of £337.5 million (30 September 2021: £319.1 million; 31 March 2022: £282.6 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, and while the litigation has progressed during the period it remains in its early stages. The litigation's likely direction and the quantum of any compensation being claimed remains uncertain at this stage; however, based on the information currently available the likelihood of the claim's success is considered to be low, and any potential outflow is not expected to be material.

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, no contingent liabilities are disclosed (30 September 2021 and 31 March 2022: none).

19. Related party transactions

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

	Six months ended 30 September 2022 £m	**Six months ended 30 September 2021 £m**	**Year ended 31 March 2022 £m**
Sales of services	**173.0**	183.1	363.1
Charitable contributions advanced to related parties	**0.1**	0.1	0.1
Interest income and fees recognised on loans to related parties	**1.8**	1.5	2.8
Amounts owed by related parties	**100.5**	96.8	116.4
Amounts owed to related parties	**-**	1.9	-

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

At 30 September 2022 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £100.5 million (30 September 2021: £96.8 million; 31 March 2022: £116.4 million), comprising £27.8 million (30 September 2021: £28.2 million; 31 March 2022: £28.5 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £72.7 million (30 September 2021: £68.6 million; 31 March 2022: £80.4 million) relating to loans. A further £6.1 million owed by Water Plus relating to the surrender of consortium relief tax losses was included within the amounts owed by joint ventures as at 31 March 2022 and was settled during the six months ended 30 September 2022.

19. Related party transactions (continued)

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

- £71.5 million outstanding on a £100.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2023, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £72.5 million outstanding, net of a £1.0 million allowance for expected credit losses; and

- £1.2 million receivable being the £10.8 million fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 30 September 2022 of £12.5 million, comprising £10.8 million receivable measured at fair value, and £1.7 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A further £1.2 million of non-current receivables was owed by other related parties at 30 September 2022.

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

20. Events after the reporting period

There have been no material events subsequent to 30 September 2022 that either require adjustment to the amounts disclosed in the interim financial statements or disclosure on the basis that they could materially affect users’ understanding of the interim financial statements.

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 in the UK;
- the interim management report includes a fair review of the information required by:

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

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

Sir David Higgins
Steve Mogford
Phil Aspin
Louise Beardmore
Liam Butterworth
Kath Cates
Alison Goligher
Paulette Rowe
Doug Webb

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

………………………..	……………………….
Steve Mogford	Phil Aspin
22 November 2022	22 November 2022
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 2022 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 2022 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

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

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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