United Utilities Group PLC
22 May 2020

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2020

Key financials

	Year ended	
	31 March 2020	31 March 2019
Revenue	£1,859.3m	£1,818.5m
Reported operating profit	£630.3m	£634.9m
Underlying operating profit[1]	£743.9m	£684.8m
Reported profit after tax	£106.8m	£363.4m
Underlying profit after tax[1,2]	£429.6m	£407.9m
Total dividend per ordinary share (pence)	42.60p	41.28p
Net regulatory capital spend	£722.4m	£821.0m
RCV gearing[4]	62%	61%

Supporting customers and protecting our colleagues through the COVID-19 outbreak

- Relentless focus on delivering reliable water and waste services during the pandemic
- Financial support schemes helping 120,000 customers; £3.5m made available immediately
- Increasing the number of customers eligible for social tariff support
- Robust business continuity plans to protect employees – 60% working from home
- No employees furloughed; 80% designated as key workers

Strong financial position to manage the impact of COVID-19

- Reported profit after tax of £107m impacted by adjusted items of £323m[1]
- Underlying[1,2] profit after tax of £430m up 5% on prior year
- £56m of costs associated with COVID-19 treated as adjusted items[1]
- Around £1.2bn of available liquidity[3]
- RCV gearing[4] of 62% supports A3 stable credit rating with Moody's
- Underlying results for 2019/20 and robust liquidity, support paying final dividend in line with AMP6 policy

AMP6 operational transformation has improved customer service and delivered shareholder value

- Unique Systems Thinking approach is a competitive advantage – and delivers better service for customers
- Upper quartile customer satisfaction performance achieving SIM outperformance in AMP6
- Operational excellence has delivered net wholesale ODI outperformance of £44m
- Totex outperformance of around £100m delivered against our AMP6 scope
- Well prepared for AMP7 – £100m of £350m outperformance reinvestment to achieve a flying start

Long-term commitment to ESG benefiting our stakeholders

- 10% real reduction in average household bills since 2010, further 7% reduction in 2020/21
- £71m AMP7 voluntary funding to provide financial assistance to customers struggling to pay their bills
- Six pledges[5] to mitigate climate change
- Rated World Class on Dow Jones Sustainability Index for 13 consecutive years

[1] Underlying profit measures are defined in the underlying profit measures tables on pages 18 and 19
[2] Approach used to derive underlying profit after tax has been changed to exclude the impact of deferred tax to better reflect the regulatory revenue allowances, with prior year numbers restated for comparability
[3] Covering £0.7bn of debt that falls due for repayment across the next 12 months
[4] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water's shadow RCV (outturn prices)
[5] Further detail on six climate change mitigation pledges included in page 9

Steve Mogford, Chief Executive Officer, said:

"The COVID-19 pandemic is an unprecedented challenge for our country. At United Utilities, we have focused relentlessly on supporting customers and colleagues through these difficult times. We offer the sector's widest range of assistance schemes to help those struggling to pay their bills and have increased the number of customers eligible for reduced tariffs. We have also made £3.5 million available immediately to those most in need, with £71 million committed to help customers over the next five years.

"None of this would be possible without the incredible team at United Utilities. I want to pay tribute to the hard work and dedication of my colleagues through this challenging period, including the many key workers who have continued to carry out essential repairs and maintenance in our communities. We will focus on the safety of our people and support for our customers over any short term impact on our financial and operational targets.

"We can reflect on our performance improvements across the last five year price review period with pride. We have shared £350 million of our outperformance through additional investment, providing better service to customers and enhancing the environment. We have committed company funding to supporting customers in financial difficulty and to our pension schemes, achieving low dependency and mitigating risk for employees past and present, and we have delivered financial performance that supports the payment of the final dividend in August 2020, in line with our AMP6 commitment.

"The economic implications of COVID-19 will provide a challenging backdrop to the AMP7 regulatory period. United Utilities will continue to prioritise the implementation of its delivery plans, albeit reviewing and adapting these plans as necessary, and we fully intend to play our part in the recovery of the North West economy. It is, however, too early to predict the full impact of COVID-19 on inflation, the economy more generally and on our business, and we will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges."

For further information on the day, please contact:

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We will be hosting a webcast presentation at 9.00am on Friday 22 May 2020. The webcast can be accessed via the following link:
https://www.investis-live.com/united-utilities/5eb022fa7b676e1e00c92444/ytgd

The presentation can also be accessed via a live listen only call facility by dialling:
UK toll: +44 (0)20 3936 2999
Passcode: 370591

The results presentation slides will be available from 8.30am on Friday 22 May 2020 at the following link:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

The webcast will be available on demand at the following link:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

OPERATIONAL OVERVIEW

Over the 2015-20 period we have delivered significant and sustainable improvements in operational performance that have seen us cement our position as a leading company in the sector. Fundamental to these improvements has been our innovative Systems Thinking approach which provides better service to customers, greater efficiency and underpins our ability to continue to provide services critical for public health during the current COVID-19 crisis.

- **COVID-19:** We have responded to the COVID-19 pandemic by focusing on the essential services we provide, with our primary concern being the safety of our people and those they work alongside. Many of our employees are designated as key workers and it is important that during this crisis customers know they can rely on us to continue to supply their drinking water and take away their wastewater. Where customers have found it difficult to pay their bills we have increased the extensive financial assistance available, for instance by increasing the number eligible for social tariff support, alongside encouraging vulnerable customers to sign up to our Priority Services scheme. For our employees, we have put safeguarding measures in place, distributed additional personal protective clothing and issued key worker cards to frontline employees to explain their presence in communities. We have not furloughed any employees and recognising that some may face challenging financial issues within their own families as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process. To assist our suppliers and contractors we have accelerated payment times to seven days. To safeguard communities, we injected £3.5 million into the United Utilities Trust Fund and took the difficult decision to close our recreational car parks, whilst keeping pathways open for local walking and exercise. Recognising the difficulty being experienced by many customers in our region, all members of the board volunteered to a 20 per cent reduction in their salary/fees for three months, with the value paid towards local charitable causes. This money will be shared with organisations supporting those in the front line helping communities cope with COVID-19.
- **Strong environmental, social and governance (ESG) credentials:** We have a strong track record of delivering against ESG factors having achieved our World Class rating in the Dow Jones Sustainability Index for thirteen consecutive years, and performing well against a range of other ESG indices. We met our 2020 carbon emissions target early having reduced our carbon footprint by 73 per cent since 2005/06 and have committed to six pledges to mitigate climate change including eliminating our emissions by 2050. Over AMP6, we have invested over £35 million in local communities, addressing issues that matter to them.
- **Sustained improvements in customer satisfaction:** We continue to build on the outperformance delivered against Ofwat's Service Incentive Mechanism (SIM) in the first four years of AMP6. In 2019/20, Ofwat has been piloting its new customer service metric, C-MeX, for which we finished in third place overall (out of the water and wastewater companies) across the year and first in the third and fourth quarter surveys of customers who have contacted us. This performance is mirrored across other indices and through awards and accreditations we receive for our great performance in customer service, collections and debt management, and complaint handling.
- **Innovation through Systems Thinking:** Our Systems Thinking approach has transformed the way that we run the business, our relationship with customers and our use of technology. This has delivered enhanced levels of service and resilience along with sustainable improvements in efficiency and will underpin our continuous improvement in AMP7.
- **Delivering shareholder value through regulatory outperformance:** We have outperformed against all areas of the regulatory contract in AMP6. Our leading treasury management secured a low cost of debt compared with industrywide regulatory assumptions for AMP6. We have delivered our AMP6 scope for around £100 million less than the Final Determination totex assumption and have delivered net outperformance of £44 million against our Outcome Delivery Incentives (ODIs), along with outperforming on SIM.
- **Sharing outperformance:** We have a long track record of sharing outperformance, with additional investment of £350 million for AMP6 and over £600 million across AMPs 5 and 6.
- **Prepared for AMP7:** In January 2020 we accepted the final determination for United Utilities Water Limited (UUW). Having been fast-tracked through the price review process, we are already well underway with implementing our plans for AMP7 and have invested £100 million (out of the total £350 million AMP6 outperformance reinvestment) in the last year of AMP6 in order to achieve a flying start. This additional investment, together with our strong performance in AMP6, gives us confidence heading into AMP7.

FINANCIAL OVERVIEW

The group has delivered a robust set of financial results for the year ended 31 March 2020.

- **Revenue**: Revenue was up £41 million, at £1,859 million, largely reflecting our allowed regulatory revenue changes.
- **Operating profit:** Underlying operating profit was up £59 million, at £744 million. This reflects the £41 million increase in revenue, a £22 million decrease in underlying IRE and a £4 million decrease in operating expenses partly offset by a £7 million increase in underlying depreciation. Reported operating profit was down £5 million, at £630 million, impacted by the same movements as underlying operating profit as well as adjusted items of £114 million compared with adjusted items of £50 million last year.
- **Capex:** Total net regulatory capital investment in the year was £722 million. This includes £143 million of IRE, £184 million of additional investment made available through sharing our net outperformance and £13 million additional capex associated with the dry weather in the summer of 2018. Neither the additional investment from sharing outperformance nor the additional capex resulting from the dry weather was anticipated at the time of the PR14 settlement. Our five-year regulatory capex investment was just under £4.0 billion including the additional investment from sharing outperformance and the dry weather capex.
- **Profit before tax:** Underlying profit before tax was up £32 million, at £492 million, largely reflecting the increase in underlying operating profit partly offset by a £15 million increase in the underlying net finance expense and a £6 million share of underlying losses of joint ventures compared with a £7 million share of profits last year. The increase in the underlying net finance expense is mainly due to the impact of higher RPI inflation on our index-linked debt. Reported profit before tax was £303 million, reflecting fair value movements and other adjusted items as outlined below and in the underlying profit measures table on pages 18 and 19.
- **Profit after tax**: Underlying profit after tax was up by £22 million, at £430 million, largely reflecting the increase in underlying profit before tax partly offset by a higher underlying tax charge. The approach used to derive underlying profit after tax has been changed to exclude the impact of deferred tax to better reflect the regulatory revenue allowances, with prior year numbers restated for comparability. Reported profit after tax was £107 million and therefore £323 million lower than underlying profit after tax reflecting adjusted items as outlined below and in the underlying profit measures table on pages 18 and 19.
- **Water Plus JV:** The impact COVID-19 has had on the ability of business customers to pay has resulted in a far more challenging operating environment for our joint venture, Water Plus. Our share of Water Plus losses for the year amounted to £51 million, of which £46 million has been recognised in the income statement, comprising our £14 million share of Water Plus underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19. As a result of the £46 million of losses recognised in the income statement, our long-term interest (comprising our equity investment in and zero coupon shareholder loans to Water Plus) has been written down to £nil. In addition we have recognised an allowance for expected credit losses of £5 million on our loans to Water Plus. Further detail is provided in note 11 ('Joint Ventures) of these condensed consolidated financial statements.
- **Adjusted items:** £83 million relates to the accelerated depreciation of Bioresources assets that have been taken out of use. A further £56 million of adjusted items relate to costs associated with COVID-19 and of this, £32 million represents our share of COVID-19 related losses at Water Plus and a further £5 million of expected credit losses in relation to loans to Water Plus. The remaining £19 million of COVID-19 related adjusted items principally relate to an increased bad debt charge recognising the higher risk of future non-payment of household customer bills. A further adjusted item of £158 million relates to the change in the approach that we use to derive our underlying profit measures to exclude the impact of deferred tax to better reflect the regulatory revenue allowances. Other adjusted items are consistently applied presentational adjustments with the full list provided in the underlying profit measures table on pages 18 and 19.
- **Capital structure:** The group has a robust capital structure with gearing of 62 per cent as at 31 March 2020 (measured as group net debt to 'shadow' regulatory capital value, or RCV). Our shadow RCV adjusts for actual spend and was £11.9 billion as at 31 March 2020. This gearing level is within our target range, of 55 to 65 per cent, supporting a solid investment grade credit rating. United Utilities Water Limited's (UUW's) senior

unsecured debt obligations are rated A3 with Moody's, A- with Fitch and BBB+ with Standard & Poor's, all on stable outlook.

- **Financing headroom:** At 31 March 2020, the group had around £1.2 billion of available liquidity, comprising cash and short-terms deposits (enhanced by new finance raised in the period), plus committed undrawn revolving credit facilities. Of this, £722 million covers short term debt and debt maturities which fall due across the next 12 months. After taking this into account, the group has headroom of £436 million providing 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. The group plans to raise between £500 million and £800 million of term funding in 2020/21.

- **2019/20 final dividend:** Reflecting performance in the year and across AMP6 more generally, the board has proposed a final dividend of 28.40 pence per ordinary share (taking the total dividend for 2019/20 to 42.60 pence), an increase of 3.2 per cent, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

- **AMP7 dividend policy:** We will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges.

OUTLOOK

We can reflect on our performance improvements across the last five year price review period with pride. We have shared £350 million of our outperformance through additional investment, providing better service to customers and enhancing the environment. We have committed company funding to supporting customers in financial difficulty and to our pension schemes, achieving low dependency and mitigating risk for employees past and present, and we have delivered financial performance that supports the payment of the final dividend in August 2020, in line with our AMP6 commitment.

The economic implications of COVID-19 will provide a challenging backdrop to the AMP7 regulatory period. United Utilities will continue to prioritise the implementation of its delivery plans, albeit reviewing and adapting these plans as necessary, and we fully intend to play our part in the recovery of the North West economy. It is, however, too early to predict the full impact of COVID-19 on inflation, the economy more generally and on our business, and we will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges.

Further detail of the potential impacts of COVID-19 is provided in "Principal risks and uncertainties" on page 21.

OPERATIONAL PERFORMANCE

United Utilities aims to deliver long-term shareholder value by providing:

- The best service to customers;
- At the lowest sustainable cost;
- In a responsible manner.

Our operational performance is presented under each of these strategic themes.

