United Utilities Group PLC
27 May 2021

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2021

Performing strongly – Continued to deliver excellent operational performance through the COVID-19 pandemic
- Continuing to improve resilient and reliable services to more than 7 million people
- Leading the way on customer satisfaction; earning rewards against both C-MeX and D-MeX
- No serious pollution incidents and around one third reduction overall
- Lowest ever level of leakage and water supply interruptions more than halved

ESG at our heart – Responsible, long-term commitment to ESG
- On track for industry leading 4* environmental performance for 2020
- Exceeded targets to 2020 reducing emissions by 73%; delivering carbon pledges to net zero by 2030
- In the top 1% for Diversity and Inclusion Leadership out of 15,000 European businesses
- 4% reduction in typical household bills in 2020/21
- Helping 200,000 customers with affordability support
- Accelerating investment to support a green economic recovery
- Supporting 250 young people through the Government's Kickstart scheme
- £300m sustainable bond - 3 times oversubscribed and the lowest ever 8 year+ corporate sterling coupon

A digital utility – Investing in digital transformation for sustainable performance improvements
- Deploying breakthrough technology at pace and scale to deliver better service for customers
- Investing £300m above allowance in infrastructure and digital projects; fully remunerated[1]
- Innovative application of Systems Thinking driving efficiency and performance
- £21m net customer ODI reward for 2020/21; met or exceeded over 80% of performance commitments
- Targeting £20m net customer ODI rewards in 2021/22 and £150m in total for AMP7

Financial resilience – Robust financial performance and strong balance sheet
- Underlying[2] profit after tax of £383m down 21%; in line with expectation
- Maintained resilient customer debtor position with only £12m aged over 1 year
- Strong balance sheet; A3 stable credit rating with Moody's
- Fully funded pension schemes driving relative value on a cash basis
- 4.3% return on regulated equity (RoRE) for 2020/21
- Total dividend of 43.24p, in line with AMP7 dividend policy

Key financials

	Year ended	
	31 March 2021	**31 March 2020**
Revenue	£1,808.0m	£1,859.3m
Reported operating profit	£602.1m	£630.3m
Underlying operating profit[2]	£602.1m	£732.1m
Reported earnings per share (pence)	66.5p	15.7p
Underlying earnings per share[2] (pence)	56.2p	71.3p
Total dividend per ordinary share (pence)	43.24p	42.60p
Net regulatory capital spend[3]	£616.5m	£579.4m
RCV gearing[4,5]	62%	61%

[1] c£90m uplift to PR19 allowance, c£105m increasing RCV or AMP8 revenues through totex sharing mechanism and balance from expected customer ODI rewards. In addition, further potential tax benefits are expected from enhanced capital allowances.
[2] Underlying measures are defined in the tables on pages 23 to 25 and reflect a change in approach to alternative performance measures (APMs) with prior year numbers re-presented for comparability
[3] Net regulatory capital spend excludes infrastructure renewals expenditure, with prior year numbers re-presented for comparability
[4] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited's shadow RCV (outturn prices)
[5] March 2021 gearing based on new definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments, with prior year numbers re-presented for comparability

Steve Mogford, Chief Executive Officer, said:

"Our key priority throughout the COVID-19 pandemic has been to protect our colleagues while ensuring that customers continue to receive high quality water and wastewater services. I am extremely proud of the hard work and dedication of my colleagues, not only in the way that we have supported the more than seven million people that we serve in the North West, but also in delivering our best ever operational performance. Our transformation to an innovative digital utility has helped deliver another year-on-year improvement against key targets that our stakeholders value most, such as leakage, pollution and customer service.

"The pandemic has been particularly challenging for our region, so we have responded by increasing the number of people eligible for extra financial support, with £15 million of new social tariff to help those most in need. At a time when purpose matters more than ever, it is right that we lead the way in the sector, by offering this level of support to people struggling to pay their bills.

"Protecting and improving the environment is one of our core responsibilities, including the quality of the water we return to our rivers and coastlines. We also have a duty to respond to climate change, which is why we've planted two million trees since 1995 and plan to plant another million by 2030. We've also spent £250 million to make our services more resilient to changes in weather patterns. We're delighted to be a signatory to the United Nation's Race to Zero campaign and to be targeting net zero by 2030. In support of this, we're delivering on our six carbon pledges, including a commitment to meet our science-based targets, to have a completely 'green' fleet of vehicles by 2028 and to restore 1,000 hectares of peatland by 2030.

"This great start to AMP7 provides a strong platform for us to deliver further good operational performance, play our full part in the economic recovery within the communities we serve and to continue to protect our natural environment".

Enquiries

For further information on the day, please contact:

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Presentation webcast and conference call details

We will be hosting a live virtual presentation at 9.00am on Thursday 27 May 2021, which can be accessed via the following link:
http://www.unitedutilitiestv.live/

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

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

OPERATIONAL PERFORMANCE

We have responded well to the challenges presented by the COVID-19 pandemic and have delivered our best year of operational performance for customers and the environment. We are leading the way on customer satisfaction and have made a strong start against our customer outcome delivery incentives (ODIs). Through delivering our AMP7 plans we will continue to protect and enhance the environment, with an investment programme of more than £2 billion, all while reducing typical customer bills in real terms and supporting more vulnerable customers than ever before.

Our investment strategy delivers long-term sustainable performance improvements and efficiency. Since accepting our AMP7 Final Determination, we have increased our totex plan by a further £300 million in relation to confirmed extensions to our environmental programme, spend to save opportunities and the acceleration of our digital transformation, and we expect all of this expenditure to be fully remunerated[1] through regulatory mechanisms. The first year of our AMP7 investment programme has progressed well, accelerating investment as we successfully did in AMP6 to deliver benefits sooner, and taking advantage of the transitional investment we made in 2019/20 to give us a flying start to the new regulatory period.

The United Utilities team has addressed the unprecedented challenges of the last year, delivering high levels of customer satisfaction and resilient services in times of significantly increased demand. We are playing our part in the region's economic recovery, supporting 250 young people through the Kickstart scheme while continuing to recruit graduates and apprentices. We are helping more customers struggling to pay their bills than ever before through our extensive support schemes and acted swiftly during the early stages of the pandemic to increase eligibility for our social tariff.

Our key performance indicators (KPIs)

We reported against a range of operational KPIs in AMP6 that were aligned to our strategic themes as a means to demonstrate how we operate in order to work towards our vision and deliver our purpose. These three strategic themes of "The best service to customers", "At the lowest sustainable cost" and "In a responsible manner" are not changing and our operational KPIs for AMP7 support these strategic themes. Our purpose "to provide great water and more for the North West" means we aim to create long-term value for all our stakeholders, therefore we feel it is appropriate to report against operational KPIs in AMP7 that are linked to each stakeholder group. We report our performance below in line with the key stakeholder groups for whom we create value, along with the KPI for that stakeholder group.

Communities

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

Our key performance indicator to measure value created for communities over AMP7 is the level of community investment, and we target increasing this by at least 10 per cent over 2020 to 2025, compared with the average between 2010 and 2020. The average investment between 2010 and 2020 was £2.5 million per annum and in 2020/21 we supported communities through direct community investment of £2.1 million (calculated using the B4SI method). This is slightly lower than we were targeting to invest, mainly as a result of much lower community activity as a result of the impact of COVID-19. However, we contributed an additional £2.7 million from our Trust Fund to help those struggling to pay their bills and a further £15 million was made available to help customers reduce their water bill to an affordable amount through extending our social tariff. As we emerge from the pandemic, and events can safely recommence, we expect our community investment to increase.

- **Helping young people**
  We are committed to supporting the Government's 'Kickstart' programme by providing 250 placements to young people, working with our supply chain. Our new employees will have a dedicated placement manager as well as a Kickstart Skills Coach, and will also receive job-related and employability skills training to enhance their CVs in order to help secure employment in the future. We work with local schools and training facilities to promote skills for the future, including youth programmes that support young people not in education, employment and training (NEETs) to help improve social mobility in our region and break down barriers in bringing people from all backgrounds into employment. It is estimated this programme has generated over £9 million of social value through avoided welfare costs and new employment. During the school closures brought about by the pandemic lockdowns, our education team created a home learning hub that supported teachers and children across the region, and even extending overseas, with materials for home schooling. Recruitment of apprentices and graduates has continued uninterrupted, with the help of some online challenges, skills sessions and live streamed assessments while face to face interaction was limited. We have continued to create our early careers pipeline welcoming 67 apprentices and graduates in 2020/21.

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

- **Charitable support**
  Our ongoing charitable support, including a voluntary salary reduction by Board members at the height of the COVID-19 pandemic, has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next 8 years.

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

- **Access to our land for recreational use**
  As a result of COVID-19 restrictions, there has been a marked increase in the number of visitors to our catchment land to enjoy the countryside and benefit from open spaces. While the majority of visitors have respected the countryside, sadly a small minority have not. Our teams have worked hard to address this anti-social behaviour through a variety of methods, including targeted social media campaigns on issues such as moorland fire risk, improved site signage and the creation of local stakeholder groups. We are currently testing several ideas to better connect visitors to the land and to encourage them to behave responsibly.

Customers

We put customers at the heart of everything we do. This relentless focus drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company. Despite the challenging environment we have continued to operate in during the pandemic, customer satisfaction has remained high. Reliable access to clean water has been more important than ever before, and we have continued to provide a robust service for customers throughout the year. Serving the most economically deprived areas in the country, we are always mindful of the need to help customers who struggle to pay their bills. We reduced typical household bills by 5 per cent this year in real terms, have committed to provide £71 million in financial support to customers over AMP7, and have an extensive range of schemes offering financial assistance and tailored support for customers struggling with affordability and vulnerability. We are delighted to have received a positive recommendation for continued certification to BS 18477:2010 which is the accreditation for our Priority Services scheme and one of our customer ODI measures looking at the quality of services provided to vulnerable customers.

Our key performance indicator to measure customer satisfaction over AMP7 is Ofwat's C-MeX measure, in which we target being in positive reward territory. At the end of the year we are ranked 5th out of 17 companies, the highest listed company, achieving a reward of £2.1 million for C-MeX performance in the first year of AMP7. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

- **Customer service**

  We have significantly increased the availability and performance of our digital channels with over 1 million customers engaging with us digitally, driving both service improvements and cost efficiencies. Customers rate us 4.7 out of 5 on the App store and 4.2 out of 5 on google reviews.

  We have been proactive and used targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay. We have achieved all of our reputational performance commitments, most notably continued certification to BSI standard for our Priority Services scheme that supports over 133,000 customers, and we were recognised as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic. We are one of only 14 brands in the UK with the Institute of Customer Service Accreditation with distinction.

  For developers, customer experience is measured in AMP7 by D-MeX, of which there are two elements: quantitative (service level agreement performance); and qualitative (customer satisfaction survey). For 2020/21, we are ranked first in the sector for our quantitative performance, with final qualitative results expected later in the year. We estimate our overall industry position to be fourth. This strong performance reflects the transformation programme we are delivering in this area that continues to deliver tangible and much improved results, benefiting all developers who are building in the North West.

- **Operational performance for customers**

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

  Our performance has been strong across the broad range of our activities with us having met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution where we have delivered another year of sector leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers – outperforming our targets on both these key service delivery measures.

  We entered AMP7 knowing that our biggest challenge would be against our internal flooding ODI and this is the measure that has yielded the largest penalty this year. As part of the £300 million extension to our AMP7 totex plans, we will be investing around £100 million in Dynamic Network Management (DNM) – a ground breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve performance against our internal flooding ODI.

We work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. More customers have spent more time at home during the pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures for 2020/21. Recognising that the long term impact of COVID-19 remains uncertain and that there may also be a variety of drivers of changes in behaviour, Ofwat has proposed to assess company performance for this customer ODI at the end of the AMP when fuller facts and evidence of absolute and relative company performance are available.

We have our own in house app development capability and this is paying dividends in creating digital capability for our field and customer facing teams with agility, flexibility and at low cost. Our new voids app which helps us to easily identify unbilled but occupied properties has contributed to a 93,000 reduction in the number of void properties in the year, helping us earn maximum customer ODI reward on voids this year and underpins a further £24 million reward over the AMP.

- **Haweswater Aqueduct Resilience Programme (HARP)**
  In November 2020, we successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct, part of a critical asset that delivers around a third of our total water production to 2.5 million people in Cumbria, Lancashire and Greater Manchester. Work to replace the majority of the aqueduct is expected to be undertaken using a direct procurement for customers (DPC) approach and we have been preparing for a DPC tender in 2021/22. If the tender process proceeds as planned, contract award is anticipated in 2023, with construction to begin later in the AMP.

- **Cash collection**
  Despite the impact of COVID-19, our overall cash collection has performed well throughout the year. We are encouraged by the continued growth in our direct debit volumes, now at 72 per cent and one of the highest across the industry. Overall, the proportion of customers on a payment plan has continued to increase to 82 per cent despite the challenging economic environment and providing a high level of collection certainty for a significant proportion of the household customer base.

  We are recognised as a leader in credit management and collections across all industries, not just water. In the year we have won three external awards for our credit services, most recently winning the Utilities and Telecoms Team of the Year at the 2020 Credit Awards. Our industry leading approach to collections and innovative affordability offerings have ensured we were well placed to respond to the challenges brought about by the pandemic.

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

- **Affordability**
  When the country first went into lockdown we saw an increase in demand for affordability support. The initiatives we delivered over AMP6 enabled us to respond efficiently and effectively, with our Payment Break scheme giving over 8,000 customers the breathing space they required.

  The nature of the pandemic and the significant impact it is having on customers' lives has meant we have had to consider the appropriateness of continuing our normal billing and collection activities and the most suitable means of engagement. While as an industry we took steps to pause collection activity, our COVID-19 response encouraged customers to contact us if they had been impacted financially by the pandemic and found themselves struggling to pay. We carried out targeted activities aligned to specific customer segments and changes in customer behaviour to engage with customers, actively promoting our range of affordability support, ensuring customers knew they could talk to us about their bill, and highlighting alternative ways to pay. Over the course of the year we sent over 5 million proactive customer communications, a 30 per cent increase on the previous year.

We have an extensive range of schemes available to help customers and around 200,000 are currently benefiting from that help. Recognising affordability has been even more important during the pandemic, we took swift, proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19. This augments our support schemes this year with an additional £15 million to help customers keep out of debt and was intended to support an additional 45,000 customers who have been furloughed, are claiming through the self-employed income support scheme (SEISS) or are now unemployed, by reducing their water bill to an affordable amount. Through efficient use of the additional £15 million funding secured we were able to support 73,000 customers – 62 per cent more than originally estimated - preventing customers from falling into debt. This additional support meant that in the year we supported 160 per cent more customers via our Back on Track scheme than the previous year. We promoted the new scheme directly to customers, via partner organisations and the Hardship Hub to increase overall awareness. The £71 million financial support we have committed to provide over AMP7 is the largest of any water company, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic.