Best service to customers

Customer service: Putting customers at the heart of everything we do has helped us deliver substantial improvements in customer service in recent years, becoming the most improved company in the 2010-15 regulatory period with a reduction of over 70 per cent in the overall number of customer complaints.

We have continued to improve at a faster rate than the industry average in AMP6, positioning us as one of the leading water and wastewater companies. We outperformed against Ofwat's SIM measure across the first four years of AMP6 (the measurement period) and have performed well this year against the shadow C-MeX pilots having finished third out of the water and wastewater companies, and fourth out of the 17 companies in the sector in total, for the year overall, and first in the third and fourth quarter surveys of customers who have contacted us. This performance is mirrored in the number of complaints that we receive. Since 2015/16 we have seen a 41 per cent reduction in complaints and a 65 per cent reduction in repeat complaints.

During AMP6, we have developed new services that increase the speed and quality of the customer service we provide. These include a new system that enables us to proactively keep customers informed of events on our network, increasing the hours we are available for customers to contact us, and increasing the channels by which they can contact us so they do not always need to call.

We have driven an increase in digital engagement through a new customer centric website, the introduction of an easy to use mobile app and a substantially enhanced social media presence on commonly used platforms such as Facebook and Twitter. In support of our most vulnerable customers we launched our Priority Services proposition, setting up dedicated teams for those that need it most and now have over 100,000 customers registered.

We have received external recognition for the improvements that we have made in the quality of service that we deliver to customers. We are one of only 14 companies nationally to be awarded the Service Mark with Distinction from the Institute of Customer Service, the only water company to receive Shaw Trust Accessibility status for our website and the only water company to be awarded the "Best Practice" Accreditation (CICMQ) from the Chartered Institute of Credit Management.

Leading North West service provider: We are consistently ranked in the top three out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken three times per year. This covers key attributes such as reputation, trustworthiness and customer service and in the most recent survey, we have been ranked first for being both environmentally and socially responsible. We are behind only Amazon and Aldi, and ahead of seven other major organisations across utilities, telecoms, media, banking and retail.

Robust water supply: Customers benefit from our robust water supply and demand balance, along with high levels of water supply reliability although, with our water resources predominantly being from impounding reservoirs, we remain at risk from short intense dry periods of weather. Our overall water quality continues to be good, and our water quality service index and Mean Zonal compliance both slightly improved compared with the prior year. We have consistently delivered a reliable water service. Although we have experienced some water no-supply incidents in the 2015-20 regulatory period, our Systems Thinking approach and the largest water tanker fleet in the industry has resulted in sustainable year on year performance improvements.

Throughout February 2020 the UK experienced a succession of severe winter storms. Although the storms did cause some service interruptions, our workforce worked tirelessly throughout this period to minimise the impact on customers and the environment.

Reducing sewer flooding: We have continued to invest heavily in schemes, projects and programmes of work designed to reduce the risk of flooding of customers' homes, including incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys and other innovative technologies. Our plan for the 2015-20 regulatory period included a target of reducing sewer flooding incidents by over 40 per cent, in line with customers' affordability preferences. During that period, we have delivered an average reduction of 38 per cent. Although marginally below our target, this represents strong performance given the unprecedented storm events over the five year period. In terms of internal repeat flooding (occurring more than once in 10 years) we have delivered a reduction of over 70 per cent over AMP6.

Our final determination for the 2020-25 regulatory period includes a target of reducing internal sewer flooding by 73 per cent. Although a challenging target, we have invested some of our outperformance reinvestment in 2019/20 targeting improved performance in this area. Our wastewater network will continue to benefit from significant investment going forward in terms of innovative proactive targeting of operational flood risk and through ground-breaking monitoring of the sewer network which will be underpinned by artificial intelligence techniques to interpret and forecast flood risk. In addition, we will continue to seek to work in collaboration with other external flood authorities and associated partners, paying our fair share, to address the widespread flooding events that hit our region, as we aim to help mitigate the effect of changing weather patterns likely to result from climate change.

Key performance indicators:

- **Outcome delivery incentives (ODIs):** We have 19 wholesale financial ODIs, ten of which are structured to provide the potential to earn a reward for good performance or for us to be penalised for poor performance. The other nine wholesale financial ODIs are structured in order to protect customers in key areas and do not offer a reward for good performance, only a penalty for poor performance.

  In 2019/20 we have delivered another strong performance against our ODIs resulting in a net outperformance payment of £22.4 million. During the year we achieved the final AMP6 milestone in relation to our West Cumbria project earning an outperformance payment of £21.6 million. We are pleased with our overall AMP6 performance having earned a total net outperformance payment of £43.9 million over the five year period. This demonstrates the benefits of our targeted investment alongside our Systems Thinking approach and given the ODI targets have typically become tougher each year, it is particularly pleasing that our best performance has been achieved in the final two years of the AMP. This gives us confidence heading into AMP7.

- **Service incentive mechanism (SIM):** We have previously stated our target was to move towards the upper quartile in the medium-term, and we are particularly pleased with the progress we have made over AMP6, ending the four year period to 2018/19 in fourth place overall for the water and wastewater companies and earning an outperformance payment of £6 million.

  In AMP7, SIM will be replaced by a new customer service measure, C-MeX, with the industry reporting against C-MeX for the year 2019/20 (although not contributing to any outperformance or underperformance) before the measurement period begins in AMP7.

  There are two elements to C-MeX, a contactor survey based on a survey of customers who have contacted the company and a perception survey of a random selection of individuals who may or may not have had a previous interaction with the company.

  For the contactor element, we achieved first place (out of 17 companies) in each of the final two quarters. For the perception survey, we achieved eighth place in the fourth and final quarter. This means on the combined scores we were fourth in the final quarter and also fourth out of the 17 companies and third out of the water and wastewater companies for the year overall.

<u>**Lowest sustainable cost**</u>

Power and chemicals: Our Systems Thinking approach and more effective use of operational site management continues to optimise power and chemical usage alongside combined heat and power assets to generate renewable energy. In addition to the electricity we generate from bioresources, we are developing other renewable energy facilities. This is primarily in the area of solar, where we have invested £62 million across the 2015-20 regulatory period. We also continue to lock-in our power commodity costs, providing greater cost certainty for the next regulatory period.

Proactive network management: Through our Systems Thinking approach we are more proactive in the management of our assets and networks. We have improved our predictive modelling and forecasting through better use of sensors in our network and better analysis of other data, such as weather forecasting, enabling us to address more asset and network problems before they affect customers. This reduces the level of reactive work and improves our performance and efficiency.

Customer receipts and financial support: Our region suffers from high levels of income deprivation and we offer wide-ranging schemes to help customers struggling to pay. We now have 120,000 customers on affordability schemes, more than double the commitment we made at the start of AMP6. Notwithstanding our industry-leading debt management processes, we expect bad debt to continue to be a challenging area for us due to the level of deprivation in our region and the impact COVID-19 will have on the ability of customers to pay their bills.

Prior to any COVID-19 impact, our household bad debt expense had been maintained at the 1.8 per cent of revenue we communicated at the half year. This is a reduction from the 2.1 per cent last year, reflecting our ongoing attention to bad debt through initiatives such as our affordability schemes. At 31 March 2020, recognising the higher risk of future non-payment of household customer bills as a result of COVID-19, we have increased our reported bad debt expense by £17 million. Although this is excluded from underlying profit measures as an adjusted item, on a reported basis the impact is to increase household bad debt to 3.1 per cent of revenue.

Pensions: We have taken progressive steps to de-risk our pension provision. The group had an IFRS retirement benefit surplus of £754 million as at 31 March 2020, compared with a surplus of £484 million as at 31 March 2019. Further details of the group's pension provision are provided in the pensions section on page 43.

In April 2019, the group accelerated £103 million of deficit repair contributions to its defined benefit pension schemes. This represents the final acceleration of deficit repair contributions agreed with the schemes' trustees and reduces the pension scheme deficit repair contributions due from the company down to £nil.

Capital delivery and regulatory commitments: We place great emphasis on delivering our commitments efficiently and on time, and have a robust commercial capital delivery framework in place. Across the 2015-20 regulatory period, we have worked with a single engineering partner and four design and construction partners to deliver our regulatory capital investment programme of just under £4.0 billion. We have involved our partners much earlier in project definition and have packaged projects by type, geography and timing in order to deliver efficiencies. Projects have been allocated on an incentive or competitive basis leading to our partners presenting a range of solutions, innovations and pricing.

We accelerated our 2015-20 investment programme in order to improve services for customers and deliver early operational and environmental benefits. Regulatory capital investment in 2019/20, was £722 million including £143 million of IRE, £184 million of additional investment made available through sharing our net outperformance and £13 million additional capex associated with the dry weather in the summer of 2018. This, combined with our investment in the first four years of the regulatory period, brings our total spend to just under £4.0 billion across the 2015-20 regulatory period.

We are also driving more effective and efficient delivery of our capital programme and applying a tougher measurement mechanism to our Time: Cost: Quality index (TCQi) score for this regulatory period. Despite this tougher approach, our TCQi score remains high at 95 per cent, representing very good performance.

Key performance indicators:

- **Total expenditure (totex) performance**: Our totex allowance for the 2015-2020 regulatory period represented a significant challenge compared with the costs we originally submitted as part of our business plan. Not only have we closed the gap but we have now delivered the original scope for around £100 million less than our allowance. This has been achieved through a combination of driving efficiency into our capital programme and also through Systems Thinking.

- **Financing outperformance:** Our leading treasury management helped lock in a low cost of debt, delivering significant financing outperformance for the 2015-20 regulatory period compared with the industry allowed cost.

- **Household retail cost to serve:** We have continued to deliver against a challenging benchmark set for AMP6. Our target has been to minimise our costs compared with our revenue allowance and on an underlying basis we have delivered a good performance in 2019/20, outperforming this year's revenue allowance (including margin) by around £13 million. This reflects underlying performance and therefore excludes an additional regulatory bad debt charge associated with the higher risk of future non-payment of household customer bills as a result of COVID-19. The statutory bad debt charge component of this (£17 million) is excluded from underlying profit measures as an adjusted item as outlined in the underlying profit measures table on pages 18 and 19. On an underlying basis, cost to serve is in line with the regulatory cost allowance of £35 per household and we are confident that our cost plans will move us towards upper quartile performance in AMP7.

Responsible manner

Behaving responsibly is fundamental to delivering on our purpose, and the group has for many years included corporate responsibility factors in its strategic decision making. Our environmental, social and governance performance across a broad front has received external recognition. Earlier in the year, we achieved a World Class rating in the Dow Jones Sustainability Index for the thirteenth consecutive year, again achieving industry leading performance status in the multi-utility/water sector. We look at our performance across a range of other Environmental, Social and Governance (ESG) indices, where we also perform well.

Leakage: We have continued our strong operational focus on leakage, alongside our network resilience improvements and a range of initiatives such as active pressure management, acoustic loggers, satellite technology and the UK's first leakage sniffer dogs specially trained to pinpoint the exact location of leaks.

Additionally, we continue to encourage customers to save water through water efficiency programmes as this not only enables them to help preserve this precious resource but can also save money on their water bill.

Our final determination for 2020-25 assumes a 15 per cent reduction in leakage. Although a challenging target, we have invested some of our outperformance reinvestment in 2019/20 in our water network to help improve our performance in this area further.

Environmental performance: This is a high priority for us and an area where we have performed well achieving Industry Leading Company status in the Environment Agency's annual assessment in three of the last four years. This is a result of our approach to managing our assets in an integrated way to minimise the number of environmental incidents. Further detail is provided in the KPI section below on our in year performance.

Carbon footprint: We set a target to reduce our carbon footprint by 50 per cent by 2020 compared with a 2005/06 baseline and achieved this target a year early. A major contributor to this has been the purchase of certified renewable electricity, with over 95 per cent of the electricity we use having zero emissions. This year our total greenhouse emissions were 159,243 tonnes of carbon dioxide equivalent, a reduction of 73 per cent since 2005/06.

In addition, we generated the equivalent of 191 gigawatt hours, an increase of 18 gigawatt hours on the previous year. This illustrates good progress in our energy strategy to use less and generate more renewable energy.

Going forward, we have committed to six climate change mitigation pledges with further detail provided below.

Climate change mitigation pledges: Our six pledges to reduce our carbon footprint are:

- Pledge 1: Commitment to meet science based targets in relation to our direct emissions and grid electricity use, with a 42 per cent reduction by 2030 and 100 per cent by 2050 from 2019/20 baseline.
- Pledge 2: 100 per cent renewable electricity by 2021.
- Pledge 3: 100 per cent green fleet by 2028.
- Pledge 4: 1,000 hectares of peat restoration by 2030.
- Pledge 5: Planting 1 million trees to create 550 hectares of woodland by 2030.
- Pledge 6: Commitment to set a science based target for Scope 3 emissions (those outside of our direct influence) by 2021.

Employees: Our primary concern throughout the COVID-19 crisis has been to protect the safety of our employees and those they work alongside. We have put safeguarding measures in place, distributed additional personal protective clothing and issued key worker cards to frontline employees to explain their presence in communities. We have not furloughed any employees and recognising that some may face challenging financial issues within their own families as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process.

We continue to work hard to engage all of our employees in the transformation of the group's performance. Employee engagement was at 84 per cent this year, consistent with the UK high performing norm. We remain committed to maintaining high levels of employee engagement.

We have been successful in attracting and retaining people and have continued with our apprentice and graduate programmes for 2019/20. We now have a total of 36 graduates and 102 apprentices across the business. Our investment in recruiting graduates and apprentices is already benefiting the company, with 269 employees who have previously been on either the graduate or apprentice scheme having secured permanent roles across our business.

Over the last 12 months all of our employees have attended health, safety and wellbeing training as part of our home safe and well programme, which has been designed to support colleagues understand how our individual decision making and behaviour can ensure we look after ourselves and each other.

More than 300 colleagues then volunteered to become front line coaches and following their training are now 'peer influencing' colleagues to think again about the activities they are undertaking and consider if there is a safer way to do it. We are seeing a positive improvement in our performance.

Our employee accident frequency rate for 2019/20 was 0.110 accidents per 100,000 hours, representing a 27.6 per cent improvement on last year's outturn of 0.152. Our contractor accident frequency also showed improvement, with 0.083 accidents per 100,000 hours compared to 0.092 in 2018/19. We retained our Gold award status with the Royal Society for the Prevention of Accidents, achieving this status for the eighth year.

We are continuing our strong focus on health, safety and wellbeing and have undertaken extensive engagement across our business to enable the further development of our plans.

Communities: We continue to support partnerships, both financially and in terms of employee time through volunteering with other organisations across the North West. Our approach to integrated catchments helps to tackle water quality issues in lakes, rivers and coastal waters across the North West, and our LoveMyBeach contribution includes employees volunteering to help to keep our region's beaches tidy. We continue to support local communities through contributions and schemes such as providing debt advisory services, and our partnership with Beamont Collegiate Academy FabLab and STEM centre which will enable students from across the North West to gain first-hand experience of using hi-tech equipment and learn more about STEM in a fun and engaging way.

Key performance indicators:

- **Leakage**: Although leakage is included within our outcome delivery incentives, we publish our leakage position separately, with it being an important measure from a corporate responsibility perspective. In 2019/20 we have again met our regulatory leakage target of 463 megalitres per day.

- **Environmental performance**: In the Environment Agency's latest assessment, published in July 2019, we were awarded three stars (out of four) across a range of operational metrics. This is lower than our performance in the previous year where we were awarded the industry leading four star status for the third consecutive year. Our lower score in the most recent assessment was primarily the result of a slight deterioration of performance against the delivery of our National Environment Programme where two projects were delivered late. The two projects were delayed due to unforeseen issues with land purchase, planning difficulties and complex interactions with a flood risk scheme. We have since made good progress with delivery and we are now operating the relevant assets in line with their new Environmental Permit requirements. We also brought forward the delivery of two other major schemes to offset the environmental impact. Overall, our performance, earning industry leading four star status in three of the last four years is in line with our medium-term goal of being an upper quartile company on a consistent basis.

- **Corporate responsibility**: We are committed to operating in a responsible manner and are the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. For 2018/19, we achieved our World Class rating for the thirteenth consecutive year. We also demonstrate a very strong performance across a number of leading corporate responsibility indices and report these publicly in our annual report and on our website – for example, we have been named in the FTSE4Good Index every year for the last 17 years, and reconfirmed as part of the Euronext Vigeo Index UK 20.

KEY PERFORMANCE INDICATORS (KPIs) FOR 2020-25

Measurement of our progress in delivering our plans over the next regulatory period will use a mixture of existing and new measures. As a purpose-led organisation we have reported against a range of operational KPIs in AMP6 that are aligned to our strategic themes as a means to demonstrate how we operate in order to work towards our vision and deliver our purpose. These three strategic themes of “The best service to customers”, “At the lowest sustainable cost” and “In a responsible manner” are not changing and our operational KPIs in AMP7 will support these strategic themes. However, given that we aim to create long-term value for all of our stakeholders, we feel it is appropriate to report against operational KPIs in AMP7 that are linked to each stakeholder group. We will therefore measure performance against the following operational KPIs for AMP7:

- Shareholders: Return on Regulated Equity (RoRE) – target not disclosed
- Customers: Targeting upper quartile performance against Ofwat’s C-MeX measure
- Communities: Increase community investment by 10 per cent over AMP7
- Employees: Targeting employee satisfaction at least as high as the UK high performing norm
- Environment: Targeting upper quartile performance against the Environment Agency’s annual performance assessment
- Suppliers: Targeting at least 95 per cent of invoices paid within 60 days

Our financial KPIs remain unchanged except for the inclusion of an additional KPI that targets maintaining a low dependency position in relation to our defined benefit pension schemes. A company’s pension position will likely have increasing importance in the next five years as The Pensions Regulator encourages companies to achieve low dependency by the time their schemes are significantly mature. We will therefore measure performance against the following financial KPIs for AMP7:

- Underlying operating profit
- Underlying earnings per share
- Dividend per share
- Gearing: net debt to RCV
- Total shareholder return
- Pension position

FINANCIAL PERFORMANCE

United Utilities delivered a robust set of financial results for the year ended 31 March 2020.

Revenue

Revenue was up £41 million, at £1,859 million, largely reflecting our allowed regulatory revenue changes.

Consistent with Ofwat’s annual wholesale revenue forecasting incentive mechanism (WRFIM), we have reduced revenue by £14 million in 2019/20 (outturn prices). This consists of two components; firstly reflecting actual volumes being higher than our original assumptions during AMP6, and secondly reductions relating to the 2014/15 “AMP5 blind year”, which is £5 million in 2019/20.

The impact of COVID-19 has resulted in reduced consumption from businesses and has therefore reduced revenue by around £5 million in 2019/20 with a more significant impact likely in 2020/21. By way of illustration, for every 1 per cent per annum reduction in non-household consumption, revenue will reduce by around £4 million. However, a significant amount of uncertainty persists and therefore, at this point, it is difficult to predict the impact for 2020/21. Furthermore, shortfalls in revenue are recovered in future years under the regulatory revenue control.

Operating profit

Underlying operating profit at £744 million was £59 million higher than last year. This reflects the £41 million increase in revenue and a £22 million decrease in IRE partly offset by a £7 million increase in underlying depreciation. The remaining cost base has decreased by £4 million as a result of a £19 million decrease in property rates largely due to an £8 million refund received and an £8 million reduction in accrued property rates relating to wastewater assets, and smaller reductions across the rest of the cost base partly offset by a £10 million credit in the prior year resulting from the settlement of a historical commercial claim and a £9 million increase in power costs largely due to electricity price increases. During the current year operating costs of £3 million and infrastructure renewal expenditure of £4 million were incurred in response to Storms Ciara and Dennis that occurred in February 2020.

Reported operating profit decreased by £5 million, to £630 million, reflecting the increase in underlying operating profit being more than offset by an increase in adjusted items. Adjusted items for 2019/20 included £83 million of accelerated depreciation of Bioresources assets that have been taken out of use. A further £19 million relates to costs associated with COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills, and £12 million relates to restructuring costs. In the prior year, adjusted items included £36 million of costs associated with the dry weather of 2018, £7 million associated with the equalisation of pension benefits between males and females in relation to Guaranteed Minimum Pension (GMP) benefits, and £7 million of restructuring costs.

Investment income and finance expense

The underlying net finance expense of £246 million was £15 million higher than last year, mainly due to the impact of new debt and interest rate swaps traded since March 2019, and higher RPI inflation on the group's index-linked debt.

Interest of £95 million on non index-linked debt was £11 million higher than last year due to a higher level of debt following new issuances and associated interest rate swaps traded in the period. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £100 million, compared with a net charge of £98 million last year. As at 31 March 2020, the group had approximately £3.5 billion of RPI-linked debt at an average real rate of 1.4 per cent, and £0.5 billion of CPI-linked debt at an average real rate of 0.2 per cent.

The higher RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 3.4 per cent being higher than the rate of 3.3 per cent for the year ended 31 March 2019. The average underlying interest rate represents the underlying net finance expense divided by average debt.

Reported net finance expense of £289 million was £84 million higher than last year, principally reflecting an increase in the fair value losses on debt and derivative instruments, from a £9 million gain in 2018/19 to a £76 million loss in 2019/20 and the £5 million expected credit losses on our loans to Water Plus.

The group fixed the interest rates on the majority of its non index-linked debt for the 2015-20 regulatory period at a net effective nominal interest rate of around 3.2 per cent (excluding the impact of cost of carry).

Profit before tax

Underlying profit before tax was £492 million, £32 million higher than last year. This reflects the £59 million increase in underlying operating profit, partly offset by the £15 million increase in underlying net finance expense and a £6 million share of underlying losses of joint ventures compared with a £7 million profit last year.

Our joint venture Water Plus has been operating in a challenging environment due to billing data issues stemming from the market opening in April 2017, and delivered a disappointing operating result for the year to March 2020. Prior to the onset of COVID-19, Water Plus had been making progress with its recovery plan but the impact COVID-19 has had on the ability of business customers to pay has resulted in a far more challenging operating environment for Water Plus. Our share of Water Plus losses for the year amounted to £51 million, of which £46 million has been recognised in the income statement, comprising our £14 million share of Water Plus underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19. As a result of the £46 million of losses recognised in the income statement, our long-term interest (comprising our equity investment in and zero coupon shareholder loans to Water Plus) has been written down to £nil. In addition we have recognised an allowance for expected credit losses of £5 million on our loans to Water Plus. Further detail is provided in note 11 ('Joint Ventures) of these condensed consolidated financial statements.

The underlying measure of profit before tax reflects the adjusted items, as outlined in the operating profit section above, the Water Plus adjustments, and other consistently applied presentational adjustments, as outlined in the underlying profit measures on pages 18 and 19.

Reported profit before tax decreased by £133 million to £303 million reflecting the £5 million reduction in reported operating profit, a £84 million increase in reported net finance expense including fair value movements and a £38 million share of losses from joint ventures compared with a £7 million share of profits last year.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to secure the Fair Tax Mark in July last year.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its 5,000 strong workforce. The total payments for 2019/20 were around £250 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges as well as corporation tax.

In 2019/20, we paid corporation tax of £72 million, which represents an effective cash tax rate on underlying profits of 15 per cent, which is 4 per cent lower than the headline rate of corporation tax of 19 per cent. We paid six rather than the usual four quarterly instalment payments as we transition to the new quarterly instalment regime. After adjusting for these one off additional payments, the key reconciling items to the headline rate of corporation tax continue to be allowable tax deductions on capital investment and pension payments, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

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

As well as the payments we also received a repayment of corporation tax of £16 million which relates to agreement of prior years' UK tax matters.

The current tax charge was £51 million in 2019/20, compared with £42 million in the previous year. There were current tax credits of £12 million in 2019/20 and £3 million in 2018/19, following agreement of prior years' tax matters.

For 2019/20, the group recognised a deferred tax charge of £158 million, compared with £34 million for 2018/19. Of the deferred tax charge for 2019/20, £136 million relates to the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Excluding the deferred tax adjustment for the change in tax rate of £136 million in the current year, the total effective tax rate was around 20 per cent for the current year and around 17 per cent for the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium-term.

In 2019/20, there are £157 million of tax adjustments taken to equity primarily relating to remeasurement movements on the group's defined benefit pension schemes including the adjustment arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent, being the rate applicable to refunds from a trust.

Profit after tax

Underlying profit after tax of £430 million was £22 million higher than last year, principally reflecting the £32 million increase in underlying profit before tax.

For 2019/20 we have changed the approach we use to derive underlying profit after tax to exclude the impact of deferred tax. This approach is in line with the regulatory model whereby cash tax is recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences. This approach is consistent with the approach taken by our listed peers and also with what we believe to be the direction of travel of the International Accounting Standards Board's (IASB's) rate-regulated activities project. Our prior year numbers have been restated for comparability.

Reported profit after tax decreased by £257 million to £107 million, principally reflecting the £133 million decrease in the reported profit before tax and a £124 million increase in the reported deferred tax charge largely resulting from the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Earnings per share

Underlying earnings per share increased from 59.8 pence to 63.0 pence. This underlying measure is derived from underlying profit after tax.

As noted above, we have changed the approach we use to derive underlying profit after tax to exclude the impact of deferred tax, with our prior year numbers restated for comparability.

Basic earnings per share decreased from 53.3 pence to 15.7 pence for the same reasons that caused the decrease in profit after tax.

Dividend per share

Reflecting performance in the year and across AMP6 more generally, the board has proposed a final dividend of 28.40 pence per ordinary share in respect of the year ended 31 March 2020. Taken together with the interim dividend of 14.20 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2019/20 of 42.60 pence. This is an increase of 3.2 per cent, compared with the dividend relating to last year, in line with the group's AMP6 dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 3.2 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2019/20 financial year (i.e. the movement in RPI between November 2017 and November 2018).

The final dividend is expected to be paid on 3 August 2020 to shareholders on the register at the close of business on 26 June 2020. The ex-dividend date is 25 June 2020.

The AMP7 dividend policy announced in January 2020 targets a growth rate of CPIH inflation each year through to 2025, with further details set out below. It is, however, too early to predict the full impact of COVID-19 on inflation, the economy more generally and on our business, and we will review our dividend policy for AMP7 as a clearer picture of the post COVID-19 economic environment emerges.

- ***Policy period*** – the dividend policy aligns with the five-year regulatory period which runs from 1 April 2020 to 31 March 2025.

- ***Policy approval process*** – the dividend policy was considered and approved by the United Utilities Group board in January 2020, as part of a comprehensive review of the 2020-25 regulatory final determination in the context of a detailed business planning process, with due regard for the group's financial metrics, credit ratings and long-term financial stability, and is reviewed at least annually.

- ***Distributable reserves*** – as at 31 March 2020, the company had distributable reserves of £3,105 million. The total external dividends relating to the 2019/20 financial year amounted to £291 million. The company distributable reserves support over 10 times this annual dividend.

- ***Financing headroom*** – supporting the group's cash flow, we adopt a funding/liquidity headroom policy of having available resources to cover the next 15-24 months of projected cash outflows on a rolling basis.

- ***Cash flows from subsidiaries*** – the basis for UUG dividend distributions in AMP7 comprises expected returns from UUW based on AMP7 performance, including the base dividend return of 4 per cent (nominal) on the equity portion of the shadow RCV, together with accumulated outperformance in prior periods that has been retained by the group after sharing with customers. The UUW board has determined that there should be no dividend payments made by UUW during the financial year 2020/21 and that any eventual dividend that may ultimately be earned relating to the 2020/21 financial year will be deferred into the future when prevailing uncertainties have been resolved and the financial position has become more clear. This does not impact the UUG board's decision in relation to the payment of dividends for 2020/21 and the UUG board will continue to monitor UUW's AMP7 performance in order to support the external payment of dividends to shareholders.