We continually innovate to further enhance our affordability processes, and we are piloting a first-of-its-kind real-time income verification tool to streamline eligibility for reduced-rate social tariffs. We're proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications, modernising our income verification. In March 2021 we were the first water company to begin data sharing with the DWP, leveraging the new provisions under the Digital Economy Act, to assist people living in water poverty. We're excited to be able to use these new provisions to continue to proactively provide lower bill support to customers.

Employees

Our people are critical to the success of our business and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology. We have continued to invest in skills training throughout the pandemic and have accelerated our digital strategy to support new ways of working. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern. During the initial lockdown in 2020, we moved 60 per cent of our workforce to home working and the remainder continued working at our COVID-secure facilities. Around 80 per cent of our employees were designated as key workers, delivering our essential services to customers. We have largely continued with business as usual, operating within COVID guidelines and in line with the Government roadmap out of lockdown, while defining and shaping the way we will work post-COVID based on the changes in the last year.

Our key performance indicator to measure value created for our employees over AMP7 is our engagement score, in which we target being at least as good as the UK High Performance Norm benchmark. This year we achieved 89 per cent engagement, which is five per cent above the UK High Performance Norm and is the highest engagement score we have achieved while comparatively tracking engagement over the last six years. It is also a five per cent increase from 2020 engagement levels and is 15 per cent better than the UK Norm and nine per cent better than the Utilities Norm. We are rated 4.5 out of 5 by former and current employees on Glassdoor and 92 per cent of our employees would recommend United Utilities to a friend as a great place to work. We are delighted to be in the top one per cent of 15,000 companies across Europe, and the highest placed water company, for our overall approach in the Diversity Leaders ranking. The survey, by Statista and the Financial Times, surveyed employees on their employers' efforts to promote diversity.

- **Protecting colleagues through the COVID-19 pandemic**
  During the pandemic, we have facilitated home working for over 3,000 of our employees and are providing support for employees' health, safety and wellbeing whilst temporarily working at home in extraordinary circumstances. As well as facilitating home working for more than half of our employees, we have introduced a range of measures to ensure those who are still working on sites and in the field are able to do so in a COVID-secure way. We conducted over 390 COVID-secure risk assessments across all our operational sites and carried out a number of control measures to ensure they met the Government's requirements for COVID-secure workplaces. This included temperature checking stations, extra sanitation provisions, safe desks and one-way procedures in offices to ensure social distancing can be maintained. Additional personal protective clothing has been provided and we have adapted new ways of working for our front line field employees. We adapted the way we carry out our mandatory health surveillance checks to virtual assessments and more recently COVID-secure face-to-face assessments.

  With the involvement of over 200 trained mental health supporters and wellbeing champions across the business, we have supported the wellbeing needs of our colleagues, delivering initiatives to help build resilience across our workforce. This includes delivery of several bitesize webinars on topics such as mental health, stress control, and managing change to around 2,000 people over 20 webinars. We have been encouraged by the take up of the zero suicide alliance e-learning module which now includes a specific module on COVID-19 and isolation, and have produced new resource packs and initiatives to help our workers through winter. Crucially, we engage regularly with managers, providing awareness of the support services available and how to make best use of them and the widely introduced Wellness Action Plans, in order to enable managers to have wellbeing conversations with their teams.

  We have not furloughed any employees, but we are aware that our employees and their families are not immune from the hardships caused by the economic impacts of COVID-19. Therefore, we have established a staff outreach scheme that provides financial support to employees whose families are struggling financially as a direct result of the pandemic.

- **Committed to equality, diversity and inclusion**
  We want fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every part of our community. We are supporting employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. Our employee diversity networks, including LGBT+; GENEq; ability and multi-cultural groups have a growing membership of 730 people, and play a pivotal role in providing insight, raising awareness and giving support to colleagues. We are committed to creating a diverse and inclusive workforce and so we are delighted to be one of the top one per cent of 15,000 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership.

  We are working hard to improve how we attract women into the industry, and developing women within our existing workforce. We are seeing good progress with increasing numbers of female graduates and apprentices in our talent pipeline and 96 per cent of our current female workforce recommend United Utilities as an employer. Following our 2021 Annual General Meeting (AGM), the measurable targets of 33 per cent female representation on the board and one director of non-white ethnicity will be met. We achieved inclusion in the Bloomberg Gender Equality Index, recognising our commitment to gender equality and transparency.

- **Training and development**
  Our technical training academy established in February 2014 has provided skills development and certification to over 2,800 people to date, including programmes for those individuals not in education, employment or training (NEETs). Many people have received multiple training opportunities such that in total, around 11,000 technical training sessions have been delivered over that period. We are the only water company currently governed by Ofsted (Office for Standards in Education), with a "good" overall rating.

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

  We are seeing improvements in a number of important performance measures, including the number of accidents, the severity of accidents and an increase in hazard and near miss reporting. Our employee accident frequency rate for 2020/21 was 0.094 accidents per 100,000 hours worked, representing a 15 per cent improvement on performance from the prior year. Our contractor accident frequency remained broadly consistent despite an increased workload at the start of AMP7, with 0.087 accidents per 100,000 hours worked, compared to 0.083 last year. Our aim by 2030 is that no one will be harmed while working on our behalf, and we will actively promote, support and improve their wellbeing.

Environment

We are fortunate to have many areas of natural beauty within our region, and these are important in offering health, fitness and wellbeing benefits to local communities and drivers for tourism in the area, as well as being essential for us to deliver our services to customers. It is of great importance we continue to protect and enhance the environment across the North West, and manage our land responsibly to improve the environment in our region for future generations. We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, increasing our renewable energy production and ensuring zero emissions energy usage. We have agreed an environmental improvement programme to be delivered in AMP7 that will continue to improve the river, bathing and shellfish water quality for the benefit of customers and visitors to the North West as well as society as a whole. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315km of rivers in the North West. Having completed the first year of the period, we remain on track for the improvements we have committed to.

Our key performance indicator to measure value created for the environment over AMP7 is our performance against the Environment Agency's annual performance assessment, in which we target being an upper quartile performer. In the assessment for 2020, we expect to be awarded the maximum 4 stars, meaning we would be classed by the Environment Agency as an "industry leading company".

- **Leakage reduction**
  We have beaten our leakage target for the 15th consecutive year and we are now at the lowest ever level of leakage reported in the North West. Our leakage performance improvement has been achieved through a combination of techniques. Alongside satellite technology to geo-locate potential leaks in our network and sniffer dogs to accurately locate the leak, we have deployed 66,000 acoustic loggers since 2019 with a further 29,000 being installed over the next year. We have recruited around 20 per cent additional leakage detection resources, further supported this year by our first intake of apprentices on a bespoke two year technical training scheme, mitigating the risk of a national shortage in leakage technicians. Over AMP7, we plan to reduce total leakage by at least 15 per cent, with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area.

- **Pollution performance**
  In 2020, we had no serious pollution incidents for the second year running, and have reduced total pollution incidents by almost a third. Here, we are seeing the benefits of delivering the action developed as part of our Pollution Incident Reduction Plan which covers a range of interventions, and for the first time we had no Wastewater Treatment Works classed by the Environment Agency as "failing works", which is something that has only ever been achieved across the sector once before.

- **Greenhouse Gas Emissions and Climate Change**
  Carbon reduction ("mitigation") and climate resilience ("adaptation") have influenced both our strategic and operational decisions for over two decades. We have achieved substantial progress over recent years and we have ambitious plans and commitments to go much further.

  Carbon reduction - We are signatories to the UN Race to Zero campaign and we are contributing to the UK water industry's commitment to achieve carbon net-zero by 2030. In May 2020 we announced six carbon pledges including a new carbon emissions reduction target by adopting a science-based approach. We have successfully reduced our operational emissions by over 70 per cent in recent years, primarily by investing in our own renewable energy generation capabilities and purchasing green energy from the national grid. We continue to deliver on our commitments to peatland restoration and woodland creation, recently establishing two tree nurseries in the North West. We are also committed to delivering our green fleet strategy and have introduced more low carbon vehicles and charging.

  Our portfolio of renewable energy assets is operating satisfactorily and our investment has delivered the returns that we targeted. Having maximised the opportunities to date and established long-term contracts to secure a proportion of our renewable energy out to 2045, we are now looking at how we can recycle our investment in order to achieve further strong returns and take the next steps in our plans to achieve net zero by 2030.

  Climate resilience - In AMP6 we invested an additional £250 million targeted to increase resilience against climate change, and we continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further mature our already advanced level of climate risk understanding. We will soon be publishing an overview of our climate risks and plans in our new adaptation report. This will be released in draft for open consultation and engagement before we finalise our submission over the months ahead. Our latest annual statement in support of the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) provides an update on our performance this year.

- **Natural Capital and Biodiversity**
  We continue to develop our approach to natural capital and improve our understanding of the full value of our activity to better inform investment decisions. We have a natural capital ODI in AMP7, which encourages assessment of the added natural capital value we deliver by pursuing nature based and catchment solutions. Understanding this value will help us drive partnership working and our Catchment Systems Thinking (CaST) approach which seeks to understand the broader needs of a catchment and deliver outcomes across multiple stakeholders. As part of this approach we have worked with stakeholders to develop a North West natural capital baseline to understand the natural assets the North West has, the benefits they provide and the value of them. Once completed, we will engage with other partners across the North West to drive a consistent approach in order to drive greater natural capital value. To facilitate this we are seeking to establish a North West governance group for natural capital.

  Biodiversity is a key pillar of natural capital and plays an important part in our CaST approach. As the largest private land owner in the UK, and an organisation delivering significant development in the North West we have committed to no net loss on biodiversity and delivered significant investment in improving the condition of habitats on our land. We are actively reviewing our approach to how we can best manage and enhance biodiversity.

Investors

Our investment strategy and digital transformation, underpinned by our pioneering Systems Thinking approach, is delivering significant performance improvement and efficiency. This has been our best year of operational performance for customers and the environment, manifesting itself in a net reward against our customer ODIs for the year of £21 million. Since accepting our AMP7 Final Determination, we have increased our totex plan by a further £300 million, all of which we expect to be remunerated[1] through regulatory mechanisms, and we continue to accelerate our overall AMP7 investment programme to deliver benefits sooner and boost the regional economy as we emerge from the worst effects of COVID-19. We have delivered another year of robust financial performance and we are raising finance effectively, locking-in rates favourable to the price review assumptions and leveraging our strong ESG credentials.

Our key performance indicator to measure value created for our investors over AMP7 is Return on Regulated Equity (RoRE), and we will update our targets for individual components of this measure as we progress through the period. 2020/21 reported RoRE was 4.3 per cent on a real, RPI/CPIH blended basis, mainly comprising the base return of 3.9 per cent (including our 11 basis point fast track reward that we receive in each of the five years of the AMP), financing outperformance of 1.2 per cent and customer ODI outperformance of 0.3 per cent as a result of our year 1 net reward of £21 million.

Our totex performance of -0.3 per cent represents the year 1 impact of the £300 million additional totex which provides benefits that are not all reflected in RoRE.

Retail performance of -0.3 per cent reflects a small overspend this year in adapting to the effects of COVID-19 and tax performance of -0.5 per cent reflects 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 (which will be recovered through the tax sharing mechanism), and the tax impact of our strong financing outperformance.

Our underlying RoRE is higher at 4.8 per cent and is adjusted for the tax impact that will be recovered through the tax sharing mechanism and the additional totex that drives better outcomes against future customer ODIs.

- **Total expenditure (totex)**
  Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector. Thanks to the strong performance we delivered in AMP6, we started AMP7 at the target totex run rate and we are confident that we can deliver our AMP7 scope within our Final Determination totex allowance. Our investment strategy delivers long-term sustainable performance improvements and efficiency and our AMP7 totex plans will be extended by around £300 million, which we expect to be be fully remunerated[1] through regulatory mechanisms, with this investment extending our environmental programme, accelerating our digital transformation and exploiting spend to save opportunities.

  In this first year of AMP7, we have invested £617 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure (IRE)), representing the continued acceleration of our AMP7 investment programme and early expenditure against the £300 million extension to our original totex plans. This represents a good start to the delivery of our AMP7 programme, benefitting from the early start and transition investment we made in 2019/20 and our ability to continue working, where it was safe to do so, during the COVID-19 pandemic. As a consequence, we have been able to deliver this expenditure effectively, maintaining our high performance scores against our Time, Cost and Quality index (TCQi) at over 95 per cent.

  While we continue to seek efficiencies in the delivery of totex, as we have demonstrated through the £300 million extension to our totex plans, we will invest where we are confident we can deliver improved customer or environmental outcomes and better customer ODI performance.

- **Customer outcome delivery incentives (ODIs)**
  Our digital transformation and investment strategy are delivering improved performance and we have made a strong start to AMP7, achieving a £21 million net customer ODI rewards for 2020/21. This is ten times the net reward we achieved in the first year of AMP6 and is particularly pleasing in light of the tougher targets we have set.

  The "Customer" section above provides more detail on the customer ODIs where we are performing well and others where the targets for AMP7 are challenging. We see opportunities across a number of ODI targets, and our Systems Thinking approach, including new digital capability driven by DNM, increased use of data and analytics within our retail function, coupled with early investment have and will continue to help us drive performance improvements.

Unlike AMP6, ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore any net reward earned this year will be reflected in an increase to revenues earned in 2022/23 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism. Overall, we are targeting a cumulative net ODI reward over the 2020-25 period of around £150 million, a significant improvement on the £44 million achieved in the previous regulatory period.

- **Financing**
  On financing performance, we have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. This delivered significant financing outperformance during AMP6 and the rates we have already locked-in for AMP7 compare favourably with the price review assumptions.

  In November 2020, we published our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials and replacing the green funding that we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. In January 2021, we issued our debut sustainable bond generating a huge amount of interest for the company and our ESG credentials and delivering a coupon of 0.875 per cent. This is not only our lowest ever coupon at this maturity, locking-in financing outperformance, but also the lowest ever coupon for any UK corporate at this maturity.

- **ESG performance**
  We perform well across a broad range of ESG indices and for 2021 we attained World Class status on the Dow Jones Sustainability Index for the 14th consecutive year. In April 2021, we were ranked 6th out of 613 global utilities in the Sustainalytics' ESG Risk Rating assessment, positioning us as the leading water utility in the index. We achieved a score of A- from the CDP which evaluates how companies assess climate change related financial risks and opportunities, including their approach to transparency and disclosure. We were assessed by the Environment Agency (EA) as the best performing company on pollution for the second year in a row with no serious pollution incidents and we expect to be awarded industry leading 4 star status in the EA's Environmental Performance Assessment for 2020. From an employee perspective, we achieved a significant improvement in the Workforce Disclosure Initiative, scoring well above the overall average and receiving special recognition in the 'COVID-19 transparency' category at its Workforce Transparency Awards.

Suppliers

Our activities support around 17,700 jobs in the supply chain, and the acceleration of around £500 million of capital expenditure into the first three years of AMP7 will play a part in helping to generate jobs and income for the North West economy at a critical time as the country emerges from the worst effects of the COVID-19 pandemic. Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. The pandemic has shown the importance of our relationship with our supply chain partners. We have continued to work closely with our supply chain and issued guidance reinforcing Government guidelines to protect employees, suppliers and customers while maintaining delivery of critical services.

Our key performance indicator to measure value created for our suppliers over AMP7 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this timeframe. For 2020/21, in excess of 99 per cent of invoices were paid within 60 days, the average number of days taken to pay our suppliers was 13 days which is reflective of our efforts to accelerate payment to suppliers by 7 days during the COVID-19 pandemic and which was particularly welcomed by the small businesses we engage with. We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements.

- **'Better together' through our United Supply Chain**
  In November 2020 we successfully launched our new approach to responsible supply chain management for AMP7 called United Supply Chain (USC). USC recognises suppliers as an extension of the United Utilities family and suppliers are asked to become a signatory to our Responsible Sourcing Principles as a minimum. Those suppliers who are integral to our operations we encourage to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. At the end of March 2021 we had signed 38 per cent of our targeted suppliers to our Responsible Sourcing Principles and continue to pursue the remaining suppliers to reach our target of 100 per cent. Via our partnership with Supply Chain Sustainability School we have been able to offer both our commercial colleagues and supply chain partners free resources to learn more about the Responsible Sourcing Principles.

- **Innovation in action**
  Our Innovation Lab programme is designed to "look for ideas where others aren't looking" – in other sectors, other countries and with suppliers that are often small, start-up businesses, just starting on their idea development or business growth journey. It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and idea adoption / contract award – an obstacle that most regulated companies struggle with. The open, collaborative nature means that feedback is given more frequently and ideas get tailored for United Utilities adoption faster than traditional product testing. We have worked with 23 suppliers in this way – and our highest profile success is FIDO (tackling leakage detection in our Lab 2 programme.) They are becoming known as a disruptor in the global water sector with United Utilities having first mover advantage on new developments.

  We are part-way through our third Innovation Lab programme; we have published four high level problems and encouraged innovative solutions from around the world. Over 120 supplier applications have been reviewed by our experts and we have selected eight suppliers with high potential ideas; with our help, they could offer a performance step-change across a range of areas from helping us to reduce our carbon footprint and be more self-sufficient on energy, to predicting asset failures before they occur. All ideas support our Systems Thinking ambitions, most are digitally-centric, and half are new entrants to the UK water sector.

[1] c£90m uplift to PR19 allowance, c£105m increasing RCV or AMP8 revenues through totex sharing mechanism and balance from expected customer ODI rewards. In addition, further potential tax benefits are expected from enhanced capital allowances.

FINANCIAL PERFORMANCE

Revenue for the year to 31 March 2021 was down 2.8 per cent on last year, largely reflecting the typical customer bill reduction we have delivered for this first year of the new AMP7 regulatory period. Although COVID-19 changed patterns of demand for our services, changes in consumption between different customer groups have broadly offset each other in total. Household cash collection and our bad debt position have remained robust, and we have provided further financial assistance to customers who are struggling in this difficult time.

As indicated in our trading update published on 25 March 2021, we have simplified our approach to alternative performance measures (APMs) and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matter. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. In the commentary that follows in relation to underlying measures, we show the prior year results based on our new definition of APMs for comparative purposes. The reconciliation on pages 23 to 25 show the prior year APMs both on the previously used basis (consistent with how we reported last year) and updated based on our new definition of APMs.

We continue to invest in our assets, bringing forward capital expenditure and seeing an increase in infrastructure renewals expenditure (IRE) in the period. Underlying operating profit has reduced 17.8 per cent compared with last year, largely reflecting lower revenue and higher IRE. Our financing performance remains strong and we have benefitted from lower short-term inflation reducing our net finance expense.

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

Revenue

	£m
Year to 31 March 2020	1,859.3
Wholesale revenue forecast incentive mechanism (WRFIM*) adjustments	12.5
Regulatory revenue changes – 5.5 per cent real typical household bill reduction and 1.5 per cent uplift in line with CPIH inflation	(79.5)
Non-household consumption decrease	(46.7)
Household consumption increase	46.8
Innovation fund increase	6.2
Other	9.4
Year to 31 March 2021	**1,808.0**

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

Revenue was down £51 million, at £1,808 million, largely reflecting the £80 million reduction from the new pricing regime in this, the first year of AMP7, incorporating a 5.5 per cent real reduction in typical household bills and a 1.5 per cent CPIH-linked increase.

The impact of the COVID-19 pandemic and related lockdown periods has seen non-household revenue decrease by £47 million, with an increase in household revenue of £47 million as a result of more time spent at home and the hot, dry weather in spring 2020.

Revenue in 2020/21 includes £6 million in relation to the Innovation in Water Challenge Scheme. This is a new scheme introduced by Ofwat in AMP7, and therefore did not apply last year, and is intended to fund industry-wide innovation projects. In 2020/21, we have provided for £6 million of offsetting costs with the balance of revenue and costs as the scheme matures in future years dependent upon how successful companies are in bidding for funds.

Operating profit

	£m
Underlying – year to 31 March 2020	732.1
Revenue decrease	(51.3)
Depreciation and amortisation increase	(21.8)
Infrastructure Renewals Expenditure increase	(21.8)
Property rates increase	(13.5)
Innovation fund increase	(6.2)
Other underlying operating costs increase	(15.4)
Underlying – year to 31 March 2021	**602.1**
Adjusted items	-
Reported – year to 31 March 2021	**602.1**

Underlying operating profit at £602 million was £130 million lower than last year. This principally reflects the £51 million reduction in revenue, and also a £22 million increase in IRE as a result of ongoing work to optimise the performance of our network. Depreciation is £22 million higher, principally reflecting the higher capex programme in AMP6 with a high number of assets commissioned towards the end of the AMP. In the near term we would expect depreciation to flatten out reflecting the lower AMP7 capex programme. Property rates are £14 million higher this year largely reflecting a rates refund received last year. We have accrued £6 million of costs in 2020/21 in relation to the Innovation in Water Challenge Scheme mentioned above, along with £13 million of extra COVID-19 related costs (including a £5 million increase in the underlying bad debt charge), which have been absorbed within our cost base and which have not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £28 million lower than last year, reflecting the decrease in underlying operating profit partially offset by a decrease in adjusted items. As a result of the changes we have made to alternative performance measures, we will no longer, as a matter of course, adjust for restructuring costs to derive underlying operating profit and therefore we do not have any adjusted items in the year to 31 March 2021, with prior year numbers re-presented for comparative purposes. Adjusted items totalling £102 million were made in the full year to 31 March 2020, comprising £83 million of accelerated depreciation of Bioresourcess assets that had been taken out of use and £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 23 to 25 and more detail can be found in our announcement of results for the year to 31 March 2020.

Household bad debt is 2.2 per cent of regulated revenue, representing a marginal increase of £5 million on the underlying bad debt cost in the prior year, reflecting the ongoing uncertainty associated with the third lockdown and taking into account expected cash collection into the future, as government support unwinds in the coming months.

Profit before tax

	£m
Underlying – year to 31 March 2020	534.8
Underlying operating profit decrease	(130.0)
Underlying net finance expense decrease	58.4
Share of JVs losses	(3.2)
Underlying – year to 31 March 2021	**460.0**
Adjusted items *	91.0
Reported – year to 31 March 2021	**551.0**

* Adjusted items are set out on pages 23 to 25.

Underlying profit before tax was £460 million, £75 million lower than last year. This reflects the £130 million reduction in underlying operating profit, and an increase in the share of underlying losses of joint ventures of £3 million, partly offset by a £58 million decrease in underlying net finance expense.

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 23 to 25. Reported profit before tax increased by £248 million to £551 million reflecting the £28 million reduction in reported operating profit and the £3m increase in the share of underlying losses of joint ventures, more than offset by a £210 million reduction in reported net finance expense (including fair value movements), a £37 million profit on the disposal of our Tallinn joint venture and the impact in the prior year of our £32 million share of Water Plus losses arising as a result of COVID-19.

- Net finance expense

  The underlying net finance expense of £133 million was £58 million lower than last year, on a consistent basis. Interest of £83 million on non-index linked debt was £13 million lower than last year due to lower rates locked in on debt and associated swaps. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £54 million, compared with a net charge of £100 million last year.

  Reported net finance expense of £79 million was £210 million lower than last year, principally reflecting a £151 million increase in the fair value gains on debt and derivative instruments, from a £76 million loss in the prior year to a £74 million gain in the current year, and lower inflation applied to our index-linked debt.

- Joint ventures

  On 31 March 2021, the group completed the disposal of its stake in the Tallinn Water joint venture for consideration of EUR 100.3 million (£85.3 million) and a total recognised profit on disposal of £37 million. Given its material and atypical nature, this profit on disposal has been excluded from underlying results.

  For the year to 31 March 2021, we recognised £14 million losses in the income statement relating to our joint venture Water Plus, comprising £9 million of our share of Water Plus's underlying losses for the year and £5 million of previously unrecognised share of losses. At 31 March 2021 there was a clear expectation that the £32.5 million revolving credit facility extended to Water Plus would be converted into additional equity share capital, and as a result share of losses are recognised against this capital, this includes recognition of any previously unrecognised losses. The transaction to convert the £32.5 million revolving credit facility was subsequently executed on 23 April 2021.

  For the year to 31 March 2020, we recognised £51 million losses in the income statement relating to our joint venture Water Plus, comprising £14 million of our share of Water Plus's underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19, as well as a £5 million allowance for expected credit losses. As a result, our long-term interest in Water Plus was written down to £nil. A further £5 million of our share of Water Plus's underlying losses were not recognised in the income statement.

  Our £9 million underlying share of losses of joint ventures in the year to 31 March 2021 comprises a £5 million share of profits from Tallinna Vesi AV more than offset by a £14 million share of losses from Water Plus.

  Further details can be found in note 11 of these condensed consolidated financial statements.

Profit after tax and earnings per share

	PAT £m	EPS Pence/share
Underlying – year to 31 March 2020	486.3	*71.3p*
Underlying profit before tax decrease	(74.8)	
Underlying tax increase	(28.5)	
Underlying – year to 31 March 2021	**383.0**	***56.2p***
Adjusted items *	70.4	
Reported – year to 31 March 2021	**453.4**	***66.5p***

* Adjusted items are set out on pages 23 to 25.

Underlying profit after tax of £383 million was £103 million lower than last year, and underlying earnings per share decreased from 71.3 pence to 56.2 pence, principally reflecting the £75 million reduction in underlying profit before tax and a £28 million higher underlying tax charge largely due to the pension deficit repair payment we made last year.

Reported profit after tax increased by £347 million to £453 million, and reported basic earnings per share increased from 15.7 pence to 66.5 pence, principally reflecting the £248 million increase in the reported profit before tax and a £99 million decrease in the reported tax charge primarily as a result of a £136 million deferred tax adjustment for the change in tax rate reflecting the Government's reversal of the planned reduction in the rate of corporation tax recognised in the prior 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 have retained the Fair Tax Mark independent certification for a second year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

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 2020/21 were around £258 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 2020/21, we paid corporation tax of £75 million, which represents an effective cash tax rate on underlying profits of 16 per cent, which is 3 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment and also, in the prior year, 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.

As well as the payments we also received a repayment of corporation tax of £27 million following agreement of routine prior years' UK tax matters.

The current tax charge was £80 million in 2020/21, compared with £51 million in the previous year. There were current tax credits of £1 million in 2020/21 and £12 million in 2019/20, following agreement of prior years' UK tax matters.

For 2020/21, the group recognised a deferred tax charge of £18 million, compared with £158 million for 2019/20. Of the deferred tax charge for 2019/20, £136 million related 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 above change in tax rate related deferred tax adjustment in the prior year and the current year non-taxable profit on the disposal of the joint venture investment in AS Tallinna Vesi, the total effective tax rate was around 19 per cent for both the current year and 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 2020/21, there are £31 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

An increase in the headline rate of corporation tax to 25 per cent from 1 April 2023 was announced in the Chancellor's Budget on 3 March 2021. This change has been enacted in May 2021, and will result in a future deferred tax charge currently estimated at around £380 million.

Dividend per share

The Board has proposed a final dividend of 28.83 pence per ordinary share in respect of the year ended 31 March 2021. Taken together with the interim dividend of 14.41 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2020/21 of 43.24 pence. This is an increase of 1.5 per cent compared with the dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The inflationary increase of 1.5 per cent is based on the CPIH element included within the allowed regulated revenue increase for the 2020/21 financial year (i.e. the movement in CPIH between November 2018 and November 2019).

The final dividend is expected to be paid on 2 August 2021 to shareholders on the register at the close of business on 25 June 2021. The ex-dividend date is 24 June 2021.

Cash flow

Net cash generated from continuing operating activities for the year to 31 March 2021 was £859 million, broadly consistent with £810 million last year. The group's net capital expenditure was £639 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost. Cash flow capex differs from regulatory capex, since the latter is based on capital work done in the period, rather than actual cash spent.

Pensions

As at 31 March 2021, the group had an IAS 19 net pension surplus of £689 million, compared with a net pension surplus of £754 million at 31 March 2020. This £65 million decrease is predominantly due to the unwinding of a spike in credit spreads at 31 March 2020 due to COVID-19 that resulted in a temporary decrease in the valuation of liabilities. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption and is hedged for inflation and interest rates. Any inflation and credit spread movements are therefore not expected to have a material impact on the pension liabilities calculated on a scheme specific funding basis.