- ***Financial stability*** – the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which water companies earn a regulated level of return. RCV gearing is useful in assessing a company's financial stability in the UK water industry and is one of the key credit metrics that the credit rating agencies focus on. We have had a relatively stable RCV gearing level over the last ten years, always within our target range of 55 to 65 per cent, supporting a stable A3 credit rating for UUW with Moody's. RCV gearing at 31 March 2020 was 62 per cent and the movement in net debt is outlined in the cash flow section below. Given the level of uncertainty associated with the economic impact of COVID-19, and specifically the future outlook for inflation, it is probable that our RCV gearing will increase above its current level and we will therefore continue to monitor the position as greater clarity emerges.

- ***Annual dividend approval process*** – the group places significant emphasis on strong corporate governance, and before declaring interim and proposing final dividends the United Utilities Group board undertakes a comprehensive assessment of the group's key financial metrics.

- ***Policy sustainability*** – at the time of approving the policy in January 2020, the board was satisfied that on average across AMP7 as a whole the projected dividend would be covered by underlying profit after tax and that the policy would be sufficient to withstand reasonable changes in assumptions, such as inflation, opex, capex and interest rates. Extreme economic, regulatory, political or operational events, which could lead to a significant deterioration in the group's financial metrics during the policy period, may present risks to policy sustainability. In particular, the longer term economic impacts resulting from COVID-19 could impact the group's financial metrics, and these could include sustained levels of high unemployment, corporate failures and lower inflation affecting revenues, financing costs and RCV.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2019 was £810 million, and therefore broadly consistent with £832 million in the previous year. The group's net capital expenditure was £645 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex includes infrastructure renewals expenditure and is based on capital work done in the period, rather than actual cash spent.

Net debt including derivatives at 31 March 2020 was £7,361 million, compared with £7,067 million at 31 March 2019. This increase largely reflects regulatory capital expenditure, payments of dividends, interest and tax, the inflationary uplift on index-linked debt, fair value movements and the impact of IFRS16 resulting in a non-cash increase in lease liabilities, partly offset by operating cash flows and a repayment of loans owed from joint ventures.

Fair value of debt

The group's gross borrowings at 31 March 2020 had a carrying value of £8,363 million. The fair value of these borrowings was £8,834 million. This £471 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has decreased from £1,089 million at 31 March 2019 due primarily to an increase in credit spreads.

Debt financing and interest rate management

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 31 March 2020. This is slightly higher than the 61 per cent as at 31 March 2019 and remains within our target range of 55 to 65 per cent.

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.

The group has access to the international debt capital markets through its €7 billion euro medium-term note (EMTN) programme. The EMTN programme does not represent a funding commitment, with funding dependent on the successful issue of the notes.

Cash and short-term deposits at 31 March 2020 amounted to £528 million. Over 2015-20, we had a financing requirement totalling around £2.5 billion. This was fully funded before the end of the AMP with subsequent finance raised prefunding our AMP7 requirement. In total over 2020-25, we expect to raise around £2.1 billion to cover refinancing and incremental debt, supporting our five-year investment programme.

We remain one of the sector leaders in the issuance of CPI-linked debt having previously achieved CPI-linkage on £465 million of our debt portfolio, in response to Ofwat's decision to transition away from RPI inflation linkage. In November 2019, we increased the CPI-linkage in our debt portfolio by a further £50 million (to £515 million) by increasing the amount outstanding on UUW's financing subsidiary, United Utilities Water Finance PLC's (UUWF's) £250 million public bond with a maturity date in July 2033, by an additional £50 million and simultaneously swapping to CPI.

In February 2020, UUWF, raised £250 million 1.75 per cent fixed rate notes in the public bond market with an 18-year maturity.

Since September 2019, the group has extended a £50 million committed bank facility by one year out to 2024, and £100 million of facilities by one year out to 2025. In addition, since March 2020, the group has renewed £50 million of committed bank facilities for a 5-year term, and extended a £100 million facility for approximately a further three years to April 2026.

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 31 March 2020, approximately 48 per cent of the group's net debt was in RPI-linked form, representing around 30 per cent of UUW's regulatory capital value, with an average real interest rate of 1.4 per cent. A further 7 per cent of the group's net debt was in CPI-linked from, representing around 4 per cent of UUW's RCV, with an average real rate of 0.2 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

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

Liquidity

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

At 31 March 2020, the group had around £1.2 billion of available liquidity, comprising cash and short-terms deposits (enhanced by new finance raised in the period), plus committed undrawn revolving credit facilities. Of this, £722 million covers short term debt and debt maturities which fall due across the next 12 months. After taking this into account, the group has headroom of £436 million providing 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. The group plans to raise between £500 million and £800 million of term funding in 2020/21 and the group has recently re-established a Euro Commercial Paper Programme, which would facilitate access to the Bank of England's Covid Corporate Financing Facility (CCFF), should the group need to do so. The Bank of England has confirmed our eligibility to participate in the CCFF. Whilst we do not expect to use this facility, we see it as prudent contingency planning to have it available to the group.

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.

Pensions

As at 31 March 2020, the group had an IAS 19 net pension surplus of £754 million, compared with a net pension surplus of £484 million at 31 March 2019. This £270 million increase is as a result of the acceleration of £103 million deficit repair contributions to the group's defined benefit schemes made in April 2019, and a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme specific funding basis.

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

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported under International Financial Reporting Standards (IFRSs) as adopted by the European Union in the group's consolidated income statement, which can be found on page 31. 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.

Adjusted item	Rationale
Dry weather event	An extreme period of hot and dry weather during the summer of 2018 led to significant strain being placed on our water resources and network and as a result our reservoir levels ran extremely low. Activities were carried out to safeguard supplies, generating significant costs which would not have been incurred under normal conditions. Given the infrequent nature of periods of dry weather of this severity, this event is not considered part of the normal course of business.
GMP equalisation	The group has recognised an additional past service cost in respect of its defined benefit pension schemes. This reflects a change in benefits following a legal ruling during the year relating to the equalisation of Guaranteed Minimum Pension (GMP) benefits between males and females. This one-off adjustment, which is not representative of costs incurred in the normal course of business, is a direct consequence of the ruling and is not expected to reoccur in future years.
Bioresources asset write down	Following a strategic review of the group's Bioresources activities, the likelihood of future economic benefit being derived from certain assets is now considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. This has resulted in a material asset write down resulting from a strategic review coming out of the PR19 process and that considers the group's zero-carbon commitments. As such, it is not considered to be part of the normal course of business, with similarly material write-downs not expected to reoccur in future years.
COVID-19	The group has incurred significant costs resulting from the COVID-19 pandemic, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment, and operating expenses relating to the response to the pandemic. The group's joint venture, Water Plus, has also been significantly impacted by the pandemic, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses, which feeds through to the group's share of losses from joint ventures. This has also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the associated economic shock in the current year, these costs are not deemed to be representative of normal business performance when compared against prior periods.
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value losses/(gains) on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro economic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believes it is useful to adjust for this to provide a more representative view of performance.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believes it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences. This adjustment has been made for the first time in the current year, with prior year comparatives re-presented to take account of this adjustment.
Agreement of prior years' tax matters	The agreement of prior years' tax matters can be significant, volatile and often related to final settlement of numerous prior year periods. Management adjusts for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Operating profit per published results	**630.3**	**634.9**
Dry weather event	-	36.1
GMP equalisation	-	6.6
Bioresources asset write down	82.6	-
COVID-19 - expected credit loss on non-household receivables	1.4	-
COVID-19 - expected credit loss on household receivables	16.7	-
COVID-19 - operating expenses	1.1	-
Restructuring costs	11.8	7.2
Underlying operating profit	**743.9**	**684.8**

Net finance expense	£m	£m
Finance expense	(313.0)	(222.5)
Investment income	24.0	17.1
Net finance expense per published results	**(289.0)**	**(205.4)**
Adjustments:		
COVID-19 - Expected credit losses on loans to JVs	5.0	-
Net fair value losses/(gains) on debt and derivative instruments	76.3	(9.5)
Interest on swaps and debt under fair value option	16.5	30.6
Net pension interest income	(14.0)	(9.5)
Adjustment for capitalised borrowing costs	(40.6)	(37.4)
Underlying net finance expense	**(245.8)**	**(231.2)**

	£m	£m
Share of (losses)/profits of joint ventures	**(38.1)**	**6.7**
Adjustments:		
COVID-19 - Water Plus impairment losses and expected credit losses	32.0	**-**
Underlying share of (losses)/profits of joint ventures	**(6.1)**	**6.7**
Profit before tax per published results	**303.2**	**436.2**
Adjustments:		
In respect of operating profit	113.6	49.9
In respect of net finance expense	43.2	(25.8)
In respect of share of (losses)/profits of joint ventures	32.0	-
Underlying profit before tax	**492.0**	**460.3**
Profit after tax per published results	**106.8**	**363.4**
Adjustments:		
In respect of profit before tax	188.8	24.1
Deferred tax adjustment	157.5	34.0
Agreement of prior years' UK tax matters	(12.2)	(2.8)
Tax in respect of adjustments to underlying profit before tax	(11.3)	(10.8)
Underlying profit after tax	**429.6**	**407.9**

Earnings per share	£m	£m
Profit after tax per published results (a)	106.8	363.4
Underlying profit after tax (b)	429.6	407.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	15.7	53.3
Underlying earnings per share, in pence (b/c)	63.0	59.8
Dividend per share, in pence	42.60p	41.28p

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

Underlying operating profit reconciliation

The table below provides a reconciliation between group underlying operating profit and United Utilities Water Limited (UUW) historical cost regulatory underlying operating profit (non-GAAP measures) as follows:

Continuing operations
Underlying operating profit

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Group underlying operating profit	**743.9**	**684.8**
Underlying operating profit not relating to UUW	(3.5)	(11.3)
UUW statutory underlying operating profit (unaudited)	**740.4**	**673.5**
Revenue recognition	(5.0)	0.7
Capitalised borrowing costs	5.6	5.3
Reclassification of regulatory other income (not included in UUW operating profit)	(20.2)	(18.5)
Other differences (including non-appointed business)	(2.2)	(1.8)
UUW regulatory underlying operating profit (unaudited)	**718.6**	**659.2**

Return on Regulated Equity (RoRE)

UUW's RoRE, presented on a real return basis, for both the year ended 31 March 2020 and the cumulative position for AMP6 are as below:

	Year ended 31 March 2020	AMP 6 total
Base return	5.52%	5.54%
Totex performance	(2.24)%	(0.78)%
Retail performance	(0.38)%	(0.11)%
ODI performance	0.48%	0.21%
SIM performance	0.00%	0.03%
Financing performance	2.46%	2.11%
RoRE[1]	**5.84%**	**7.00%**

[1] Calculated in accordance with RAG 4.08, published in March 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk management

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West. A key objective of our approach is to support the sustainable achievement of the strategic themes that underpin our vision to be the best UK water and wastewater company delivering:

- the best service to customers;
- at the lowest sustainable cost;
- in a responsible manner.

From this starting point our emphasis is on our capacity and capability to manage risk and uncertainty, and to build and maintain long term resilience across the corporate, financial and operational structures of the group.

Our risk management framework provides the foundation for the business to anticipate threats to delivering an effective service. In addition, our approach enables us to understand the new and emerging circumstances that present themselves in unstable and challenging times. Key components of the framework include:

- An embedded group-wide risk management process which is aligned to ISO 31000:2018;
- A board-led approach to risk appetite, based on strategic goals;
- A strong and well established governance structure giving the board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes; and
- A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

How we identify and assess risk

The risk profile is commensurate with the issues and opportunities inherent to our operations as a listed water and wastewater business, and takes into account our statutory and regulatory obligations as well as the expectations of our stakeholders. In this way the profile illustrates risks that represent key elements of major end-to-end processes or systems, in line with our Systems Thinking approach.

The assessment of individual risks considers both the internal and external business environment as well as the effectiveness of cross-business controls. Each risk is sponsored by a senior manager who is responsible for the assessment of the risk, and for implementing preventative and responsive controls, although accountability for different aspects of the controls may lie across various departments. Although operational and project level risk assessment occurs continuously throughout the year, the activity culminates in the biannual Business Unit Risk Assessment (BURA), which reviews the strategic and tactical level business risks that underpin our principal risks. Each business risk is event based, with the assessment considering first the likelihood of the event occurring based on multiple causal factors, and secondly the full range of potential impacts and their severity should the event occur, from a minimum (best case) to a maximum (worst case) scenario.

All business areas are accountable for undertaking the BURA process, which is aligned to the full and half year reporting cycle. The process also involves group level evaluation, benchmarking and calibration to enable a consistent approach, an appreciation of the most significant risks from a financial and reputational context, and an assessment of how these relate to our risk appetite.

Oversight and Governance Process

The board ensures that its oversight of risk remains effective through a number of established reporting routes.

Twice yearly the board receives a full update on the risk profile as part of the full and half year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks, and emphasises the most significant risks in both their current state relative to the risk appetite, and target state of acceptable exposure. This practice is in compliance with the UK Corporate Governance Code, and enables reports to be provided to the board for each full and half year statutory accounting period. The board is therefore able to:

- Make decisions on the level of risk it is prepared to manage in order to deliver on the group's strategy;
- Engage with the business to put appropriate controls in place, and to ask questions and test the appropriateness of plans;
- Report externally on the long-term viability of the company in an informed manner; and
- Monitor and review the effectiveness of procedures, systems and risk management thinking.

The most significant risks reflect three categories: the ten highest business risk exposures (likelihood and impact) from across the group; the ten highest risk exposures with an operational context; and risks that have a remote likelihood of occurrence but a significant impact should they occur. The board is also advised of significant new or emerging risks pending assessment, risks which carry serious reputational impact, and those which would not otherwise be reported under the criteria described above, but because of associated uncertainty are kept under a watching brief.