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

Financing

Net debt	£m
At 31 March 2020	7,361.4
Cash generated from operations	(1,037.2)
Proceeds from disposal	(85.3)
Fair value movements	(7.5)
Dividends from joint ventures	(6.4)
Net capital expenditure	639.0
Dividends	291.9
Interest	129.3
Indexation	52.6
Tax	48.5
Other	11.4
At 31 March 2021	**7,397.7**
Adjustments	**(91.9)**
At 31 March 2021 (new definition)	**7,305.8**

The group's gross borrowings at 31 March 2021 had a carrying value of £8,452 million. The fair value of these borrowings was £9,855 million. This £1,403 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has increased from £471 million at 31 March 2020 due primarily to a decrease in credit spreads.

Cash and short-term deposits at 31 March 2021 amounted to £744 million.

Net debt at 31 March 2021 was £7,306 million, compared with £7,361 million at 31 March 2020. This comprises gross borrowings of £8,452 million and derivative liabilities of £115 million net of cash of £744 million and derivative assets of £425 million. This is then adjusted to exclude derivatives with a net liability of £92 million under our revised definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments and therefore gives a fairer reflection of the amount we are contractually obliged to repay. This approach is more consistent with that taken by the credit rating agencies and better reflects the regulatory economics.

Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, cash interest, indexation interest and tax, and in 2020/21 also reflects the impact of the £85 million sales proceeds from the disposal of our Tallinn JV.

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 2021. This is marginally higher than the 61 per cent as at 31 March 2020 but remains within our target range of 55 to 65 per cent.

- Cost of debt

  As at 31 March 2021, the group had approximately £3.0 billion of RPI-linked debt at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt at an average real rate of –0.2 per cent.

  A lower RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 2.5 per cent being lower than the rate of 3.4 per cent for the year to 31 March 2020. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt.

  The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 2.2 to 2.5 per cent for the 2020-25 regulatory period.

- <u>Credit ratings</u>

  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.

- <u>Debt financing</u>

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

  In total over 2020-25, we expect to raise around £2.4 billion to cover refinancing and incremental debt, supporting our five-year investment programme. In 2020/21 we have raised £900 million, taking advantage of the attractive rates available and extending our liquidity position out to August 2023.

  In November 2020, we published our new sustainable finance framework, through which we expect to raise financing based on our strong ESG credentials alongside conventional issuance. This replaces the green funding we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit.

  In January 2021, we issued our debut sustainable bond raising £300 million, maturing in October 2029 and subsequently swapped to CPI-linkage.

  We remain one of the sector leaders in the issuance of CPI-linked debt in response to Ofwat's decision to transition away from RPI inflation linkage. At 31 March 2021, we have increased the CPI-linkage in our debt portfolio to £1,015 million with a further £50 million of CPIH-linkage, and therefore a perfect match for the regulatory regime.

  Since March 2020, we have renewed £50 million of revolving credit facilities with a relationship bank for a further five-year term, and extended £100 million of revolving credit facilities for a further three years, and £250 million of revolving credit facilities for a further year.

- <u>Interest rate management</u>

  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 2021, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 26 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of -0.2 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

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

- Liquidity

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

  At 31 March 2021, we had liquidity out to August 2023, comprising cash and short-terms deposits (enhanced by new finance raised in the period), plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

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

  We operate a bilateral rather than a syndicated approach to our core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

OUTLOOK

We have responded well to the challenges presented by COVID-19 and delivered another year of strong operational performance, building on the improvements we delivered in AMP6. We are leading the way on customer satisfaction and have made a strong start to our AMP7 customer ODIs delivering net outperformance of £21 million this year. We have extended our AMP7 totex plans by £300 million to underpin the delivery of long-term sustainable performance improvements and efficiency and we continue with our strategy of accelerating investment to bring forward benefits for customers and the environment and contributing the economic recovery of our region.

This is a great start to the new regulatory period and provides a strong platform to deliver further good operational performance for the benefit of all stakeholders. This gives us the confidence to target cumulative net outperformance of around £150 million against our customer ODIs for AMP7.

2021/22 FULL YEAR GUIDANCE

- **Revenue** is expected to be marginally lower in 2021/22 reflecting the November 2020 CPIH of 0.6 per cent offset by the regulatory revenue reduction of 2.0 per cent.
- **Underlying operating costs** are expected to be marginally higher year-on-year reflecting inflationary increases net of efficiencies coming through core costs and IRE is expected to increase reflecting the additional investment in DNM.
- **Underlying finance expense** is expected to be higher year-on-year as higher inflation impacts our index-linked debt.

- **Capex** in 2021/22 is expected to be in the range of £625 million to £675 million reflecting the ongoing acceleration of our AMP7 programme and around £50 million of additional capex (of the £300 million extension to our AMP7 totex plans).
- Targeting a **net customer ODI reward** of around £20 million consistent with targeting a cumulative net AMP7 reward of around £150 million.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, in the group's consolidated income statement, which can be found on page 38. As such, they represent non-GAAP measures.

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

We have simplified our approach to APMs and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matters. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. In the tables that follow we show the prior year APMs both on the previously used basis (consistent with how we reported last year) and updated based on our new definition of APMs for comparative purposes.

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

Adjusted item	Rationale
Adjustments not expected to recur	
Bioresources asset write down	A strategic review of the group's Bioresources activities was undertaken in the second half of the year ended 31 March 2020, informed by the PR19 process and the group's zero-carbon commitments. This resulted in the likelihood of future economic benefit being derived from certain assets now being considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. This resulted in a material asset write down that was not considered to be part of the normal course of business, with similarly material write-downs not expected to reoccur in future years.
COVID-19	The group incurred significant costs resulting from the COVID-19 pandemic in the early part of 2020, including incremental expected credit losses on household and non-household customer receivables caused by the economic impact of business closures and expected increases in unemployment. The group's joint venture, Water Plus, was also significantly impacted, resulting in the business recognising an impairment of certain assets and a higher allowance for expected credit losses at 31 March 2020, feeding through to the group's share of losses from joint ventures. This also caused the group to recognise an allowance for expected credit losses in relation to loans extended to Water Plus. Due to the unprecedented nature of the pandemic and the initial economic shock associated with early lockdown measures, these costs were not deemed to be representative of normal business performance when compared against prior periods. In line with best practice, we make no COVID-19 adjustments in the year ended 31 March 2021.
Profit on disposal of joint ventures	This relates to the disposal of the group's 35.3% stake in its Estonian joint venture, AS Tallinna Vesi, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option[2]	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macro-economic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.
Presentational adjustments no longer applied[1]	
Restructuring costs	The group typically incurs a certain level of restructuring costs each year, the quantum of which is dependent on the significance of discrete events in a given year, which can cause volatility in the reported results. Management adjusts internally for these costs to provide a view of underlying performance which it considers to be representative of the normal course of business and more comparable period to period. For the year ended 31 March 2021 and going forward, an adjustment will only be made if part of a more significant strategic restructure.
Net fair value (gains)/losses on debt and derivative instruments[2]	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[2]	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 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.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. These significant costs have previously been adjusted for to provide a representative cost of borrowings and current year performance when considered in the context of the return on capital the group earns through revenue.
Agreement of prior years' tax matters	The agreement of prior years' tax matters is part of the group's normal processes of ensuring the right amount of tax is paid. Depending on the agreements made in any given year, this can be significant, volatile and often related to final settlement of numerous prior year periods. Historically, management has adjusted for this as a matter of course to provide a more representative view of the tax charge/credit in relation to current year performance. For the year ended 31 March 2021 and going forward, an adjustment will only be made if significant and relating to numerous prior year periods.

[1] These adjustments are no longer made from the year ended 31 March 2021 and going forward reflecting our change in approach to APMs

[2] For the year ended 31 March 2021, and going forward, this adjustment combines the two adjustments 'net fair value (gains)/losses on debt and derivative instruments' and 'interest on derivatives and debt under fair value option'

Underlying profit	Year ended 31 March 2021 £m	*Re-presented* Year ended 31 March 2020 £m	*As reported* Year ended 31 March 2020 £m
Operating profit per published results	**602.1**	**630.3**	**630.3**
Bioresources asset write down	-	82.6	82.6
COVID-19 - expected credit loss on non-household receivables	-	1.4	1.4
COVID-19 - expected credit loss on household receivables	-	16.7	16.7
COVID-19 - operating expenses	-	1.1	1.1
Restructuring costs	-	-	11.8
Underlying operating profit	**602.1**	**732.1**	**743.9**

Net finance expense	£m	£m	£m
Finance expense	(103.5)	(313.0)	(313.0)
Investment income	25.0	24.0	24.0
Net finance expense per published results	**(78.5)**	**(289.0)**	**(289.0)**
Adjustments:			
COVID-19 - Expected credit losses on loans to JVs	-	5.0	5.0
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(54.3)	92.8	-
Net fair value (gains)/losses on debt and derivative instruments	-	-	76.3
Interest on swaps and debt under fair value option	-	-	16.5
Net pension interest income	-	-	(14.0)
Adjustment for capitalised borrowing costs	-	-	(40.6)
Underlying net finance expense	**(132.8)**	**(191.2)**	**(245.8)**

	£m	£m	£m
Share of (losses)/profits of joint ventures	**(9.3)**	**(38.1)**	**(38.1)**
Adjustments:			
COVID-19 - Water Plus impairment losses and expected credit losses	-	32.0	32.0
Underlying share of (losses)/profits of joint ventures	**(9.3)**	**(6.1)**	**(6.1)**
Profit on disposal of joint ventures	36.7	-	-
Adjustments:			
Profit on disposal of AS Tallinna Vesi joint venture	(36.7)	-	-
Underlying profit on disposal of joint ventures	**-**	**-**	**-**
Profit before tax per published results	**551.0**	**303.2**	**303.2**
Adjustments:			
In respect of operating profit	-	101.8	113.6
In respect of net finance expense	(54.3)	97.8	43.2
In respect of share of (losses)/profits of joint ventures	-	32.0	32.0
In respect of profit on disposal of joint ventures	(36.7)	-	-
Underlying profit before tax	**460.0**	**534.8**	**492.0**
Profit after tax per published results	**453.4**	**106.8**	**106.8**
Adjustments:			
In respect of profit before tax	(91.0)	231.6	188.8
Deferred tax adjustment	18.4	157.5	157.5
Agreement of prior years' UK tax matters	-	-	(12.2)
Tax in respect of adjustments to underlying profit before tax	2.2	(9.6)	(11.3)
Underlying profit after tax	**383.0**	**486.3**	**429.6**

Earnings per share

	£m	£m	£m
Profit after tax per published results (a)	453.4	106.8	106.8
Underlying profit after tax (b)	383.0	486.3	429.6
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	66.5	15.7	15.7
Underlying earnings per share, in pence (b/c)	56.2	71.3	63.0
Dividend per share, in pence	43.24p	42.60p	42.60p

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

Average effective interest rate	**Year ended 31 March 2021 £m**	**Year ended 31 March 2020 £m**
Underlying net finance expense	(132.8)	(191.2)
Adjustments:		
Net pension interest income	(17.5)	(14.0)
Adjustment for capitalised borrowing costs	(30.4)	(40.6)
Net finance expense for effective interest rate	**(180.7)**	**(245.8)**
Average notional net debt	**(7,315)**	**(7,136)**
Average effective interest rate	**2.5%**	**3.4%**

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 2021 £m	**Re-presented Year ended 31 March 2020 £m**	**As reported Year ended 31 March 2020 £m**
Group underlying operating profit	**602.1**	**732.1**	**743.9**
Underlying operating profit not relating to UUW	**(0.4)**	**(3.5)**	**(3.5)**
UUW statutory underlying operating profit (unaudited)	**601.7**	**728.6**	**740.4**
Revenue recognition	8.2	(5.0)	(5.0)
Capitalised borrowing costs	6.8	5.6	5.6
Reclassification of regulatory other income (not included in UUW operating profit)	(21.5)	(20.2)	(20.2)
Other differences (including non-appointed business)	(1.0)	(2.2)	(2.2)
UUW regulatory underlying operating profit (unaudited)	**594.2**	**706.8**	**718.6**

Underlying measures reflect the adoption of new definitions for alternative performance measures (APMs) with prior year numbers re-presented for comparative purposes and also showing prior year as reported.

Return on Regulated Equity (RoRE)

UUW's RoRE, presented on a real return basis, for the year ended 31 March 2021:

	Year ended 31 March 2021
Base return	3.9%
Totex performance	(0.3)%
Retail performance	(0.3)%
Customer ODI performance	0.3%
Financing performance	1.2%
Tax performance	(0.5)%
RoRE[1]	**4.3%**

[1] Calculated in accordance with RAG 4.09, published in February 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk and resilience

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West, and be more resilient across our corporate, financial and operational structures. 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; and
- in a responsible manner.

Our risk management framework provides the foundation for the business to anticipate threats to delivering an effective service in these challenging times, and to respond and recover effectively when risks materialise. Key components of the framework include:

- An embedded group-wide risk management process which is aligned to ISO 31000:2018 Risk management guidelines;
- 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 controls; and
- A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Continuous improvement is a key feature of the framework which incorporates a maturity assessment model to identify areas to enhance. Based on risk management capabilities relative to five levels of maturity, a recent assessment has supported the development of a road map of improvements. These include an update to risk appetite statements, greater focus and analysis of cross-cutting themes and improved escalation of data from operational risk management systems.

How we identify and assess risk

We have a number of mechanisms in place to identify risk. These include a risk universe, cross-business horizon scanning forums, consultation with third parties and comparison with National Risk Registers.

Each risk is event based and is sponsored by a senior manager who is responsible for the analysis of the corresponding causal factors, consequences and the control effectiveness, taking account of both the internal and external business environment. This process determines the likelihood of the event occurring and the full range of potential impacts from a minimum (best case) to a maximum (worst case). Comparing this position against the desired target state, in combination with the strengths, weaknesses and gaps of the control environment, supports the decisions for further mitigation as appropriate. This ongoing analysis culminates in the biannual business unit risk assessment (BURA) which forms part of the governance and reporting process to ensure consistency of approach and a true reflection of the risk facing the company. It also serves to calibrate the most significant risks from a financial and reputational context and to assess how these relate to our risk appetite.

Governance and reporting process

The board ensures that its oversight of risk remains effective, and in compliance with the UK Corporate Governance Code, through a number of established reporting routes.

Twice yearly the board receives an extensive 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 event-based risks in both their current state relative to the risk appetite, and target state of acceptable exposure. The board is also advised of new and emerging risks. In addition to the biannual risk reporting, specific risk topics are reported to the board to support decision-making.

The board is therefore able to:

- make decisions on the level of risk it is prepared to manage relative to risk appetite and tolerance in order to deliver on the group's strategy;
- engage with the business to ensure appropriate controls and mitigation are in place, 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 risk management procedures and internal control systems.

Risk-specific governance and steering groups manage ongoing individual risks. The operational risk and resilience board provides oversight of asset and operational process risk and resilience capability, escalates risks and issues to the group audit and risk board (GARB) and contributes to the BURA process.

The executive-led GARB focuses on: the adequacy, effectiveness and performance of governance processes; risk management and internal control; monitoring compliance and assurance activities; identification of emerging themes and trends; and resilience across the group.

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.

Risk profile

The business risk profile consists of approximately 100 event-based risks, each of which relates to one of ten inherent risk areas, which we regard as our principal risks due to their potential to affect the performance, future prospects or reputation of the company. The allocation of event-based risks to principal risks enables the company to consider risks in the context of systems and production lines, in line with our Systems Thinking approach.

Seven of the ten principal risks have remained relatively stable in the last 12 months. Water service, Supply chain and programme delivery and Finance have reduced due to the replacement of a section of the Haweswater Aqueduct, the trade deal with the EU and improvement in the economic outlook, respectively.

Common themes

Each of the event-based risks has multiple causes and consequences which in turn lead to financial and/or reputational impact. Preventative and responsive controls are applied to reduce the likelihood of the event occurring and limit the impact if the event were to materialise. New and emerging circumstances in respect of causes, consequences and controls make the profile multifaceted and dynamic. Analysis of the profile highlights common themes, notably associated with the causes and consequences. These common themes can then be considered more holistically to enable a more integrated, Systems Thinking approach to risk mitigation. Analysis of the control environment indicates the strengths, weaknesses and gaps in the mitigation of risk, as well as the interdependencies across the business to manage risk as part of the integrated approach.

Common causal themes

The event-based risks include multiple causal factors which individually or in combination could trigger the risk event to occur. Categorisation illustrates six common causal themes:

- **Extreme weather/climate change:** In the majority of cases our water resources, asset base and operations can cope with extreme weather conditions, although these can become overwhelmed in intense situations. Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme variations in weather patterns. This means that climate change remains a key focus for us, because of its impact on our capacity and capability for service delivery, and because of the effect on 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 Financial Disclosures (TCFD).
- **Demographic changes:** Demographic changes, including population growth and evolving age profiles, can impact the capacity and capability of water and wastewater treatment and network assets; can affect demand on water resources; and increase uncertainty in relation to pension obligations.
- **Legislative and regulatory change:** Changes in legislation and/or regulation can have implications for the business model, asset base and ways of working. For example: the anticipated post-Brexit changes in law bring an element of uncertainty; and the introduction of competition, whilst positive to customers and markets, can affect ongoing revenue and the asset base.
- **Economic conditions:** Macro events, such as the financial crisis in 2008 and more recently COVID-19, can have multiple financial implications, including: lower revenue; increased bad debt; increased operational cost; increased cost of borrowing; and a reduction in the Regulatory Capital Value. The events can also impact the wider supply chain with knock-on effects to our service delivery and cost to serve.
- **Asset health:** General use, exposure to natural hazards, pressure and load all contribute to the deterioration of assets. In addition, other factors such as technological obsolescence and operating assets beyond their

optimal capacity to cope with increased demand (population growth and/or climate change) also affect asset health. Ageing assets therefore provide an underlying and cross-business risk and uncertainty both to efficiency and for the long-term resilience of asset integrity and the associated service capability.

- **Culture:** Embedded through processes, reward mechanisms, values and behaviours, culture cuts across the majority of risks in the profile. Our embedded corporate culture of innovation, customer service and behaving in a responsible manner provides an established platform, however, this is an area of ongoing focus to maintain high performance in an increasingly challenging business environment at the same time as being open and transparent.

Common consequence themes
Each consequence is analysed for the financial and reputational implications relative to multiple stakeholders. Categorisation of the consequences illustrates four common impact themes:

- **Customer:** Customers are impacted through our service offering, the quality of their experience when dealing with us, and how our operational and capital schemes affect them in the community.
- **Environment:** Our assets, operations and capital programmes can have a significant impact on the environment in both rural and urban settings. As a major land owner and operator of a sizable fleet of vehicles, the way we manage these also has environmental implications.
- **Investors:** The vast majority of risks in the profile have financial implications that could affect shareholder investment in the short and long term. Reputational impact associated with ethics, environmental protection and efficiency is also relevant for investors' interest in the company.
- **Employees:** Our employees are fundamental to delivering our service requirements as well as our strategic objectives. Equally, our employees can be affected by multiple risks across the business, but primarily in relation to employment and health, safety and wellbeing risks.

Our principal risks

1. Water service - risk decreased

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.

<u>Risk exposure</u>
Covering the entire water system from source to customers' taps, threats include: extreme weather which not only affects supply and demand through reduced rainfall, but can also affect raw water quality through fire or flooding; demographic changes affecting demand; asset health contributes to the frequency and magnitude of failure; and legal and regulatory change potentially increases the quality standards which will require time and investment in order to maintain compliance.

Potential impacts include: regulatory non-compliance; interruptions to water supply; or, in extreme cases, a danger to public health caused by poor water quality.

<u>Control and mitigation</u>
Strict quality controls supplement the physical and chemical treatment including a rigorous sampling regime, alarm systems and 'shut down and start up to waste' processes. Asset inspections, regular maintenance and cleaning are undertaken across our water assets, supported by a prioritised replacement regime. Water resources management, production planning, pressure/flow management and leak detection are undertaken to maintain supply and minimise interruptions. The integrated network, alternative supply vehicles and maintenance crews provide a response capability.

<u>Performance indicators</u>
- C-MeX
- Leakage
- Interruptions to supply
- Water quality compliance (CRI)

<u>Most significant event-based risks</u>
- Failure of significant water supply systems
- Failure of the distribution system (leakage)

- Dam failure
- Water sufficiency (dry weather)
- Water network failure

2. Wastewater service - risk stable
The failure to remove, treat and return water to the environment and recycle sludge to land.

Risk exposure
Covering the entire wastewater and bioresource systems from customer properties to land, river or the sea, the key factors are: the capacity and capability of assets and operational processes; and the availability of sludge recycling outlets. Compounding issues include unauthorised third party discharges into the sewer network, changing demographics and extreme weather. Whilst generally designed to cope with the vast majority of storms, high intensity rainfall can overwhelm the system. Legal and regulatory change potentially increases standards or imposes restrictions which will require time and investment to maintain compliance.

Potential impacts include: regulatory non-compliance; interruptions to drainage services; pollution incidents (including odour nuisance and sewer flooding); and inability to dispose of sludge to land.

Control and mitigation
The sewer network is managed through a combination of the drainage and wastewater management plans and the wastewater network operating model which include asset condition surveys to identify defects, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes. Integrated drainage area studies and the adoption of a pollution incident reduction plan aim to make further enhancements. Proactive maintenance, operative training, sampling, compliance audits and odour management systems supplement the treatment processes across our wastewater and biosolids systems.

Performance indicators
- C-MeX
- EA performance assessment
- Internal flooding incidents
- Pollution incidents

Most significant event-based risks
- Failure of wastewater network (sewer flooding)
- Failure to treat wastewater
- Failure of wastewater assets (serious pollution)
- Recycling of biosolids to agriculture

3. Retail and commercial - risk stable
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.

Risk exposure
Key factors include the social deprivation across the North West, the macroeconomic environment, and the experience and perception of customers towards our operations and service. Commercial contractual terms and conditions and the structure, positioning and efficiency of joint ventures, subsidiaries and undertakings are also factors.

Potential impacts include financial losses and an impact on profitability associated with poor cash-flow and an increase in bad debt. Poor service and associated decreased customer satisfaction could result in regulatory penalties and reputational harm.

Control 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 scheme for vulnerable customers and those needing help to pay, which has driven up our success in recovering charges. Bad debt risk is managed through best practice collection techniques, segmentation of customers and the use of data sharing to determine the most effective and collaborative collection and support activities.

The wholesale business maintains processes, systems and data 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.

Performance indicators

- C-MeX
- Customer complaints
- D-MeX

Most significant event-based risks

- Billing accuracy
- Customer experience

4. Supply chain and programme delivery - risk decreased

The potential ineffective delivery of capital, operational and change programmes/processes.

Risk exposure

As the supplier of essential water and wastewater services with a significant asset base, key factors include the consistent supply of critical goods and services and the ongoing development of operational facilities, distribution networks and systems. Disruption and delay can occur through macro economic conditions, political issues or natural disasters in the country of origin. Contractual issues, technical or engineering complications, natural hazards such as extreme weather or legal aspects such as planning permission or access rights are also factors.

Potential impacts include: implications to cash-flow; failure to take opportunities and competitive advantage; and ultimately failure to meet our obligations and customer outcomes.

Control and mitigation

Category management and supplier relationship management are key areas of control underpinned by contract management across our extensive supply chain. Capital, change and operational programmes are undertaken in order of priority following approval. Within the capital programme we have created better alignment and integration between our capital delivery partners, engineering service providers and our operating model. Our programmes and project management include risk and issue management.

Performance indicators

- Percentage invoices paid within 60 days
- Time, cost and quality index

Most significant event-based risks

- Unfunded developer-led projects
- Dispute with supplier

5. Resource - risk stable

The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.

Risk exposure

The nature and scale of our operations warrants a highly efficient, effective and competent set of resources that is adaptable to a constantly changing business environment. Key factors include: the recruitment and selection of talent, employee engagement, skill-set and knowledge; obsolescent systems due to innovative new ways of working and advances in technology; the quality of tools, equipment and vehicles; and ongoing deterioration of property, land and other assets.

Potential impacts include the inability to maintain efficiency, optimise opportunity and competitive advantage, or meet our obligations and customer outcomes.

Control and mitigation

Developing our people with the right skills and knowledge, combined with delivering effective technology to support the business in 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, more resilient 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.

Performance indicators

- Employee engagement

Most significant event-based risks

- Land management
- Business critical data

6. Finance - risk decreased

The potential inability to finance the business appropriately.

Risk exposure

The extent of our capital programme and the scale of our operations means that it is important that we are able to raise finance when needed to preserve adequate liquidity. Key factors include unexpected and/or higher costs associated with an operational incident, fluctuations in commodity prices and our exposure to movements in interest rates and inflation. A reduction in credit ratings, the over payment of tax and a worsening of the pension scheme funding position are also factors. Contributing factors include the macroeconomy, the political and regulatory environments relative to the water sector, and our internal financial structure.

Potential impacts include cash flow implications, reduced profit and ultimately the solvency of the company in extreme cases.

Control and mitigation

Long-term refinancing with staggered maturity dates and significant liquidity 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 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.

Performance indicators

- Return on Regulated Equity (RoRE)
- Underlying operating profit
- Gearing (net debt : RCV)

Most significant event-based risks

- Financial outperformance
- Credit ratings
- Pension deficit
- Fair payment of tax

7. Health, safety and environmental - risk stable

The potential harm to employees, contractors, the public or the environment.

Risk exposure

The nature and scale of our operations presents multiple hazards to employees, contractors, the public and the environment. These include confined spaces, excavations, explosive atmospheres or high volume asset failures (e.g. dams or aqueducts), and polluting sewage and chemicals if accidentally or uncontrollably released.

Potential impacts include: serious injury or loss of life; catastrophic damage to property/infrastructure; and damage to, or destruction of, wildlife, fish or natural habitats. Environmental hazards, notably extreme weather, can affect our operational assets and service delivery.

Control and mitigation

We have a strong health, safety and environmental culture supported by strong governance and management systems certified to OHSAS 18001 and ISO 14001 respectively. We actively seek to improve health, safety and wellbeing across the group through targeted improvements and benchmarking against our peers and 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, as well as our 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. Due to the impact the environment can have on our services, extreme weather and climate change is being integrated into our risk, planning and decision-making processes.

Performance indicators

- EA performance assessment
- Accident frequency rates

Most significant event-based risks

- Disease pandemic
- Process safety
- Personal safety
- Carbon commitments
- Failure of above -ground assets (flooding)

8. Security - risk stable

The potential for malicious activity (physical or technological) against people, assets or operations.

Risk exposure

As the supplier of essential services and the owner and operator of critical national infrastructure, security is of paramount importance against an ever evolving and increasingly sophisticated threat through physical, technological, chemical or biological means. This could originate from rogue independent actors, nation states, organised crime, disgruntled employees, or as a result of commercial espionage.

Potential impacts include the loss or compromise of commercially sensitive data, the disruption of business activity and/or damage or destruction of systems, assets or infrastructure with a knock-on impact to service delivery and community infrastructure.

Control and mitigation

Security measures and awareness training combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. 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. We liaise with these organisations to shape the sector approach to security, understand how to better protect our business, and be compliant 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 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 in the event of a catastrophic incident.

Performance indicators

- Cyber incidents

Most significant event-based risks

- Cybercrime
- Terrorism

9. Conduct and compliance - risk stable

The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities.

Risk exposure

Our business extends to multiple stakeholders and is subject to a significant amount of legislation and regulation. Long-term sustainability, resilience and reputation rely on responsible conduct and compliance across our business and extended supply chain.

Failure to comply with legal obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. Fines of up to 10 per cent 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, in extreme circumstances, revocation of the instrument of appointment (licence) and the imposition of a special administration regime.

Control and mitigation
We place high importance and focus on corporate responsibility. Our well-established internal forums and engagement activities with communities, landowners, environmental groups and other stakeholders allow us to be aware of current issues and concerns. These include ethical supply chains, modern slavery risks, the needs of vulnerable customers and diversity and equality within our own employee population.

Performance indicators
- Community investment
- EA performance assessment
- C-MeX

Most significant event-based risks
- Non-compliance with the Bribery Act
- Digital Service licensing

10. Political and regulatory - risk stable
Developments connected with the political, regulatory and legislative environment.

Risk exposure
As a regulated business, the political and regulatory environment shapes how we operate as a business. Factors include the public perception of the water industry and its legitimacy to provide value, increased challenges on efficiency and the imposition of increased levels of competition across the sector.

There is therefore the potential for increased costs of administration and for sources of income and funding to be impacted. There is also the potential for reduced Regulatory Capital Value (RCV) and for greater uncertainty of returns.

Control and mitigation
We continue to take part in government and regulatory consultations in order to influence outcomes in respect of policy and legislation. We routinely communicate with customers so that their needs and expectations can be factored into our thinking and plans.

Performance indicators
- Return on Regulated Equity (RoRE)
- Underlying operating profit

Most significant event-based risks
- Reduced revenue at the next price review
- Upstream competition (bioresources)
- DPC – Haweswater Aqueduct Replacement Programme (HARP)

The company's most significant event-based risks

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

1. Failure of significant water supply systems

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

Control/mitigation: Capital projects for asset replacement (including HARP), as well as extensive programmes of asset monitoring, surveys and maintenance.