Risk-specific governance and steering groups provide a picture of ongoing individual risks, and these feed into the executive led Group Audit and Risk Board (GARB), which focuses on governance, risk and compliance.

The Audit Committee is also a fundamental component of the governance structure. Supported by Company Secretariat and the Corporate Audit teams, the Audit Committee reviews the effectiveness of risk management and internal controls before these are agreed by the board.

Key developments

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

Aligned to this approach is the introduction of a separate New and Emerging Risk forum over the last twelve months. This takes place in addition to the BURA process to ensure that changing circumstances from both the external and internal business environments are taken into account, and we continue to consult with external bodies to keep up to date with potential threats to the sector. In January 2020 we undertook a cross-business assessment of insider risk with the Centre for the Protection of National Infrastructure (CPNI). We have also recently set up a dedicated anti-fraud forum to understand potential threats and impacts, and to develop mitigation strategies.

We have carried out a review of the National Risk Register for Climate Change to cross reference our own risk profile and use the assessment parameters to reassess our existing risks in the longer term. This has better enabled us to understand potential impacts and determine future strategies and associated funding requirements.

As a utility company we take part in multi-agency partnerships via Local Resilience Forums (LRFs) and in November 2018 we developed a specific pandemic plan to provide support to our well established incident management process. This plan has been the basis for our COVID-19 incident management team, which was established in January 2020 to maintain our key operations during the incident, and to promote and support government advice on containment, delay and social distancing.

Profile features

Our business risk profile, underpinning the principal risks, consists of approximately 100 risks. Although the profile (as reported to the board) remains relatively static in terms of its headline inherent risk factors, the detail reflects the changing nature of the political and regulatory environment, the transition between the regulatory Asset Management Periods (AMPs), and emerging circumstances including those associated with COVID-19.

From a political and regulatory perspective the Final Determination (FD) in December 2019 saw the crystallisation of tougher targets and penalty/reward structures for operational risks. Whilst we accepted the FD, four companies have made a referral to the Competition and Markets Authority (CMA) which has potential implications for the sector as we start to look at the next price review (PR24). The General Election, which took place in December 2019, ended the immediate threat of Nationalisation for the water sector and also better informed some uncertainties around Brexit. Despite this, uncertainty remains in respect of perceptions of sector legitimacy and Brexit, including the potential for no suitable trade deal with the EU and the potential implications for our supply chain, particularly chemicals.

Looking more closely at operational and programme delivery risk, the transition between AMPs is particularly relevant for our Capital Programme. This involves AMP6 closedown work and related AMP7 early start, working with new partners and contractors, and delivering novel approaches. This will include the new Direct Procurement for Customers (DPC) methodology and model which we are utilising for our scheme to replace sections of the Haweswater Aqueduct. Whilst DPC is Ofwat's favoured approach for certain types of qualifying large projects of significant spend, it brings a number of uncertainties, risks and challenges, including achieving value for money, contract terms and risks and the effect on the remainder of our operations and financial structures (including our capital structure). Another key change for AMP7 is the introduction of a new customer measure of experience (C-MeX) which looks beyond direct customer experience of operational activity to a broader perception of the company and brand orientation. Climate change remains a key focus area, especially because of its impact on our water resources, asset base and our operations, but also the environment that we strive to protect and enhance. We are committed to the principles set by the Financial Stability Board's Task Force on Climate-related Disclosures (TCFD).

The COVID-19 pandemic has radically changed global economies, compounding a number of the risk exposures already captured within this business risk profile. These include risks in relation to financing performance, revenue and cash collection, and supply chain and operational delivery risks for water and wastewater. As well as considering our existing risks, we work with our trade body (Water UK) to understand additional potential scenarios, their associated implications and to plan mitigation.

Principal risks

We have set out below the principal risks that could have a material impact on the group's business model, future performance, solvency or liquidity and reputation. These principal risks are a combination of event-based risks and a description is provided as to how they might cause losses or gains to arise. Areas of potential exposure are illustrated and mitigating controls described. Also shown are individual matters that are currently significant risks, issues or areas of uncertainty, and which could affect our overall risk exposure.

1. Political and regulatory risk – Developments connected with the political and regulatory environment, including changes to legislation. Risk decreased

<u>Principal/significant impacts:</u>

- In view of the current global impact of COVID-19 and the government's response to it, there is the potential for the costs of administration to increase, for sources of income and funding to be impacted and for greater uncertainty of returns as well as increased uncertainty within the debt and equity markets causing blockages to the raising of finance and the refinancing of debt in the medium to long term;
- Continuing challenges in relation to perceptions of legitimacy of the water industry leading to increased scrutiny from parliament, regulators and customers; and
- The beginning of AMP7 from April 2020 and the delivery of our new business plan in a period of great uncertainty.

Management and mitigation

We continue to take part in government and regulatory consultations, despite the uncertain conditions associated with COVID-19, in order to influence outcomes in respect of policy and legislation. Our communications with customers continue so that their needs and expectations can be factored into our thinking.

Current key risks, issues and uncertainties

The global COVID-19 pandemic and its impact on the stability and certainty of regulation; challenges to the legitimacy of the water industry; Ofwat's final determination and the commencement of AMP7; greater regulatory scrutiny of competitive markets; ongoing and new impacts of Brexit, including the effects on regulatory and legislative regimes.

2. Conduct and compliance risk - The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities. Risk stable

Principal/significant impacts

Failure to comply with legal obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. Fines up to 10% of group turnover could be imposed, particularly in the areas of environmental, health and safety, competition and information and data security. Ultimately sanctions could include revocation of the instrument of appointment (licence) and the imposition of a special administration regime.

Management and mitigation

Despite the influence of the COVID-19 situation on all our activities, we continue to place high importance and focus on corporate responsibility. Our well established internal forums and our work with communities, landowners, environmental groups and other stakeholders allow us to remain engaged with and be aware of issues and concerns including ethical supply chains, modern slavery risks, the needs of vulnerable customers and diversity and equality within our own employee population. We also monitor closely all legislative and regulatory developments including in particular the ongoing passage of the Environment Bill and the frameworks regulating water quality, sludge and industrial emissions. The revised requirements introduced by such changes are incorporated into our operations and approach by means of policy, training and working practices. We work with our regulators but challenge them in a constructive and cost-effective manner where appropriate, and we defend litigation involving third parties and seek recoveries of outlay and losses.

Current key risks, issues and uncertainties

Developing competitive markets; material litigation; tighter regulation of personal data (including GDPR); significant fines for non-compliance.

3. Water service risk - A failure to provide a secure supply of clean, safe drinking water and the potential for a negative impact on public confidence in water supply. Risk stable

Principal/significant impacts:

- Danger to public health caused by poor water quality;
- The impact on communities caused by interruptions to water supply; and
- COVID-19 restrictions affecting construction activity.

Management and mitigation

As a critical supplier we have continued to deliver on our essential water supply duties during the COVID-19 pandemic. Our centralised planning capabilities, use of Systems Thinking, risk assessment, quality assurance and testing processes enable us to maintain a resilient service. Our business plan for AMP7 contains necessary capital programmes to enhance and maintain our service to customers.

We embrace innovation and are working on projects to ensure security of supplies in the long term. The continuation of our 25 year Water Resources Management Plan enables the delivery of sustainable and secure water supplies, taking into account risk factors including climate change, scarcity of supplies and population growth.

Current key risks, issues and uncertainties

Failure of supply and distribution system; scarcity of supplies; drought; population growth; adverse weather events; stricter regulation of abstraction activities; uncertainty of global supply chain in the light of Brexit; COVID-19 and its effect on the supply chain and our construction activities.

4. Wastewater service risk - A failure to remove and treat wastewater. Risk stable

Principal/significant impacts

Pollution incidents, interruptions to drainage services and sewer flooding could lead to damage to the natural environment, disruption to businesses and domestic customers and could result in significant fines and reputational harm. The evolving markets of bioresources and sludge treatment introduce uncertainty. COVID-19 restrictions have affected construction activity.

Management and mitigation

Our innovative and efficient business processes, including Systems Thinking, centralised planning and control, quality assurance, risk management, sampling and monitoring of discharge consents enable a proactive and predictive approach to controlling and minimising incidents. Our business plan for AMP7 contains necessary capital programmes to maintain and enhance our service to customers.

Current key risks, issues and uncertainties

Failure of networks; adverse weather events and their effect on the capacity of the sewer network; failure to treat wastewater; pollution events; odour nuisance; population growth and its impact on existing infrastructure; significant environmental fines; COVID-19 and its effect on the supply chain and our construction activities; changes to the regulatory regime; effects of Brexit on the chemicals supply chain.

5. Retail and commercial risk - Failing to provide good and fair service to domestic customers and third-party retailers or a failure of or issue in relation to non-United Utilities Water operations or businesses (including Water Plus). Risk increased.

Principal/significant impacts

Particularly in the context of the economic downturn caused by the measures taken to control the COVID-19 pandemic, there is a risk of financial losses and an impact on profitability associated with poor cash flow and an increase in bad debt and potential regulatory penalties and reputational harm including as a result of decreased customer satisfaction.

Management and mitigation

Our customer focused initiatives aim to drive excellent service and enhance the experience of all our customers. We have an award winning Priority Services programme for vulnerable customers and those needing help to pay, which has driven up our success in recovering charges in a personalised and sympathetic way. Bad debt risk is managed through the adoption of best practice collection techniques, segmentation of customers based on their credit risk profile and the use of data sharing where appropriate to better understand customers' circumstances to determine the most effective and collaborative collection and support activities. The wholesale business maintains processes, systems, data and organisational capacity and capability to deal fairly with market participants and the central market operator in the Business Retail market in order to generate and collect revenue. Similarly strong governance applies to non-United Utilities Water operations and businesses.

Current key risks, issues and uncertainties:

Competition in the bioresources, water and wastewater markets; socio-economic deprivation in the North West; effects of COVID-19 on customers' ability to pay; economic downturn and the effect on domestic bad debt; C-MeX and D-MeX; non-household retail competition and the ability to treat other participants equally; wholesale revenue collection; the challenges associated with being involved in a joint venture water retail business (Water Plus) operating in a competitive environment; business retail customer payments, debt and bad debt during the period and aftermath of the COVID-19 pandemic.

6. Financial risk - Potential inability to finance the business appropriately. Risk increased

Principal/significant impacts:

- The COVID-19 pandemic has introduced significant uncertainty into global financial markets, exacerbating the potential for worse credit ratings, associated funding costs or reduced access to debt capital markets leading to lower liquidity and adversely impacting the economic return on the regulatory capital value (RCV); and
- Tax inefficiencies, under or over payment of tax, deflation, interest rates and energy prices and a potential worsening of the pension scheme funding position could all lead to a significant increase in costs to the group.

Management and Mitigation

Significant liquidity and refinancing which is long-term with staggered maturity dates to minimise the effect of short-term downturns. Counterparty credit exposure and settlement limits exist to reduce any potential future impacts. These are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. The group also employs hedging strategies to manage the impact of market fluctuations for inflation, interest rates and energy prices. Sensitivity analysis is carried out as part of the business planning process, influencing the various financial limits employed. Continuous monitoring of the markets takes place including movements in credit default swap prices and movements in equity levels.

Current key risks, issues and uncertainties:

Failure to achieve AMP7 financing outperformance; COVID-19; lower inflation; financial market conditions; interest rates and funding costs due to economic uncertainty associated with COVID-19 and Brexit; paying an appropriate amount of tax.

7. Supply chain and programme delivery risk - Potential ineffective delivery of capital, operational and change programmes/processes. Risk stable

Principal/significant impacts

The potential failure to meet our obligations and customer outcomes, including DPC, resulting in an impact at future price reviews, negative reputational impact with customers and regulators. COVID-19 restrictions have challenged financial resilience in supply chains and created an impact on cash flow.

Management and mitigation

Supply chain management is utilised to deliver an end-to-end contract management service, including contract strategy, tendering and category management, which provides a risk-based approach and relationship management programme for suppliers. We prioritise our investment programmes, projects and integrated business and asset plans. We have created better alignment and integration between our capital delivery partners and engineering service providers including alignment with our operating model.

Our programmes and project management capabilities are well established with strong governance and embedded processes to support delivery, manage risks and achieve business benefits. We utilise a time, cost and quality index (TCQi) as a key performance indicator and enhance our performance through a dedicated programme change office to deliver change in a structured and consistent way.

Current key risks, issues and uncertainties

New partnership structures and arrangements in AMP7; DPC, including exit; technical quality and innovation; Brexit and increased uncertainty of availability of materials sourced from Europe; effects of COVID-19.

8. Resources risk - Failing to provide appropriate resources (human, technological or physical resource) required to support business activity. Risk stable

Principal/significant impacts:

- The potential inability to recruit, retain or deploy knowledge and/or expertise;
- The potential inability to respond and recover due to ineffective non resilient business activity; and
- COVID-19 could lead to significant staff absences, both through illness and covering of other essential roles.

Management and mitigation

Developing our people with the right skills and knowledge, combined with delivering effective technology to support the business meeting its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, faster and more cost-effective operations. Resources are closely monitored because of COVID-19, with homeworking and safe site working practices being adopted. People with multiple skill sets are able to add resilience across the business.

Current key risks, issues and uncertainties

Risks to health and safety of the workforce caused by COVID-19; delivering required employee engagement; personal development, talent management and succession planning; optimising technology and innovation.

9. Security risk - Potential for malicious activity (physical or technological) against people, assets or operations. Risk stable

Principal/significant impacts:

- The potential for a loss of data/information and the consequent effect on service provision; and
- The potential for catastrophic damage to our property, infrastructure and non-infrastructure and the consequent effect on service provision.

Management and mitigation

Physical and technological security measures and awareness training combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. Externally, we work closely with our industry peers, the Centre for the Protection of National Infrastructure (CPNI), the National Cyber Security Centre (NCSC), the Drinking Water Inspectorate and Defra to shape the sector approach to security, particularly cyber security, and to understand how we can best deliver the appropriate levels of protection to our business and in compliance with the Network and Information Systems Directive (NIS). Ongoing system and network integration improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We also maintain insurance cover for loss and liability, and the instrument of appointment (licence) of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat/customers in the event of a catastrophic incident.