2. Failure of wastewater network (sewer flooding)

Risk exposure: Equipment failure, collapses/bursts or inadequate hydraulic/operational capacity to cope with extreme weather and population growth, resulting in sewer flooding.

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

3. Cybercrime

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

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

4. Reduced revenue at the next price review

Risk exposure: One of many potential issues relates to the Totex allowances through AMP8 revenues for labour costs, due to the Office of National Statistics ASHE Index taking account of lower wages associated with COVID-19.

Control/mitigation: Reviewing the rule book once published and liaising with Ofwat accordingly.

5. Failure to treat wastewater

Risk exposure: Inadequate capacity and capability of wastewater treatment works, leading to environmental permit breaches.

Control/mitigation: Improved Effective Operations & Maintenance (EO&M) programme and operating procedures including proactive maintenance, operative training and compliance audits.

6. Financial outperformance

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

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

7. Credit ratings

Risk exposure: Credit ratings below internal targets, due to deterioration in financial and/or operational performance and/or external factors (such as inflation) resulting in more expensive funding.

Control/mitigation: Continuous monitoring of markets, and the management of key financial risks within defined policy parameters.

8. Failure of wastewater assets (serious pollution)

Risk exposure: The unintended introduction of pollutants (including sewage) into the environment, due the capacity and capability of wastewater assets.

Control/mitigation: Proactive identification of asset defects through condition surveys, staff training, incident analysis, drainage area studies and improvement plans.

9. Upstream competition (bioresources)

Risk exposure: Competition in the bioresources market leading to a loss of business and reduced operational efficiency.

Control/mitigation: Delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business.

10. Failure of the distribution system (leakage)

Risk exposure: Network characteristics, asset condition, extreme weather or third party damage resulting in the loss of treated water and failure of the leakage target.

Control/mitigation: Management of pressure and flow combined with traditional and innovative leakage detection techniques.

A) Pension deficit

Risk exposure: The potential for the pension scheme funding deficit to increase because of life expectancy rates leading to additional contributions.

Control/mitigation: Constant monitoring combined with hedging against interest rates, inflation and growth asset risk.

B) Fair payment of tax

Risk exposure: Failure to maximise the available tax efficiencies and reliefs due to changing mechanisms.

Control/mitigation: Tax policies and objectives cover: efficient structuring of commercial activities; maintaining a robust governance and risk management framework; and an open and transparent relationship with tax authorities.

C) Dam failure

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

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

D) Disease pandemic

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

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

E) Terrorism

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

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

F) Process safety

Risk exposure: The unintentional generation and/or release of dangerous substances and explosive atmospheres in sludge digestion or other processes, resulting in a catastrophic incident.

Control/mitigation: The design and engineering of facilities, training and maintenance of equipment. Effective control points exist with alarms monitored remotely and statutory inspections.

New and emerging risks

We continue to review and monitor external and internal business environments in order to establish and understand risks and issues that are new, developing, growing or becoming more prominent. We do this through a combination of business unit risk assessments, a specific new and emerging risk forum and other horizon scanning forums such as a compliance working group. 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.

- **Post-Brexit supply chain:** Despite the successful negotiation of the trade deal with the EU there remains some uncertainty in relation to the supply of goods and services. We manage the supply chain through category management with chemicals and critical spares being two categories which are fundamental to the delivery of our service provision. We will continue to monitor how the supply chain emerges and will adapt accordingly through category management and supplier relationship management.
- **Post-Brexit legislative change:** Post-Brexit uncertainty remains in relation to how European legislation will transition into UK law, for example, data protections laws governing the flow of data and information between the EU and UK. Changes in UK law, such as the Environment Bill, Sewage (Inland Waters) Bill and changes to Public Procurement will all have implications for the water sector.
- **Regulatory change:** The political landscape remains challenging for the water sector. There remains uncertainty regarding the introduction of further competition and therefore the associated implications for revenue and the asset base. Looking ahead to Price Review 2024 (PR24), the methodology remains uncertain, particularly in light of the outcome of other water companies' PR19 CMA appeals.

- **Plastics:** Implications associated with the current attention on single use plastics and microplastic pollution in water, wastewater effluent discharge and sludge disposal (see biosolids recycling to agriculture).
- **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 and 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.
- **COVID-19:** To a large degree, COVID-19 has become business as usual, however, the longer-term implications of the economic downturn with potential corporate failures and high unemployment could affect cash collection. Continued lower inflation will affect revenues, financing costs and RCV, however, rising inflation will have an upside over the longer term.

Material litigation

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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Classification – Full Year Results

Consolidated income statement

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Revenue	**1,808.0**	**1,859.3**
Employee benefit expense (note 4)	**(161.8)**	**(161.4)**
Other operating costs (note 5)	**(431.9)**	**(403.4)**
Allowance for expected credit losses - trade and other receivables	**(28.7)**	**(41.8)**
Other income	**3.6**	**3.4**
Depreciation and amortisation expense	**(422.3)**	**(482.8)**
Infrastructure renewals expenditure	**(164.8)**	**(143.0)**
Total operating expenses	**(1,205.9)**	**(1,229.0)**
Operating profit	**602.1**	**630.3**
Investment income (note 6)	**25.0**	**24.0**
Finance expense (note 7)	**(107.2)**	**(308.0)**
Allowance for expected credit losses – loans to joint ventures	**3.7**	**(5.0)**
Investment income and finance expense	**(78.5)**	**(289.0)**
Share of losses of joint ventures (note 11)	**(9.3)**	**(38.1)**
Profit on disposal of joint venture (note 11)	**36.7**	**-**
Profit before tax	**551.0**	**303.2**
Current tax charge	**(79.2)**	**(38.9)**
Deferred tax charge	**(18.4)**	**(157.5)**
Tax (note 8)	**(97.6)**	**(196.4)**
Profit after tax	**453.4**	**106.8**

All of the results shown above relate to continuing operations.

Earnings per share (note 9)		
Basic	**66.5p**	**15.7p**
Diluted	**66.3p**	**15.6p**
Dividend per ordinary share (note 10)	**43.24p**	**42.60p**

Consolidated statement of comprehensive income

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Profit after tax	**453.4**	**106.8**
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedge effectiveness	**9.3**	**(2.0)**
Tax on items taken directly to equity (note 8)	**(1.8)**	**0.4**
Foreign exchange adjustments (note 11)	**(1.6)**	**1.3**
Foreign exchange adjustments reclassified to profit on disposal of joint ventures (note 11)	**4.0**	**-**
Other comprehensive income that may be reclassified to profit or loss	**9.9**	**(0.3)**
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement (losses)/gains on defined benefit pension schemes (note 12)	**(82.7)**	**154.6**
Change in credit assumptions for debt reported at fair value through profit or loss	**(43.3)**	**34.2**
Cost of hedging – cross currency basis spread adjustment	**(12.7)**	**1.3**
Deferred tax adjustments in respect of prior years on net fair value gains	**-**	**(2.4)**
Tax on items taken directly to equity (note 8)	**36.6**	**(157.1)**
Other comprehensive income that will not be reclassified to profit or loss	**(102.1)**	**30.6**
Total comprehensive income	**361.2**	**137.1**

Consolidated statement of financial position

	31 March 2021 £m	31 March 2020 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**11,799.0**	**11,510.9**
Intangible assets	**181.1**	**189.0**
Interests in joint ventures and other investments (note 11)	**0.1**	**46.9**
Trade and other receivables	**86.7**	**97.0**
Retirement benefit surplus (note 12)	**689.0**	**754.1**
Derivative financial instruments	**410.3**	**617.8**
	13,166.2	**13,215.7**
Current assets		
Inventories	**18.3**	**16.6**
Trade and other receivables	**229.2**	**245.9**
Current tax asset	**6.9**	**37.7**
Cash and short-term deposits	**744.1**	**528.1**
Derivative financial instruments	**14.4**	**0.1**
	1,012.9	**828.4**
Total assets	**14,179.1**	**14,044.1**
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(798.3)**	**(761.2)**
Borrowings (note 13)	**(7,797.0)**	**(7,518.1)**
Deferred tax liabilities	**(1,449.5)**	**(1,462.6)**
Derivative financial instruments	**(107.8)**	**(135.4)**
	(10,152.6)	**(9,877.3)**
Current liabilities		
Trade and other payables	**(322.7)**	**(334.4)**
Borrowings (note 13)	**(654.8)**	**(845.0)**
Provisions	**(11.1)**	**(16.4)**
Derivative financial instruments	**(6.9)**	**(8.9)**
	(995.5)	**(1,204.7)**
Total liabilities	**(11,148.1)**	**(11,082.0)**
Total net assets	**3,031.0**	**2,962.1**
EQUITY		
Share capital	**499.8**	**499.8**
Share premium account	**2.9**	**2.9**
Other reserves (note 17)	**336.3**	**336.7**
Retained earnings	**2,192.0**	**2,122.7**
Shareholders' equity	**3,031.0**	**2,962.1**

Consolidated statement of changes in equity

Year ended 31 March 2021

	Share capital £m	Share premium account £m	[(1)]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020	499.8	2.9	336.7	2,122.7	2,962.1
Profit after tax	-	-	-	453.4	453.4
Other comprehensive income					
Remeasurement losses on defined benefit pension schemes (note 12)	-	-	-	(82.7)	(82.7)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(43.3)	(43.3)
Cash flow hedge effectiveness	-	-	9.3	-	9.3
Cost of hedging – cross currency basis spread adjustment	-	-	(12.7)	-	(12.7)
Tax on items taken directly to equity (note 8)	-	-	0.6	34.2	34.8
Foreign exchange adjustments	-	-	(1.6)	-	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint venture	-	-	4.0	-	4.0
Total comprehensive income	-	-	(0.4)	361.6	361.2
Dividends (note 10)	-	-	-	(291.9)	(291.9)
Equity-settled share-based payments	-	-	-	3.6	3.6
Exercise of share options - purchase of shares	-	-	-	(4.0)	(4.0)
At 31 March 2021	**499.8**	**2.9**	**336.3**	**2,192.0**	**3,031.0**

Year ended 31 March 2020

	Share capital £m	Share premium account £m	[(1)]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2019	499.8	2.9	338.3	2,269.8	3,110.8
Profit after tax	-	-	-	106.8	106.8
Other comprehensive income					
Remeasurement gains on defined benefit pension schemes (note 12)	-	-	-	154.6	154.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	34.2	34.2
Cash flow hedge effectiveness	-	-	(2.0)	-	(2.0)
Cost of hedging – cross currency basis spread adjustment	-	-	1.3	-	1.3
Deferred tax adjustments in respect of prior years on net fair value gains	-	-	(2.4)	-	(2.4)
Tax on items taken directly to equity (note 8)	-	-	0.2	(156.9)	(156.7)
Foreign exchange adjustments	-	-	1.3	-	1.3
Total comprehensive income	-	-	(1.6)	138.7	137.1
Dividends (note 10)	-	-	-	(284.5)	(284.5)
Equity-settled share-based payments	-	-	-	1.5	1.5
Exercise of share options - purchase of shares	-	-	-	(2.8)	(2.8)
At 31 March 2020	**499.8**	**2.9**	**336.7**	**2,122.7**	**2,962.1**

[(1)]Other reserves comprise the group's cumulative exchange reserve, capital redemption reserve, merger reserve, cost of hedging reserve, and cash flow hedging reserve. Further detail of movements in these reserves is included in note 17.

Consolidated statement of cash flows

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m
Operating activities		
Cash generated from operations (note 15)	**1,037.2**	**1,005.5**
Interest paid	**(136.7)**	**(149.4)**
Interest received and similar income	**7.4**	**9.9**
Tax paid	**(75.4)**	**(71.5)**
Tax received	**26.9**	**15.8**
Net cash generated from operating activities	**859.4**	**810.3**
Investing activities		
Purchase of property, plant and equipment	**(610.4)**	**(652.8)**
Purchase of intangible assets	**(33.6)**	**(27.2)**
Grants and contributions received	**5.0**	**34.7**
(Extension)/repayment of loans to joint ventures (note 19)	**(2.0)**	**34.5**
Dividends received from joint ventures (note 11)	**6.4**	**4.9**
Proceeds from disposal of investments (note 11)	**85.3**	**12.0**
Net cash used in investing activities	**(549.3)**	**(593.9)**
Financing activities		
Proceeds from borrowings net of issuance costs	**909.7**	**805.4**
Repayment of borrowings	**(703.5)**	**(545.9)**
Dividends paid to equity holders of the company (note 10)	**(291.9)**	**(284.5)**
Exercise of share options – purchase of shares	**(4.0)**	**(2.8)**
Net cash used in financing activities	**(89.7)**	**(27.8)**
Net increase in cash and cash equivalents	**220.4**	**188.6**
Cash and cash equivalents at beginning of the year	**513.2**	**324.6**
Cash and cash equivalents at end of the year	**733.6**	**513.2**

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2021 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 2021, for which the auditors have given an unqualified opinion.

The comparative figures for the year ended 31 March 2020 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified 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 accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (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 as adopted by the United Kingdom and as applied in the EU, and are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2020.

Going concern

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

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

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

Following the onset of the COVID-19 pandemic at the beginning of the 2020 calendar year, and in light of the UK government's response, a number of associated critical accounting judgements and key sources of estimation uncertainty were disclosed in the group's annual report and financial statements for the year ended 31 March 2020. The most significant of these related to revenue recognition and the group's allowance for expected credit losses in respect of receivables, and accounting for the group's joint venture, Water Plus.

These judgements and estimates have been kept under review during the year to 31 March 2021 in order to ensure that they reflect the most up-to-date information available as the situation has developed. An update on these is as follows:

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

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

As the year has progressed, the group has seen a gradual increase in the volume of household meter reads, which include the increased consumption during the pandemic period, and as such this increase has been captured in actual bills and the level of estimation has reduced. By 31 March 2021, the system generated revenue accrual had largely aligned to independent automated meter read (AMR) data. AMR data is captured for around 25 per cent of all measured household customers, and this increase has been extrapolated across the remaining measured household customer base. The reasonableness of this approach has been validated through an assessment of bills raised in the period.

During the year a number of code changes were introduced by Ofwat and MOSL in relation to the non-household retail market. Most recently these have included the introduction of annual consumption adjustments allowing retailers to reduce or suspend volumetric charges for customers impacted by the lockdown of their activities. As many of these adjustments were initially applied by retailers to broad sector groups, this has inevitably included some end users who have continued to consume above their yearly volume estimate. This has resulted in a higher level of estimation being required in relation to non-household consumption than would normally be the case. These estimates have been based on the latest available consumption information, considering the vacancy status of all premises during the period and recognising the number and timing of meter reads received. This has resulted in the level of non-household wholesale revenue recognised during the year being around £14 million higher than the total in-period revenue estimated in the CMOS system as part of the normal settlement process.

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

A high level of uncertainty remains around how current economic conditions could impact the recoverability of household receivables, particularly in light of further lockdowns during the year. As government support schemes such as furlough unwind, this could result in increased unemployment and therefore further impact the ability of some customers to pay.

In recognition of this future uncertainty, the allowance for expected credit losses covering the group's household customer base has been determined based on the assumption that cash collection experienced over the last two years continues into the future. This assumption supports the reported household bad debt charge of 2.2 per cent of household revenue and is considered to be a reasonable estimate of future collection. Had we assumed that future collection was maintained at levels experienced during the last 12 months alone, the charge would have been increased by £2.6m to 2.4 per cent of household revenue. If we had assumed that future collection improved to an average of actual collection experienced over the last 3 years, then the bad debt charge would have reduced by £3.8m to 1.8% of household revenue.

Accounting estimate – allowance for expected credit losses in respect of loans extended to Water Plus: The economic impact of the COVID-19 pandemic has given rise to a significant increase in credit risk in respect of loans extended to the group's joint venture, Water Plus, which resulted in an allowance for expected credit losses of £5.0 million being recognised at 31 March 2020. This was based on a forward-looking estimate derived from Water Plus's latest board-approved business plan, as adjusted for the expected impact of COVID-19. This assessment has been updated during the year taking account of an updated board-approved business plan in which the expected impact of COVID-19 in the longer term has been incorporated, and the agreed refinancing of shareholder loans to Water Plus. This has resulted in a £3.7 million release of the allowance during the year, which is driven primarily by reduced exposure to expected credit losses during the assessment period following the replacement of £32.5 million of revolving credit facilities with additional equity shortly after the reporting period, which has resulted in the group recognising a £14.2 million share of Water Plus losses during the year.

Impact of new and revised standards

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

In January 2021, the Secretary of State for BEIS and the EU endorsed the IASB-published amendments to IFRS 9 *'Financial Instruments'*, and IFRS 7 *'Financial Instruments: Disclosures'* in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2021 with early adoption permitted ('Phase Two' IBOR reform).

The amendments address the financial reporting impact from reform of the London Interbank Offered Rate (LIBOR) and similar benchmark interest rates (IBOR reform). The Bank of England has asked UK market participants to complete the transition to alternative risk-free rates by the end of 2021, with the industry-led Working Group on Sterling Risk-Free Reference Rates having previously recommended the Sterling Overnight Index Average (SONIA) as the preferred risk-free rate in sterling markets.

The group has early-adopted the 'Phase Two' reforms for the year ended 31 March 2021, though this has had no impact on the financial statements for the year then ended. Where applicable, the group will take the relevant practical expedients from certain requirements of IFRS 9 and IFRS 7 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and hedge accounting.

At 31 March 2021, the group had a net balance of £591.3 million relating to financial instruments, along with £700.0 million of undrawn committed facilities, still referencing LIBOR. This figure is inclusive of £2,117.8 million nominal value of swaps designated within fair value hedging relationships.

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

The group has previously adopted 'Phase One' amendments to IFRS 9 and IFRS 7, which allowed temporary relief from applying specific hedge accounting requirements to hedging arrangements directly impacted by IBOR reform. This temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase Two reliefs begin.

As a result of the relief, the group expects that no material gain or loss will arise from the replacement of LIBOR with an alternative risk-free rate.

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 its 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

	2021 £m	2020 £m
Wholesale water charges	**751.0**	784.8
Wholesale wastewater charges	**941.5**	939.5
Household retail charges	**64.1**	83.8
Other	**51.4**	51.2
	1,808.0	1,859.3

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.

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 £1.9 million (2020: £11.8 million) of restructuring costs.

5. Other operating costs

	2021 £m	2020 £m
Hired and contracted services	**96.3**	**96.6**
Property rates	**89.4**	**75.9**
Power	**83.6**	**78.9**
Materials	**82.2**	**75.1**
Regulatory fees	**28.0**	**28.3**
Insurance	**13.1**	**13.5**
Loss on disposal of property, plant and equipment	**10.7**	**13.9**
Accrued innovation costs	**6.2**	**-**
Cost of properties disposed	**2.6**	**0.4**
Other expenses	**19.8**	**20.8**
	431.9	**403.4**

During the prior year, the group incurred operating costs of £19.2 million in relation to the onset of the COVID-19 pandemic, comprising £16.7 million in relation to allowances for expected credit losses in respect of household trade receivables, £1.4 million allowances for expected credit losses in respect of non-household trade receivables, and £1.1 million of other operating expenses. The additional allowances for expected credit losses reflected the group's estimate of the potential impact of the pandemic on the recoverability of receivables over and above its existing expected credit loss assessment, and was treated as an adjusting item in arriving at the group's underlying operating profit included in its alternative performance measures. This was possible given the proximity of the group's year end reporting date to the introduction of lockdown measures in the UK.

Incremental costs for the year ended 31 March 2021 arising as a result of the pandemic are estimated to be around £8 million of operating costs, though these have been partially offset by savings realised elsewhere, and around £5 million of additional costs associated with expected credit losses due to the increased risk associated with cash collection as government support schemes are withdrawn. With the passage of time, and with the conditions brought about by the pandemic becoming embedded into normal processes during the current year, the group considers that, for the purpose of presenting an underlying operating profit position, splitting out these costs does not provide meaningful or useful additional information.

Property rates expenses in the current year include the impact of £1.1 million (2020: £8.1 million) of refunds in relation to rates paid in previous years, and £nil (2020: £8.2 million) reduction in accrued rates costs. These reductions ensure that the cumulative costs associated with property rates paid by the group are appropriately recorded.

Research and development expenditure for the year ended 31 March 2021 was £1.0 million (2020: £1.0 million). In addition, £6.2 million (2020: nil) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. This did not apply in the prior year as the scheme had not been launched. These expenses directly offset £6.2 million recognised in revenue during the year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

6. Investment income

	2021 £m	2020 £m
Interest receivable	**7.5**	10.0
Net pension interest income (note 12)	**17.5**	14.0
	25.0	24.0

7. Finance expense

	2021	**2020**
	£m	**£m**
Interest payable	**181.7**	231.7
Net fair value (gains)/losses on debt and derivative instruments	**(74.5)**	76.3
	107.2	308.0

Interest payable is stated net of £30.4 million (2020: £40.6 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. Interest payable includes a £52.6 million (2020: £100.8 million) non-cash inflation expense in relation to the group's index-linked debt.

In addition to the £107.2 million finance expense, the allowance for expected credit losses in relation to loans extended to the group's joint venture, Water Plus, has decreased by £3.7 million during the current year. This is primarily due to the refinancing of facilities extended to Water Plus, which has resulted in a lower exposure to expected credit in the future (see note 19 for further details on these related party balances).

Net fair value gains on debt and derivative instruments includes £21.5 million income (2020: £16 million income) due to net interest on derivatives and debt under fair value option, and 1.3 million expense (2020: £0.5m income) due to non-cash inflation changes on the group's index-linked derivatives.

Underlying finance expense, which forms part of the group's alternative performance measures (APMs) is calculated by adjusting net finance expense and investment income of £78.5 million (2020: £289.0 million) reported in the Income Statement to exclude the £54.3 million of fair value gains (2020: £92.8 million fair value losses) on debt and derivative instruments included in the above table. In addition, underlying finance expense in the prior year excluded the impact of the £5.0 million allowance for expected credit losses on amounts owed by Water Plus, which was recognised in response to a significant increase in credit risk following the onset of the COVID-19 pandemic. The £3.7 million credit reducing the expected credit loss allowance in the current year has not been excluded from the calculation of underlying finance expense as it reflects reduced exposure to future credit losses arising as a result of the refinancing of facilities to Water Plus in the normal course of business.

8. Tax

During the year ended 31 March 2021 there was a current tax credit of £0.6 million (2020: £12.2 million) and a deferred tax credit of £1.8 million (2020: £5.6 million charge) 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 prior year, and the non-taxable profit on the disposal of the joint venture investment in AS Tallinna Vesi in the current year, the total effective tax rate for the current and prior period was broadly 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, 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. As in the prior year, the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

An increase in the headline rate of corporation tax to 25 per cent from 1 April 2023 was announced in the Chancellor's Budget on 3 March 2021. This change was substantively enacted in on 24 May 2021 and will result in a future deferred tax charge currently estimated at around £380 million.

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.

	2021 £m	2020 £m
Profit after tax attributable to equity holders of the company	**453.4**	106.8
Weighted average number of shares in issue in millions		
Basic	**681.9**	681.9
Diluted	**683.5**	683.6
Earnings per share in pence		
Basic	**66.5**	15.7
Diluted	**66.3**	15.6

10. Dividends

	2021 £m	2020 £m
Dividends relating to the year comprise:		
Interim dividend	**98.3**	96.8
Final dividend	**196.6**	193.7
	294.9	290.5
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**98.3**	96.8
Final dividend	**193.6**	187.7
	291.9	284.5

The proposed final dividends for the years ended 31 March 2021 and 31 March 2020 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 2021 and 31 March 2020 respectively.

The final dividend of 28.83 pence per ordinary share (2020: 28.40 pence per ordinary share) is expected to be paid on 2 August 2021 to shareholders on the register at the close of business on 25 June 2021. The ex-dividend date for the final dividend is 24 June 2021.

The interim dividend of 14.41 pence per ordinary share (2020: 14.20 pence per ordinary share) was paid on 3 February 2021 to shareholders on the register at the close of business on 18 December 2020.

11. Joint ventures and other investments

	2021 £m	2020 £m
Joint ventures at the start of the year	**46.8**	79.0
Share of losses of joint ventures	**(9.3)**	(38.1)
Less: losses allocated to other components of long-term interest	**14.2**	9.5
Dividends received from joint ventures	**(6.4)**	(4.9)
Currency translation differences	**(1.6)**	1.3
Disposal of joint venture	**(43.7)**	-
Joint ventures at the end of the year	**-**	46.8
Other investments	**0.1**	0.1
Interest in joint ventures and other investments	**0.1**	46.9

11. Joint ventures and other investments (continued)

Following the disposal of the group's overseas investment in AS Tallinna Vesi (Tallinn Water) as set out below, the group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement.

The group's total share of Water Plus losses for the year was £8.9 million (2020: £51.5 million share of losses), all of which has been recognised in the income statement together with £5.3 million of previously unrecognised share of losses (2020: £46.2 million recognised in the income statement, £5.3 million not recognised). The £14.2 million total share of losses recognised in the income statement during the year has been allocated against the fully drawn £32.5 million revolving credit facility extended to Water Plus by United Utilities PLC, which is presented within amounts owed by related parties included within trade and other receivables. This facility forms part of the group's long-term interest in the Water Plus joint venture given that at 31 March 2021 there was a clear expectation that it would be converted into additional equity share capital, with this transaction subsequently executed on 23 April 2021.

In the year ended 31 March 2020, the £46.2 million recognised share of losses comprised £36.7 million which was allocated to the group's equity investment, and £9.5 million which was allocated to the zero coupon shareholder loan notes extended to Water Plus as this forms 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 reduced each of them to £nil at 31 March 2020.

On 31 March 2021 the group completed the disposal of its stake in the Tallinn Water joint venture for consideration of EUR 100.3 million (£85.3 million). The value of this stake at the time it was sold, after recognising a £4.9 million share of profits, receipt of a £6.4 million dividend, and £1.6 million of foreign exchange losses, was £43.7 million. This resulted in a profit on disposal of £40.7 million after taking account of £0.9 million of disposal costs. On disposal, the £4.0 million balance of the accumulated foreign exchange losses making up the cumulative exchange reserve, all of which had accumulated in relation to the Tallinn Water joint venture, was reclassified to profit and loss resulting in a total recognised profit on disposal of £36.7 million.

Other investments of £0.1 million represents the residual value of investments following the disposal in the year ended 31 March 2020 of the group's overseas investment in the Muharraq sewerage treatment plant. Consideration of £10.9 million was equal to the fair value at which the asset was carried at the point at which it was sold, resulting in no gain or loss on disposal. Prior to this disposal, the group received £1.1 million in repayment of shareholder loans, resulting in a total cash inflow for the year ended 31 March 2020 of £12.0 million in relation to the disposal of its investment.

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

12. 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:

	2021 %pa	2020 %pa
Discount rate	**2.05**	2.30
Pension increases	**3.35**	2.80
Pensionable salary growth:		
ESPS	**3.35**	2.80
UUPS	**2.45**	1.60
Price inflation - RPI	**3.35**	2.80
Price inflation - CPI		
Pre 2030	**2.45**	1.60
Post 2030	**3.25**	1.60

12. Retirement benefit surplus (continued)

The discount rate is consistent with a high quality corporate bond rate, with 2.05 per cent being equivalent to gilts plus 75 basis points (2020: 2.30 per cent being equivalent to gilts plus 160 basis points). To align to emerging market practice and provide a more robust estimate, an exercise was carried out during the year to revisit the population of high quality corporate bonds used in deriving the discount rate. The primary change resulting from this exercise was to expand the corporate bond population used to include those rated at least AA by one or more credit rating agencies, whereas previously the rate was derived based on bonds rated AA by two or more agencies. Overall, the changes resulting from this exercise have not given rise to any material change in the discount rate or fair value of defined benefit obligations as at 31 March 2021 compared with using the same approach as that used in the prior year.

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistics Authority's proposals to change RPI to align with CPIH (Consumer Prices Index, including housing costs). Plans to reform RPI and bring it in line with CPIH from 2030 were confirmed on 25 November 2020. Broadly CPIH increases are expected to average around 1 per cent per annum below RPI in the long term (about the same as CPI), so this change could have a significant impact on many pension schemes. In arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2020: nil) has been deducted from the breakeven inflation rate for the year ended 31 March 2021. The deduction of this 0.2 per cent inflation risk premium has resulted in a reduction in the fair value of defined benefit obligations of around £120 million, and therefore an increase in the net retirement benefit surplus of around £120 million, compared with no inflation risk premium being deducted. There is no allowance for any change in the inflation risk premium post 2030 as a result of RPI reform.