Current key risks, issues and uncertainties

Cybercrime, particularly during the COVID-19 incident; terrorism; fraud; ownership of Critical National Infrastructure and National Infrastructure.

10. Health, safety and environmental risk - Potential harm to people (employees, contractors or the public) and the environment. Risk stable

Principal/significant impacts:

- The effects of COVID-19 on employees, contractors and customers;
- The potential for serious injury or loss of life in remote, extreme circumstances;
- The potential for catastrophic damage to private, public or commercial property/infrastructure including the consequent effect on water and wastewater service provision; and
- The potential for serious impact on wildlife, fish or natural habitats resulting in significant fines and reputational damage.

Management and mitigation

We have developed a strong health and safety culture where 'nothing we do at United Utilities is worth getting hurt for' supported by strong governance and management systems certified to OHSAS 18001. We actively seek to improve health, safety and wellbeing across the group through targeted improvements and benchmarking against our peers. Also certified to ISO 14001, we seek to protect and improve the environment through the responsible delivery of our services. This includes helping to support rare species and habitats through targeted engagement and activity and commitment to reducing our carbon emissions by designing out waste from our operations, generating our own energy and looking at ways to reduce our use of raw materials. We also recognise the impact the environment can have on our service provision with extreme weather and climate change being integrated into our risk, planning and decision-making processes.

Current key risks, issues and uncertainties

COVID-19; impounding reservoirs containing significant volumes of water; other critical asset failure; multiple hazards including process safety, use or accidental release of chemicals, excavation, tunnelling and construction work; fluvial and coastal flooding associated with climate change.

The group's top 10 event-based risks

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

1. Failure of significant water supply systems with the current lowest resilience due to asset deterioration, leading to water quality issues and/or supply interruptions to a large proportion of the UU customer base. Potential impacts include penalties, additional cost, customer compensation and reputational damage. **Mitigation** includes capital projects for asset replacement, as well as extensive programmes of asset monitoring, surveys and maintenance. **RISK STABLE**
2. Partial failure of the wastewater network owing to hydraulic capacity, operational capacity or equipment failure relative to changing and extreme weather conditions. Impacts include sewer flooding and consequent penalties, additional cost, customer compensation and reputational damage. **Mitigation** includes the combination of the Drainage and Wastewater Management Plans (DWMP) and embedment of the Wastewater Network Operating Model. These include preventative maintenance, inspection regimes, asset condition surveys, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes. **RISK STABLE**
3. Data and technology assets could be significantly compromised due to malicious or accidental activity leading to a major impact to key business processes and operations. Potential consequences include penalties, additional costs, customer compensation and reputational damage, as well as impacts to business services, regulatory compliance, financial and operational performance. **Mitigation** includes multiple layers of control with an approach that covers people, process and technology. This includes a secure perimeter with segmented internal network zones and a core data network supported by infrastructure and system access controls, with constant monitoring and 24/7 incident and forensic response capability. **RISK STABLE**
4. Failure to adequately treat wastewater due to operational capacity and capability of wastewater treatment works, leading to environmental permit breaches, with potential impacts including penalties, additional cost,

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

5. The unintended introduction of sewage and other pollutants into the environment due the capacity and /or capability of wastewater treatment or network assets, leading to extensive environmental impact and pollution with potential ODI penalties, prosecution fines, additional opex, capex and reputational damage. **Mitigation** includes our proactive strategy of identifying defects and collapses through the use of extensive field CCTV surveys, staff training and incident analysis. In addition we are developing a Pollution Incident Reduction Plan (PIRP) and are improving our capabilities further through the development of IDAS (Integrated Drainage Area Studies) and WwNM (Wastewater Network Management). **RISK STABLE**
6. Competition in the bioresources market following the reforms set out in the Water Act 2014, Water2020 and PR19 process, leading to a loss of business and reduced operational efficiency. **Mitigation** includes delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business. **RISK STABLE**
7. Failure to achieve AMP 7 financing outperformance because of falling CPIH inflation impacting the effective real rate on embedded fixed rate nominal debt, resulting in a lower level of financing outperformance than expected. **Mitigation** includes board approval of our interest rates and inflation management strategies, ongoing monitoring of markets and regulatory developments against financial outperformance projections. **RISK STABLE**
8. Delay to the Haweswater Aqueduct Replacement Project, triggered by exit from the DPC process. Causes could include the market's failure to present a better value proposition than in-house delivery, lack of market appetite/capability to deliver the scheme, or unacceptable business impacts caused by financing. Impacts include increased risks of failure due to project delays, additional/unrecoverable cost and the requirement for significant finance to be raised for in-house procurement. **Mitigation** includes adoption of HM Treasury's Green Book process, regular liaison with Ofwat, market engagement and financial modelling. We are also progressing direct UU activity including ecological surveys and ground investigations, which are both key activities to progressing the planning applications, and developing the commercial aspects of the DPC. **RISK INCREASING**
9. Partial failure of the water distribution system caused by network characteristics, asset condition, operational strategies, extreme weather or third party damage leading to the loss of treated water and failure of the leakage target. Impacts include incurring ODI penalties, extra opex to recover the leakage target and reputational damage. **Mitigation** includes leakage detection engineers, sounding valves and fittings within the network, monitoring and managing pressure and flow and analysing and interrogating system data to assess and allocate leak detection and repairs to the right area. **RISK DECREASING**
10. Failure to treat sludge due to a combination of treatment capacity and quality of sludge produced at WwTWs, leading to higher operating costs, loss of revenue from renewable energy and the potential for sludge to be inadequately disposed of. Mitigation is by a Bioresource production planning process which incorporates regular testing and analysis, a digester and tank cleaning programme and a focused maintenance programme. **RISK STABLE**

New and emerging risks and issues

We continue to review and monitor external and internal risk factors to understand and assess new and emerging risks, as well as the evolution of existing risks. This enables us to plan our strategy and operations to minimise threats of this nature. Notable new and emerging risks and some possible impacts are set out below.

- **No suitable trade deal with the EU:** Additional cost of products sourced directly or indirectly from the EU. The most critical product category is chemicals for the treatment of water and sludge production.
- **COVID-19*:*** In the short term there is a risk of reduced recovery of household debtors, non-household charges to retailers and the additional impact flowing from the risk of reduced recovery of business customer receivables within Water Plus. In addition, reduction in resource because of illness or self-isolation and the impacts of social distancing have potential impacts on service delivery, capital project delivery, ODIs and CMEX. In the longer term, economic impacts resulting from COVID-19 could include

sustained levels of high unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV.

- **Customer Measure of Experience (C-MeX):** A new regulatory customer service measure is being introduced for the new AMP which introduces a much broader set of customer factors and measures than the previous service element, opening up a new group of customers and experiences which could affect our performance ratings.
- **Plastics**: Implications associated with the current attention on single use plastics and microplastic pollution in water, wastewater effluent discharge and sludge disposal (see also Biosolids Recycling below).
- **Biosolids Recycling to Agriculture:** The practice of disposing of biosolids to agriculture could be banned (partially or in full) in the UK based on similar actions within Europe.
- **Water Scarcity & Water Trading:** Water Scarcity is an emerging issue within the UK which has knock on implications to UU in relation to the proposed strategic transfer of water from the North West to the South East of England and the associated service, commercial and reputational impacts.

Material litigation

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

LEI 2138002IEYQAOC88ZJ59
Classification – Full Year Results

Consolidated income statement

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Revenue	**1,859.3**	1,818.5
Employee benefit expense (note 4)	**(161.4)**	(169.6)
Other operating costs (note 5)	**(403.4)**	(422.8)
Allowance for expected credit losses – trade and other receivables	**(41.8)**	(26.5)
Other income	**3.4**	3.6
Depreciation and amortisation expense	**(482.8)**	(393.2)
Infrastructure renewals expenditure	**(143.0)**	(175.1)
Total operating expenses	**(1,229.0)**	(1,183.6)
Operating profit	**630.3**	634.9
Investment income (note 6)	**24.0**	17.1
Finance expense (note 7)	**(308.0)**	(222.5)
Allowance for expected credit losses – loans to joint ventures	**(5.0)**	-
Investment income and finance expense	**(289.0)**	(205.4)
Share of (losses)/profits of joint ventures (note 11)	**(38.1)**	6.7
Profit before tax	**303.2**	436.2
Current tax charge	**(38.9)**	(38.8)
Deferred tax charge	**(157.5)**	(34.0)
Tax (note 8)	**(196.4)**	(72.8)
Profit after tax	**106.8**	363.4

All of the results shown above relate to continuing operations.

Earnings per share (note 9)		
Basic	**15.7p**	53.3p
Diluted	**15.6p**	53.2p
Dividend per ordinary share (note 10)	**42.60p**	41.28p

Consolidated statement of comprehensive income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Profit after tax	**106.8**	363.4
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedge effectiveness	**(2.0)**	0.4
Tax on items taken directly to equity (note 8)	**0.4**	(0.1)
Foreign exchange adjustments	**1.3**	(0.8)
Other comprehensive income that may be reclassified to profit or loss	**(0.3)**	(0.5)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on defined benefit pension schemes (note 13)	**154.6**	73.0
Change in credit assumptions for debt reported at fair value through profit or loss	**34.2**	6.6
Cost of hedging – cross currency basis spread adjustment	**1.3**	(2.2)
Deferred tax adjustments in respect of prior years on net fair value gains	**(2.4)**	-
Tax on itemIs taken directly to equity (note 8)	**(157.1)**	(13.1)
Other comprehensive income that will not be reclassified to profit or loss	**30.6**	64.3
Total comprehensive income	**137.1**	427.2

Consolidated statement of financial position

	31 March 2020 £m	31 March 2019 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**11,510.9**	11,153.4
Intangible assets	**189.0**	202.7
Investment in joint ventures (note 11)	**46.8**	79.0
Other investments (note 12)	**0.1**	11.5
Trade and other receivables	**97.0**	148.1
Retirement benefit surplus (note 13)	**754.1**	483.9
Derivative financial instruments	**617.8**	387.8
	13,215.7	12,466.4
Current assets		
Inventories	**16.6**	14.9
Trade and other receivables	**245.9**	249.5
Current tax asset	**37.7**	16.4
Cash and short-term deposits	**528.1**	339.3
Derivative financial instruments	**0.1**	101.3
	828.4	721.4
Total assets	**14,044.1**	13,187.8
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(761.2)**	(697.3)
Borrowings (note 14)	**(7,518.1)**	(7,115.6)
Deferred tax liabilities	**(1,462.6)**	(1,146.0)
Derivative financial instruments	**(135.4)**	(66.1)
	(9,877.3)	(9,025.0)
Current liabilities		
Trade and other payables	**(334.4)**	(321.2)
Borrowings (note 14)	**(845.0)**	(700.2)
Provisions	**(16.4)**	(16.8)
Derivative financial instruments	**(8.9)**	(13.8)
	(1,204.7)	(1,052.0)
Total liabilities	**(11,082.0)**	(10,077.0)
Total net assets	**2,962.1**	3,110.8
EQUITY		
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.9
Other reserves (note 18)	**336.7**	338.3
Retained earnings	**2,122.7**	2,269.8
Shareholders' equity	**2,962.1**	3,110.8

Consolidated statement of changes in equity

Year ended 31 March 2020

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

Year ended 31 March 2019

	Share capital £m	Share premium account £m	[(1)]Other reserves £m	Retained earnings £m	Total £m
At 31 March 2018	499.8	2.9	327.9	2,120.3	2,950.9
Adjustment on initial adoption of IFRS 9 (note 1)	-	-	12.7	(12.7)	-
Adjustment on initial adoption of IFRS 15 (note 1)	-	-	-	5.9	5.9
At 1 April 2019	499.8	2.9	340.6	2,113.5	2,956.8
Profit after tax	-	-	-	363.4	363.4
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	73.0	73.0
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	6.6	6.6
Cash flow hedge effectiveness	-	-	0.4	-	0.4
Cost of hedging – cross currency basis spread adjustment	-	-	(2.2)	-	(2.2)
Tax on items taken directly to equity (note 8)	-	-	0.3	(13.5)	(13.2)
Foreign exchange adjustments	-	-	(0.8)	-	(0.8)
Total comprehensive income	-	-	(2.3)	429.5	427.2
Dividends (note 10)	-	-	-	(274.4)	(274.4)
Equity-settled share-based payments	-	-	-	4.0	4.0
Exercise of share options - purchase of shares	-	-	-	(2.8)	(2.8)
At 31 March 2019	**499.8**	**2.9**	**338.3**	**2,269.8**	**3,110.8**

[(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 18.

Consolidated statement of cash flows

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Operating activities		
Cash generated from operations (note 16)	**1,005.5**	995.5
Interest paid	**(149.4)**	(143.0)
Interest received and similar income	**9.9**	7.3
Tax paid	**(71.5)**	(27.5)
Tax received	**15.8**	-
Net cash generated from operating activities	**810.3**	832.3
Investing activities		
Purchase of property, plant and equipment	**(652.8)**	(622.3)
Purchase of intangible assets	**(27.2)**	(39.9)
Proceeds from sale of property, plant and equipment	**-**	2.1
Grants and contributions received	**34.7**	35.2
Repayment/(extension) of loans to joint ventures	**34.5**	(6.0)
Dividends received from joint ventures	**4.9**	2.2
Proceeds from disposal of investments	**12.0**	1.0
Net cash used in investing activities	**(593.9)**	(627.7)
Financing activities		
Proceeds from borrowings net of issuance costs	**805.4**	568.4
Repayment of borrowings	**(545.9)**	(668.6)
Dividends paid to equity holders of the company (note 10)	**(284.5)**	(274.4)
Exercise of share options – purchase of shares	**(2.8)**	(2.8)
Net cash used in from financing activities	**(27.8)**	(377.4)
Net increase/(decrease) in cash and cash equivalents	**188.6**	(172.8)
Cash and cash equivalents at beginning of the year	**324.6**	497.4
Cash and cash equivalents at end of the year	**513.2**	324.6

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements and do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006, but are derived from the audited financial statements of United Utilities Group PLC for the year ended 31 March 2020, for which the auditors have given an unqualified opinion.