The assumption for CPI inflation also includes a 0.2 per cent inflation risk premium (2020: 0.3 per cent) and is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation this wedge has been estimated at 0.9 per cent, reducing to 0.1 per cent post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of the confirmation of RPI reforms is a circa £13 million increase to the defined benefit obligation and therefore a decrease in the defined benefit surplus compared with the wedge remaining at 0.9 per cent after 2030. A reduction in RPI will result in a reduction to pension scheme liabilities. However, as the group's pension schemes are hedged for RPI inflation, this will also result in a comparable reduction to pension scheme assets.

At both 31 March 2021 and 31 March 2020, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively, and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively, reflecting actual mortality experience. At 31 March 2021, mortality in retirement is based on CMI 2020 (2020: CMI 2019) long-term improvement factors, with a long-term annual rate of improvement of 1.25 per cent (2020: 1.50 per cent). This reduction in the long-term annual rate of improvement has resulted in a reduction in the fair value of defined benefit obligations of around £33 million, and therefore an increase in the net retirement benefit surplus of around £33 million, compared with maintaining this rate at 1.50 per cent. It is too early at this stage to analytically determine the long-term impact of the COVID-19 pandemic on future mortality trends for the schemes' membership, and therefore no explicit adjustment to the mortality assumptions have been made in this regard.

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

	2021	**2020**
	£m	**£m**
Current service cost	**4.9**	6.1
Curtailments/settlements	**0.6**	4.6
Administrative expenses	**3.0**	1.6
Pension expense charged to operating profit	**8.5**	12.3
Net pension interest credited to investment income (note 6)	**(17.5)**	(14.0)
Net pension income credited before tax	**(9.0)**	(1.7)

12. Retirement benefit surplus (continued)

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

	2021 £m	2020 £m
At the start of the year	**754.1**	483.9
Income recognised in the income statement	**9.0**	1.7
Contributions	**8.6**	113.9
Remeasurement (losses)/gains gross of tax	**(82.7)**	154.6
At the end of the year	**689.0**	754.1

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

	2021 £m	2020 £m
Present value of defined benefit obligations	**(3,295.7)**	(3,057.6)
Fair value of schemes' assets	**3,984.7**	3,811.7
Net retirement benefit surplus	**689.0**	754.1

The £82.7 million remeasurement loss has largely resulted from a decrease in credit spreads during the year and an RPI inflation assumption increase of 0.55 per cent. The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement loss 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 2021.

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 payable, due from the company, down to £nil. Accordingly, no deficit repair contributions were required during the year ended 31 March 2021, consistent with the group's long-term target for self-sufficiency and expectation that the schemes will be fully funded on a low dependency basis.

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.

A second UK High Court Ruling in the Lloyds Guaranteed Minimum Pensions (GMP) equalisation case was published on 20 November 2020. The implication of the first court ruling on 26 October 2018 was that GMP will be equalised for males and females and resulted in GMP equalisation past service cost (and corresponding increase in liabilities) of £6.6 million (£5.5 million UUPS, £1.1 million ESPS) being recognised for the year ended 31 March 2019. The second ruling requires schemes to equalise GMP in respect of past transfers out (dating back to 17 May 1990) where those benefits were not equalised under the 2018 judgement. This is not expected to have a material impact on the group's financial statements.

Defined contribution schemes
During the year, the group made £23.4 million (2020: £22.5 million) of contributions to defined contribution schemes which are included in employee benefits expense.

13. Borrowings

New borrowings raised during the year ended 31 March 2021, all of which were issued under the Euro medium-term note programme, were as follows:

- On 3 June 2020, the group issued £300 million fixed rate notes due June 2042.
- On 15 June 2020, the group issued £75 million fixed rate notes as a fungible increase to £350 million fixed rate notes issued in prior years, due February 2031.
- On 25 June 2020, the group issued £50 million fixed rate notes as a fungible increase to £300 million fixed rate notes issued in the prior year, due July 2033.
- On 27 July 2020, the group issued £95 million CPI-linked notes, due July 2040; on 29 September 2020, the group traded £30 million CPI-linked notes as a fungible increase to these notes.
- On 24 August 2020, the group issued USD35 million fixed rate notes due August 2031.
- On 28 January 2021, the group issued £300 million fixed rate notes, due October 2029. These notes were issued under the Sustainable Debt Financing (SDF) framework.

Borrowings at 31 March 2021 include £60.0 million in relation to lease liabilities (2020: £57.6 million), of which £56.7 million (2020: £54.7 million) was classified as non-current and £3.3 million (2020: £2.9 million) was classified as current.

14. Fair values of financial instruments

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

	2021 Fair value £m	2021 Carrying value £m	2020 Fair value £m	2020 Carrying value £m
Financial assets at fair value through profit or loss				
Derivative financial assets - fair value hedge	275.6	275.6	395.7	395.7
Derivative financial assets - held for trading	142.6	142.6	222.0	222.0
Derivative financial assets - cash flow hedge	6.5	6.5	0.2	0.2
Investments	0.1	0.1	0.1	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities - fair value hedge	(12.6)	(12.6)	-	-
Derivative financial liabilities - held for trading	(102.1)	(102.1)	(141.9)	(141.9)
Derivative financial liabilities - cash flow hedge	-	-	(2.4)	(2.4)
Financial liabilities designated as fair value through profit or loss	(373.6)	(373.6)	(397.5)	(397.5)
Financial instruments for which fair value does not approximate carrying value				
Financial liabilities in fair value hedge relationships	(2,913.6)	(2,895.5)	(2,440.0)	(2,590.5)
Other financial liabilities at amortised cost	(6,568.1)	(5,182.7)	(5,996.0)	(5,375.1)
	(9,545.2)	(8,141.7)	(8,359.8)	(7,889.4)

14. Fair values of financial instruments (continued)

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair Value Measurement'* hierarchy of £2,766.0 million (2020: £1,981.5 million) for financial liabilities in fair value hedge relationships, and £2,321.6 million (2020: £199.9 million) for other financial liabilities at amortised cost.

The £2,906.2 million increase (2020: £816.4 million decrease) in 'level 1' fair value liability measurements is largely due to an increase in the number of observable quoted bond prices in active markets at 31 March 2021. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data, which are classified as 'level 2' valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2021.

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

15. Cash generated from operations

	2021 £m	**2020 £m**
Operating profit	**602.1**	630.3
Adjustments for:		
Depreciation of property, plant and equipment	**379.8**	441.6
Amortisation of intangible assets	**42.5**	41.2
Loss on disposal of property, plant and equipment	**10.7**	13.9
Amortisation of deferred grants and contributions	**(15.0)**	(13.8)
Equity-settled share-based payments charge	**3.6**	1.5
Changes in working capital:		
Increase in inventories	**(1.7)**	(1.7)
Decrease in trade and other receivables	**18.1**	4.6
Increase/(decrease) in trade and other payables	**2.5**	(10.1)
Decrease in provisions	**(5.3)**	(0.4)
Pension contributions paid less pension expense charged to operating profit	**(0.1)**	(101.6)
Cash generated from operations	**1,037.2**	1,005.5

16. Net debt

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

16. Net debt (continued)

	2021 £m	2020 £m
At the start of the year	**7,361.4**	7,067.3
Net capital expenditure	**639.0**	645.3
Dividends (note 10)	**291.9**	284.5
Interest	**129.3**	139.5
Inflation expense on index-linked debt (note 6)	**52.6**	100.8
Tax	**48.5**	55.7
Non-cash movements in lease liabilities	**3.6**	60.9
(Repayment)/extension of loans to joint ventures	**2.0**	(34.5)
Proceeds from disposal of joint ventures and other investments	**(85.3)**	(12.0)
Dividends from joint ventures	**(6.4)**	(4.9)
Other	**5.8**	5.5
Fair value movements	**(7.5)**	58.8
Cash generated from operations (note 15)	**(1,037.2)**	(1,005.5)
At the end of the year – original definition	**7,397.7**	7,361.4
Adjustments to exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	**(84.6)**	(120.6)
Inflation derivatives fixing future real interest rates*	**(13.8)**	(11.9)
Electricity derivatives fixing future electricity costs	**6.5**	(2.2)
At the end of the year – revised definition	**7,305.8**	7,226.7

Under both the original and revised definitions, movements in net debt during the period are impacted by net cash generated from financing activities as disclosed in the consolidated statement of cash flows.

	2021 £m	2020 £m
Borrowings	**8,451.8**	8,363.1
Derivative financial instruments (liabilities)	**114.7**	144.3
Derivative financial instruments (assets)	**(424.7)**	(617.9)
Cash and short-term deposits	**(744.1)**	(528.1)
Net debt – original definition	**7,397.7**	7,361.4
Adjustments to exclude the fair value impact of:		
Interest rate derivatives fixing future nominal interest rates	**(84.6)**	(120.6)
Inflation derivatives fixing future real interest rates*	**(13.8)**	(11.9)
Electricity derivatives fixing future electricity costs	**6.5**	(2.2)
Net debt – revised definition	**7,305.8**	7,226.7

*The adjustment for inflation derivatives includes their fair value less principal accretion.

Fair value movements includes net fair value losses on debt and derivative instruments of £10.1 million (2020: £43.5 million net fair value losses) less net receipts on derivatives and debt designated at fair value of £17.6 million (2020: £15.3 million).

Notional net debt totals £7,268.5 million as at 31 March 2021 (2020: £7,238.9 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.

17. Other reserves

Year ended 31 March 2021

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

Year ended 31 March 2020

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

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

The group recognises the cost of hedging reserve as a separate 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.

The group designates 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.

18. Commitments and contingent liabilities

At 31 March 2021 there were commitments for future capital expenditure contracted but not provided for of £336.7 million (2020: £435.2 million).

Since 2016, the group has received indications from a number of property search companies (PSCs) that they intend to claim compensation for amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. In April 2020 a group of over 100 PSCs, comprising companies within the groups that had previously issued notice of intended claims, served proceedings on all of the water and sewerage undertakers in England and Wales, including United Utilities Water Limited, for an unspecified amount of compensation. This is an industry-wide issue with the litigation currently in its early stages. While the litigation's likely direction and the quantum of any compensation being claimed is uncertain at this stage, based on the information currently available the likelihood of the claim's success is considered to be low, and any potential outflow is not expected to be material.

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

19. 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:

	2021 £m	**2020 £m**
Sales of services	**362.9**	438.3
Charitable contributions advanced to related parties	**-**	0.4
Purchases of goods and services	**-**	0.1
Interest income and fees recognised on loans to related parties	**3.7**	4.0
Amounts owed by related parties	**113.8**	147.9
Amounts owed to related parties	**2.4**	4.8

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 prior 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 2021 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £113.8 million (2020: £147.9 million), comprising £27.1 million (2020: £52.9 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £86.7 million (2020: £95.0 million) relating to loans.

19. Related party transactions (continued)

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

- £66.3 million outstanding on a £100.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2023, bearing a floating interest rate of the Bank of England base rate plus a credit margin. This balance comprises £67.5 million outstanding net of a £1.2 million allowance for expected credit losses. In the prior year this £100.0 million facility was provided by United Utilities Water Limited and was guaranteed by United Utilities PLC, and had a maturity date of September 2021. During the year the facility was transferred to United Utilities PLC and the guarantee therefore fell away;

- £18.3 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £32.5 million outstanding net of the group's £8.9 million share of Water Plus losses for the year ended 31 March 2021 and the group's £5.3 previously unrecognised share of joint venture losses relating to the year ended 31 March 2020. This facility forms part of the group's long-term interest in the Water Plus joint venture given that at 31 March 2021 there was a clear expectation that it would be replaced with additional equity share capital. This additional share capital was issued by Water Plus on 23 April 2021, with the group's subscription to £32.5 million of new equity shares and the simultaneous cancellation of the revolving credit facility taking place on this same date; and

- £0.7 million receivable being the £10.3 million fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to the year ended 31 March 2020 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 2021 of £12.5 million, comprising the £10.3 million receivable measured at fair value, and £2.2 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A further £1.4 million of non-current receivables (2020: £1.4 million) was owed by other related parties at 31 March 2021.

The £1.3 million of allowances for expected credit losses in relation to loans extended to Water Plus (£1.2 million and £0.1 million recognised against Water Plus's total revolving credit facilities and zero coupon loan notes respectively), is lower than the £5.0 million allowance for expected credit losses recognised at 31 March 2020. This £5.0 million allowance was recognised in the prior year as a result of the impacts of the COVID-19 pandemic that gave rise to a significant increase in credit risk. The £3.7 million release of this allowance during the year is primarily attributable to the group's exposure to expected credit losses in future periods reducing as a result of the £32.5 million revolving credit facility being cancelled and replaced with additional equity share capital in April 2021.

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 2021, amounts owed to related parties were £1.4 million (2020: £4.8 million). Included within this amount is £1.1 million (2020: £4.5 million) due to Water Plus for the surrender of consortium relief tax losses. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

20. Events after the reporting period

On 3 March 2021 an increase in the headline rate of corporation tax to 25 per cent from 1 April 2023 was announced in the Chancellor's Budget. This increase was substantively enacted on 24 May 2021 and will result in a future deferred tax charge currently estimated at around £380 million. As this substantive enactment occurred after the reporting date, no adjustments have been made to current or deferred tax amounts recognised in the financial statements at and for the year ended 31 March 2021.

20. Events after the reporting period (continued)

In April 2021, the group's board of directors approved a plan to market the group's renewable energy business, United Utilities Renewable Energy Limited, for sale. This process is expected to commence during June 2021 and will involve the sale of assets – primarily property, plant and equipment – with a carrying value of £65.5 million in the group's consolidated statement of financial position at 31 March 2021. The sale will support acceleration of the group's carbon initiatives, with the group continuing to benefit from the output of the renewable energy generation over the long term while being able to reinvest sales proceeds in other low carbon projects.

In addition to this, the group and its joint venture partner, Severn Trent PLC, each subscribed to £32.5 million of additional equity share capital issued by Water Plus, with a simultaneous cancellation of their respective revolving credit facilities extended to the joint venture, as explained in note 20. Accordingly, the group's equity investment in the Water Plus joint venture increased by £32.5 million, with the £14.2 million share of joint venture losses recognised against the £32.5 million revolving credit facility during the year being reallocated against the equity investment to bring its value down to £18.3 million. The replacement of debt financing with equity shortly after 31 March 2021 further supports the accounting judgement taken to treat the fully drawn £32.5 million revolving credit facility as part of the group's long-term interest in Water Plus.

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 2021. 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 international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU); 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
Phil Aspin
Mark Clare
Stephen Carter
Kath Cates
Alison Goligher
Brian May
Paulette Rowe
Doug Webb

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

………………………..	……………………….
Steve Mogford	Phil Aspin
26 May 2021	26 May 2021
Chief Executive Officer	Chief Financial Officer