The comparative figures for the year ended 31 March 2019 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 and 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 condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). They have been 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 are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2019 with the exception of the adoption of IFRS 16 '*Leases*'. Adoption of this standard is in line with expectations set out in the March 2019 group financial statements.

Going concern

The financial statements 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 the approval of the financial statements 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 facilities as well as consideration of the group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of COVID-19 on the group. This baseline plan assumes restrictions and social distancing extend through the summer of 2020 resulting in a one year GDP reduction of 8% which takes 10 quarters to recover, unemployment peaking at 9%, CPIH inflation reducing to zero in the year to 31 March 2021 and then increasing gradually, and non-household business revenues reduced by around 30% in the year to 31 March 2021 before being rebalanced through the revenue cap in subsequent years. This baseline plan has then been subject to a further more extreme downside stress scenario with elevated levels of bad debt persisting in the medium term, increased totex costs, outcome delivery incentive penalties and lower CPIH inflation. Mitigating actions were considered to include access to new debt finance; deferral of capital expenditure; close out of derivative asset balances; access to additional equity and deferral of dividends.

Having considered these matters, the directors do not believe there are any material uncertainties to disclose in relation to the group's ability to continue as a going concern.

Impact of newly adopted standards

IFRS 16 'Leases'

The group adopted IFRS 16 on 1 April 2019, applying the modified retrospective transitional approach permitted by the standard in which both the right-of-use assets and lease liabilities brought onto the balance sheet were based on the present value of future lease payments at the adoption date calculated using the appropriate discount rate at 1 April 2019. Prior year comparatives have not been restated. The group has utilised the practical expedient permitted by the standard whereby a single discount rate has been applied to portfolios of leases with reasonably similar characteristics. Following initial adoption of the standard, lease liabilities and right-of-use assets for new leases are based on the appropriate discount rate at the date the new contract is entered into.

The value of right-of-use assets and lease liabilities brought onto the balance sheet on 1 April was £54.4 million; there has been no effect on retained earnings at the adoption date. The income statement charge during the year ending 31 March 2020 has been £3.5 million, split between £1.9 million of depreciation of the right-of-use assets and £1.6 million in relation to the finance charge recognised on the lease liabilities. This compares with £3.3 million of operating lease expenses that would have been recognised under IAS 17. Although the adoption of IFRS 16 has directly impacted the profit for the group during the period, the modest £0.2m impact means that the EPS and diluted EPS of the group have not been materially changed by the adoption of IFRS 16. There has been no net cash flow impact arising from the application of the new standard.

At 31 March 2020 the value of right-of-use assets included within property, plant and equipment was £57.4 million and the value of lease liabilities included within borrowings was £57.6 million, of which £54.7 million was classified as non-current and £2.9 million was classified as current.

As part of the group's transition to IFRS 16 an exercise was carried out to assess whether contracts it has entered into are, or contain, leases as defined by the new standard. This has resulted in some differences between the population of contracts identified as containing leases under previous accounting standards, and for which operating lease commitments were disclosed at 31 March 2019, and the population of contracts deemed to contain leases under IFRS 16. Had all operating lease commitments disclosed under previous accounting standards at 31 March 2019 been recognised as leases under IFRS 16, by discounting future lease payments using the group's weighted average incremental borrowing rate applied to lease liabilities of 3.09 per cent, the right-of-use assets and lease liabilities brought onto the balance sheet would have been £18.0 million higher. Expenses relating to those contracts that do not contain leases within the scope of IFRS 16 continue to be recognised as operating expenses in the income statement over the term of the agreement.

The typical items which the group leases include land, buildings, operational assets and vehicles. The right-of-use assets and lease liabilities are both based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the liability increased for the accretion of interest (being the unwinding of the discounting applied to the future lease payments) and reduced by lease payments.

The key judgements associated with applying this standard relate to the identification and classification of contracts containing a lease within the scope of IFRS 16 and the discount rate to use in calculating the present value of future lease payments on which the reported lease liability and right-of-use asset is based when it is not implicit in the lease contract.

Due to the nature of the group's operations, many of the current leases have long remaining terms, which causes the discount rate to be a key factor in determining the value of the lease liability. When the interest rate is not implicit in the lease, which is the case for materially all of the group's leases recognised under IFRS 16, the discount rate which is used is based on the relevant group company's nominal incremental borrowing rate adjusted for the payment profile and term of each lease.

The group has applied recognition exemptions permitted by the standard in relation to short-term leases and leases of low-value items.

The adoption of IFRS 16 has not impacted the group's ability to comply with any banking or financing covenants.

Clarifications on the application of IFRS 16 made in IFRIC agenda decisions during the year ('Subsurface rights' – June 2019; 'Lessee's incremental borrowing rate' – September 2019; 'Lease term and useful life of leasehold improvements' – November 2019; 'Definition of a lease – decision-making rights' – January 2020) have not affected our application of the standard.

Early adopted new and revised standards

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

In January 2020, the EU endorsed the IASB-published amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2020 with early adoption permitted. These amendments provide temporary exceptions from applying specific hedge accounting requirements where a hedging relationship is directly or indirectly affected by the market-wide interest rate benchmark reform, where certain financial market benchmark reference rates (such as LIBOR) will be required to be changed to nearly risk-free alternative rates.

As the group has a significant proportion of debt and derivative financial instruments designated in fair value hedge relationships that are linked to LIBOR, which is expected to be replaced by an alternative interest rate benchmark after 2021, these amendments are applicable to the group's hedge accounting. The temporary exceptions provided for in the amendments mean that no changes to the group's hedge accounting are expected to the extent that they are impacted by interest rate benchmark reform. In accordance with the published provisions, these amendments are adopted retrospectively to hedging relationships that existed at the start of the reporting period. The relief set out in this amendment will end at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present, or the discontinuation of the hedging relationship.

The group's treasury function is actively considering and preparing for the potential implications of interest rate benchmark reform in anticipation of any changes.

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 which align with our three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner. The board reviews revenue, operating profit, and gearing, along with operational drivers, 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

	31 March 2020 £m	**31 March 2019 £m**
Wholesale water charges	**784.8**	767.4
Wholesale wastewater charges	**939.5**	905.8
Household retail charges	**83.8**	86.7
Other	**51.2**	58.6
	1,859.3	1,818.5

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removal and treatment of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Wholesale water and wastewater charges relate to services provided to household customers and non-household retailers. Household retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. These wholesale charges and the applicable retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers. No margin is applied to wholesale water and wastewater services provided to non-household retailers.

3. Revenue (continued)

Other revenues comprise a number of smaller non-core income streams including those relating to 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. Employee benefits expense

Included within employee benefits expense were £11.8 million (31 March 2019: £7.2 million) of restructuring costs.

In the prior year £6.6 million of costs associated with the equalisation of Guaranteed Minimum Pension (GMP) benefits were recognised, along with £1.4 million of employee costs incurred in relation to the group's response to a severe dry weather event.

5. Other operating costs

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Hired and contracted services	**96.6**	112.2
Power	**78.9**	72.8
Property rates	**75.9**	94.7
Materials	**75.1**	77.8
Regulatory fees	**28.3**	32.5
Loss on disposal of property, plant and equipment	**13.9**	3.9
Cost of properties disposed	**0.4**	4.7
Settlement of commercial claims	**-**	(9.9)
Other expenses	**34.3**	34.1
	403.4	422.8

During the current year the group incurred operating costs of £19.2 million relating to the COVID-19 pandemic, comprising £18.1 million in relation to incremental charges for bad and doubtful receivables, and £1.1 million of operating costs relating to the direct response to the pandemic.

Property rates expenses in the current year include the impact of an £8.1 million refund in relation to rates paid in previous years resulting from a revision to the rateable value of the group's water assets as agreed with the Valuation Office Agency (VOA). This reduction ensures that the cumulative property rates paid by the group are appropriately recorded. In addition to this, accrued property rates relating to wastewater assets have been reassessed during the current year resulting in an £8.2 million reduction in rates costs reflecting properties identified as being non-rateable and management's revised estimate of the likely rates payable on properties whose rateable values are yet to be assessed.

During the current year, operating costs of £3.1 million and infrastructure renewals expenditure of £4.7 million were incurred in response to Storms Ciara and Dennis in February 2020.

During the prior year, as a result of the group's response to a severe dry weather event, there were £36.1 million of expenses incurred, comprising £24.2 million of other operating costs, £10.1 million of infrastructure renewals expenditure, and £1.4 million of employee costs (see note 4).

6. Investment income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest receivable	**10.0**	7.6
Net pension interest income (note 13)	**14.0**	9.5
	24.0	17.1

7. Finance expense

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest payable	**231.7**	232.0
Net fair value losses/(gains) on debt and derivative instruments	**76.3**	(9.5)
	308.0	222.5

Interest payable is stated net of £40.6 million (31 March 2019: £37.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. Interest payable includes a £100.8 million (31 March 2019: £98.3 million) non-cash inflation expense in relation to the group's index-linked debt.

In addition to the £308.0 million finance expense, expected credit losses of £5.0 million have been recognised during the current year (31 March 2019: nil) in relation to loans extended to the group's joint venture, Water Plus, following a significant increase in credit risk resulting from the impacts of the COVID-19 pandemic on Water Plus's operations. (See note 20 for further details on these related party balances).

Net fair value gains on debt and derivative instruments includes £16.0 million income (31 March 2019: £30.6 million) due to net interest on derivatives and debt under fair value option, and £0.5 million income (31 March 2019: nil) due to non-cash inflation uplift on the group's index-linked derivatives.

8. Tax

During the year ended 31 March 2020 there was a current tax credit of £12.2 million (31 March 2019: £2.8 million) and a deferred tax charge of £5.6 million (31 March 2019: £1.4 million credit) relating to agreed matters in relation to prior years.

Excluding the deferred tax adjustment for the change in tax rate of £135.5 million in the current year, the total effective tax rate for the current and prior period was in line with the headline rate of 19 per cent. The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to tax deductions on capital investment, pension contributions, and unrealised gains and losses on treasury derivatives.

The tax adjustments taken to equity primarily relate to remeasurement movements on the group's defined benefit pension schemes including the adjustment arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent. This change in rate reflects a revised judgement as to the most likely method by which the defined benefit pension surplus would be realised. Whereas previously it was assumed that the surplus could be realised through a reduction in future contributions, management now consider that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

9. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after tax by the weighted average number of shares in issue during the year. The weighted average number of shares in issue as at 31 March 2020 for the purpose of the basic earnings per share was 681.9 million (31 March 2019: 681.9 million) and for the diluted earnings per share was 683.6 million (31 March 2019: 683.4 million).

10. Dividends

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Dividends relating to the year comprise:		
Interim dividend	**96.8**	93.8
Final dividend	**193.7**	187.7
	290.5	281.5
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**96.8**	93.8
Final dividend	**187.7**	180.6
	284.5	274.4

The proposed final dividends for the years ended 31 March 2020 and 31 March 2019 were subject to approval by equity holders of United Utilities Group PLC as at the reporting dates, and therefore have not been included as liabilities in the consolidated financial statements as at 31 March 2020 and 31 March 2019 respectively.

The final dividend of 28.40 pence per ordinary share (2019: 27.52 pence per ordinary share) is expected to be paid on 3rd August 2020 to shareholders on the register at the close of business on 26th June 2020. The ex-dividend date for the final dividend is 25th June 2020.

The interim dividend of 14.20 pence per ordinary share (2019: 13.76 pence per ordinary share) was paid on 3rd February 2020 to shareholders on the register at the close of business on 20 December 2019.

11. Investment in joint ventures

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At the start of the year	**79.0**	75.2
Share of (losses)/profits of joint ventures	**(38.1)**	6.7
Less: Losses allocated to other components of long-term interest	**9.5**	-
Dividends received from joint ventures	**(4.9)**	(2.2)
Currency translation differences	**1.3**	(0.7)
At the end of the year	**46.8**	79.0

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

11. Investment in joint ventures (continued)

The group's total share of Water Plus losses for the year was £51.5 million (2019: £0.4 million share of losses), of which £46.2 million has been recognised in the income statement and £5.3 million has not been recognised as at 31 March 2020 (2019: £nil not recognised). The £46.2 million recognised share of losses comprises £36.7 million that has been allocated to the group's equity investment, and £9.5 million allocated to the zero coupon shareholder loan notes extended to Water Plus as these form part of the group's long-term interest in the joint venture. The share of losses recognised against each component of the group's net investment in Water Plus has reduced each of them to £nil at 31 March 2020. Of the £46.2 million recognised share of losses, £32.0 million represents the group's recognised share of Water Plus's losses relating to the COVID-19 pandemic, including the crystallisation of an impairment of goodwill and certain other intangible assets recognised by Water Plus, and a significant incremental charge to recognise additional expected credit losses in relation to trade and other receivables. The remaining £14.2 million relates to the group's share of Water Plus's underlying loss for the year.

Tallinn Water recognised a provision of EUR 13.2 million in its latest financial statements relating to possible third-party claims. The maximum potential undiscounted payments if potential claims were recognised by the courts would amount to EUR 33.1 million. If the value of actual claims exceed the amount provided in the future, this would impact the group's share of profits of the joint venture and the joint venture's carrying value under the equity method of accounting in the period in which this occurs.

Details of transactions between the group and its joint ventures are disclosed in note 20.

12. Other investments

	Year ended 31 March 2020 £m	**Year ended 31 March 2019 £m**
At the start of the period	**11.5**	7.1
Change in fair value	**0.6**	4.4
Reduction in investment stake	**(1.1)**	(1.0)
Disposal of investment	**(10.9)**	-
Currency translation differences	**-**	1.0
At the end of the period	**0.1**	11.5

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

13. Retirement benefit surplus

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

	Year ended 31 March 2020 %pa	**Year ended 31 March 2019 %pa**
Discount rate	**2.30**	2.40
Pension increases	**2.80**	3.45
Pensionable salary growth:		
ESPS	**2.80**	3.45
UUPS	**1.60**	2.05
Price inflation - RPI	**2.80**	3.45
Price inflation - CPI	**1.60**	2.05

The discount rate is consistent with a high quality corporate bond rate with 2.30 per cent being equivalent to gilts + 160 bps (31 March 2019: 2.40 per cent being equivalent to gilts + 90bps).

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistics Authority's proposals to change RPI to align with CPIH (Consumer Pricing Index, including housing costs). The Chancellor commented that any change would not be made before 2025 and possibly not until 2030. At the March 2020 budget, the Chancellor launched a public consultation on these proposals which is due to close in August 2020. To provide an indication of the differential between RPI and CPIH, broadly CPIH increases are expected to average around 1% p.a. below RPI in the long-term (about the same as CPI), so this change could have a significant impact on many pension schemes. A reduction in RPI will result in a reduction to pension scheme liabilities, however as our pension schemes are hedged for RPI inflation this will also result in a comparable reduction to pension scheme assets.

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

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

	Year ended 31 March 2020 £m	**Year ended 31 March 2019 £m**
Current service cost	**6.1**	6.2
Curtailments/settlements	**4.6**	9.0
Administrative expenses	**1.6**	2.8
Pension expense charged to operating profit	**12.3**	18.0
Net pension interest credited to investment income (note 6)	**(14.0)**	(9.5)
Net pension (income)/expense (credited)/charged before tax	**(1.7)**	8.5

13. Retirement benefit surplus (continued)

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

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At the start of the year	**483.9**	344.2
Income/(expense) recognised in the income statement	**1.7**	(8.5)
Contributions	**113.9**	75.2
Remeasurement gains gross of tax	**154.6**	73.0
At the end of the year	**754.1**	483.9

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

	31 March 2020 £m	31 March 2019 £m
Present value of defined benefit obligations	**(3,057.6)**	(3,425.2)
Fair value of schemes' assets	**3,811.7**	3,909.1
Net retirement benefit surplus	**754.1**	483.9

The £154.6 million remeasurement gain has principally resulted from an increase in credit spreads during the year. The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement gain recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

Further details on the approach to managing pension scheme risk are set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2020.

In April 2019 accelerated deficit repair contributions of £97.6 million and £5.4 million were made to the UUPS and ESPS respectively. These payments represent the final acceleration of deficit repair contributions set out in the schedules of contributions agreed with the schemes' trustees as part of the 31 March 2018 valuation process, and reduce the pension scheme deficit contributions due from the company down to £nil.

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

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuation as at 31 March 2018 for both the group's ESPS and UUPS schemes.

On 26 October 2018 the High Court issued its ruling in a landmark case involving Lloyds Banking Group on GMP. The implication of the ruling is that GMP will be equalised for males and females. The impact of GMP equalisation under the chosen C2 method of calculation is £5.5 million (0.2% of liability) for the UUPS and £1.1 million (0.3% of liability) for the ESPS, resulting in an overall increase in the prior year pension liability of £6.6 million as a result of additional benefits being recognised, with a corresponding amount recorded in past service costs in the income statement. Any future true up costs will be accounted for in OCI as a change in management estimate.

Defined contribution schemes

During the year, the group made £22.5 million (31 March 2019: £23.0 million) of contributions to defined contribution schemes which are included in employee benefits expense.

14. Borrowings

New borrowings raised during the year ended 31 March 2020, all of which were issued under the Euro medium-term note programme, were as follows:

- On 17 April 2019, the group borrowed £100 million, CPI-linked, due April 2029.
- On 3 July 2019, the group issued £250 million fixed rate notes and on 3 December 2019, the group issued a further £50 million due July 2033.
- On 10 February 2020, the group issued £250 million fixed rates notes due February 2038.

Borrowings at 31 March 2020 include £57.6 million in relation to lease liabilities for the first time as a result of the adoption of IFRS 16 'Leases' during the period, of which £54.7 million was classified as non-current and £2.9 million classified as current.

15. Fair values of financial instruments

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

	Fair value £m	31 March 2020 Carrying value £m	Fair value £m	31 March 2019 Carrying value £m
Financial assets at fair value through profit or loss				
Derivative financial assets - fair value hedge	395.7	395.7	329.4	329.4
Derivative financial assets - held for trading	222.0	222.0	158.5	158.5
Derivative financial assets - cash flow hedge	0.2	0.2	1.2	1.2
Investments	0.1	0.1	11.5	11.5
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities - fair value hedge	-	-	(2.3)	(2.3)
Derivative financial liabilities - held for trading	(141.9)	(141.9)	(75.9)	(75.9)
Derivative financial liabilities - cash flow hedge[1]	(2.4)	(2.4)	(1.7)	(1.7)
Financial liabilities designated as fair value through profit or loss	(397.5)	(397.5)	(373.9)	(373.9)
Financial instruments for which fair value does not approximate carrying value				
Financial liabilities in fair value hedge relationships	(2,440.0)	(2,590.5)	(2,749.3)	(2,765.8)
Other financial liabilities at amortised cost	(5,996.0)	(5,375.1)	(5,781.9)	(4,676.1)
	(8,359.8)	(7,889.4)	(8,484.4)	(7,395.1)

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 £1,981.5 million (31 March 2019: £2,316.9 million) for financial liabilities in fair value hedge relationships and £199.9 million (31 March 2019: £680.9 million) for other financial liabilities at amortised cost.

The £816.4 million decrease (31 March 2019: £1,620.2 million decrease) in 'level 1' fair value liability measurements is largely due to a decrease in the number of observable quoted bond prices in active markets at 31 March 2020. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data, which are classified as 'level 2' valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2020.

The principal reason for the reduction in the difference between the fair value and carrying value of the group's borrowings compared with the position at 31 March 2019 is an increase in credit spreads during the period.

16. Cash generated from operations

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Operating profit	**630.3**	634.9
Adjustments for:		
Depreciation of property, plant and equipment	**441.6**	357.3
Amortisation of intangible assets	**41.2**	35.9
Loss on disposal of property, plant and equipment	**13.9**	3.9
Amortisation of deferred grants and contributions	**(13.8)**	(12.9)
Equity-settled share-based payments charge	**1.5**	4.0
Changes in working capital:		
(Increase)/Decrease in inventories	**(1.7)**	1.9
Decrease in trade and other receivables	**4.6**	11.7
(Decrease)/increase in trade and other payables	**(10.1)**	21.3
Decrease in provisions	**(0.4)**	(5.3)
Pension contributions paid less pension expense charged to operating profit	**(101.6)**	(57.2)
Cash generated from operations	**1,005.5**	995.5

17. Net debt

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
At the start of the year	**7,067.3**	6,867.8
Net capital expenditure	**645.3**	624.9
Dividends (note 10)	**284.5**	274.4
Interest	**139.5**	135.7
Inflation expense on index-linked debt (note 6)	**100.8**	98.3
Tax	**55.7**	27.5
Non-cash movements in lease liabilities	**60.9**	-
(Repayment)/extension of loans to joint ventures	**(34.5)**	6.0
Proceeds from disposal of investment	**(12.0)**	(1.0)
Dividends from joint ventures	**(4.9)**	(2.1)
Other	**5.5**	(4.1)
Fair value movements	**58.8**	27.3
Cash generated from operations (note 16)	**(1,005.5)**	(995.5)
At the end of the year	**7,361.4**	7,067.3

Net debt comprises borrowings, net of cash and short-term deposits and derivatives. As such, movements in net debt during the year reflected in the above reconciliation are impacted by net cash generated from financing activities as disclosed in the consolidated statement of cash flows.

Fair value movements includes net fair value losses on debt and derivative instruments of £43.5 million (31 March 2019: £14.3 million net fair value gains) less net receipts on derivatives and debt designated at fair value of £15.3 million (31 March 2019: £40.6 million) and foreign exchange gains on investments measured at fair value through profit or loss of £nil (31 March 2019: £1.0 million).

17. Net debt (continued)

Notional net debt totals £7,181.3 million as at 31 March 2020 (31 March 2019: £6,995.9 million). Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and short-term deposits, taking: the face value issued of any nominal sterling debt; the inflation accreted principal of the group's index-linked debt; and the sterling principal amount of the cross-currency swaps relating to the group's foreign currency debt.

18. Other reserves

Year ended 31 March 2020

	Cumulative exchange reserve £m	Capital redemption reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 1 April 2019	(3.7)	1,033.3	(703.6)	12.0	0.3	338.3
Changes in fair value recognised in other comprehensive income	-	-	-	1.3	(7.6)	(6.3)
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	5.6	5.6
Deferred tax adjustments in respect of prior years on net fair value gains	-	-	-	(2.4)	-	(2.4)
Tax on items taken directly to equity (note 8)	-	-	-	(0.2)	0.4	0.2
Foreign exchange adjustments	1.3	-	-	-	-	1.3
At 31 March 2020	**(2.4)**	**1,033.3**	**(703.6)**	**10.7**	**(1.3)**	**336.7**

Year ended 31 March 2019

	Cumulative exchange reserve £m	Capital redemption reserve (restated) £m	Merger reserve (restated) £m	Cost of hedging reserve £m	Cash flow hedge reserve £m	Total £m
At 31 March 2018	(1.8)	1,033.3	(703.6)	-	-	329.7
Adjustment on initial application of IFRS 9	(1.1)	-	-	13.8	-	12.7
At 1 April 2018	(2.9)	1,033.3	(703.6)	13.8	-	340.6
Changes in fair value recognised in other comprehensive income	-	-	-	(2.2)	3.5	1.3
Amounts reclassified from other comprehensive income to profit or loss	-	-	-	-	(3.1)	(3.1)
Tax on items taken directly to equity (note 8)	-	-	-	0.4	(0.1)	0.3
Foreign exchange adjustments	(0.8)	-	-	-	-	(0.8)
At 31 March 2019	**(3.7)**	**1,033.3**	**(703.6)**	**12.0**	**0.3**	**338.3**

The capital redemption reserve arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009. The merger reserve arose in the same year on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition. The prior year balances for these reserves have been restated to better reflect the nature of the transactions associated with the reverse acquisition in the group's consolidated financial statements.

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

18. Other reserves (continued)

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

19. Commitments and contingent liabilities

At 31 March 2020 there were commitments for future capital expenditure contracted but not provided for of £435.2 million (31 March 2019: £302.2 million).

Details of the group's contingent liabilities were disclosed in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2020. There have been no significant developments relating to contingent liabilities in the year.

The group has determined that the possibility of any outflow in respect of performance guarantees issued is remote and, as such, no contingent liabilities in respect of these are disclosed (31 March 2019: none).

20. Related party transactions

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

	Year ended 31 March 2020 £m	**Year ended 31 March 2019 £m**
Sales of services	**438.3**	455.8
Charitable contributions advanced to related parties	**0.4**	0.5
Purchases of goods and services	**0.1**	0.1
Costs recharged at nil margin under transitional service agreements	**-**	0.2
Interest income and fees recognised on loans to related parties	**4.0**	4.3
Amounts owed by related parties	**147.9**	182.9
Amounts owed to related parties	**4.8**	0.6

Sales of services to related parties during the year 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.

Charitable contributions advanced to related parties during the year relate to amounts paid to Rivington Heritage Trust, a charitable company limited by guarantee for which United Utilities Water Limited is one of three guarantors.

At 31 March 2020 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £147.9 million (31 March 2019: £182.9 million), comprising £52.9 million (31 March 2019: £39.4 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £95.0 million (31 March 2019: £143.5 million) relating to loans.

20. Related party transactions (continued)

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

- £93.5 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £98.0 million outstanding net of a £4.5 million allowance for expected credit losses;
- £nil receivable being the £10.0 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 £0.5 million allowance for expected credit losses and £9.5 million of the group's recognised share of joint venture losses 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 31 March 2020 of £12.5 million, comprising the £10.0 million receivable measured at fair value, and £2.5 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures; and
- £nil outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million of non-current receivables (31 March 2019: £1.4 million) was owed by other related parties at 31 March 2020.

The allowances for expected credit losses of £4.5 million and £0.5 million, recognised against the revolving credit facilities and zero coupon shareholder loan note respectively, together with the £9.5 million share of joint venture losses recognised against the interest-free shareholder loan note, result from the impacts of the COVID-19 pandemic, which has resulted in Water Plus recognising significant losses during the year giving rise to a significant increase in credit risk. No allowances for expected credit losses or share of joint venture losses were recognised against any of these balances in the prior year.

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

At 31 March 2020, amounts owed to related parties were £4.8 million (31 March 2019: £0.6 million). Included within this amount is £4.5 million due to Water Plus for the surrender of consortium relief tax losses for the year ended 31 March 2020. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

21. Events after the reporting period

As at the time of reporting, the developing and uncertain situation in respect of the COVID-19 pandemic continues to be closely monitored. Ofwat initiated a consultation during March 2020 aimed at identifying ways in which the non-household retail market might be supported through the current challenging situation, and this remains ongoing as at the date these financial statements were approved. The outcome of this consultation will impact both non-household retailers such as Water Plus, and wholesalers such as UUW.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibility statement below has been prepared in connection with the group's full annual report for the year ended 31 March 2020. Certain parts thereof are not included within this announcement.

Responsibilities Statement

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

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

Sir David Higgins
Steve Mogford
Stephen Carter
Mark Clare
Alison Goligher
Russ Houlden
Brian May
Paulette Rowe
Sara Weller

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

………………………	………………………
Steve Mogford	Russ Houlden
21 May 2020	21 May 2020
Chief Executive Officer	Chief Financial Officer