United Utilities Group PLC
26 May 2022

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2022

Delivering for the North West – Supporting customers, colleagues, communities and environment

- No increase in average household bills for 2022/23, despite rapidly rising inflation
- Extensive affordability schemes providing £280m of support to over 200,000 households over AMP7
- Leading supporter of the Consumer Council for Water's drive to launch a national social tariff
- Improving river health over the next 3 years through our "Better Rivers: Better North West" plan
- Continuous apprentice recruitment, including 30 Green Apprentices to support our climate change plans
- On track to deliver our bold commitments to reduce carbon
- Leading utility in The Inclusive Top 50 UK Employers List 2021/22

£400m additional investment – Responsibly sharing outperformance for the benefit of all stakeholders

- Increased outperformance facilitates further responsible investment; contributing to 21.4%[1] RCV growth
- Investment beyond the AMP7 final determination increased by a further £400m, now totalling £765m[2]
- The investment will help to address new and emerging environmental standards and drive customer ODIs
- Financial strength and balance sheet headroom to fund additional investment
- Accelerated AMP7 base capital programme delivering operational improvements with 90% on contract

Digital transformation – Systems Thinking driving value through sustainable performance

- Largest annual customer ODI reward of £25m for 2021/22; ahead of guidance
- Increasing our AMP7 customer ODI guidance by over 30% to c£200m in total
- A sector leading company on outcome delivery as assessed in Ofwat's Service Delivery Report for 2020/21
- Innovative Dynamic Network Management delivering reductions in sewer flooding and pollution events
- Overall pollution incidents reduced by over a third since the beginning of AMP7

Financial resilience – Strong financial performance and robust balance sheet

- Reported and underlying[3] operating profit of £610m up 1.3%
- Household bad debt improving to 1.8%; strong customer debtor position
- Strong balance sheet; stable RCV gearing at 61%; A3 credit rating with Moody's
- Fully funded, inflation hedged pension scheme; Mar-21 valuation complete, further de-risking progressing
- Power commodity prices over 90% hedged for 2022/23 and 67% hedged for 2023/24 and 2024/25
- Optimising government tax initiatives from investment; underlying tax credit for 2021/22 of £65m;
- 7.9% reported return on regulated equity (RoRE) for 2021/22; underlying RoRE of 7.7%
- High inflation increases RCV although reduces earnings in the near term
- Balance sheet to remain strong and cash metrics not impacted by indexation of index-linked debt
- Total dividend of 43.50p, in line with AMP7 dividend policy

Key financials

	Year ended	
	31 March 2022	**31 March 2021**
Revenue	£1,862.7m	£1,808.0m
Reported and underlying operating profit	£610.0m	£602.1m
Reported earnings per share[3] (pence)	(8.3)p	66.5p
Underlying earnings per share[3,4] (pence)	53.8p	56.2p
Total dividend per ordinary share (pence)	43.50p	43.24p
Net regulatory capital spend	£644.5m	£616.5m
RCV gearing[5]	61%	62%

[1] RCV growth over AMP7 in nominal prices
[2] £365m of additional investment already announced
[3] Reported earnings per share includes a one-off deferred tax charge of £403m in relation to the increase in the headline rate to 25% from Apr-23
[4] Underlying measures are defined in the tables on pages 16 to 18
[5] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited's shadow (adjusted for actual spend and timing difference) RCV

Steve Mogford, Chief Executive Officer, said:

"We are very conscious of our responsibility to support customers at a time when households are seeing significant rises in the cost of living. Despite the high levels of inflation, we expect no increase in average household water bills in our region in the coming financial year and we are offering more financial support to customers in need than ever before. We are a leading supporter of the Consumer Council for Water's drive for a national social tariff and believe the right support should be provided to customers who struggle to pay their bill regardless of where they live in the country.

"We take our role in the North West very seriously, and firmly believe that responsibly sharing our successes is the right thing to do for all our stakeholders. Our improving performance together with an environment of higher inflation is yielding a greater level of outperformance, and so we will be investing an additional £400 million to improve the service we provide to customers and to accelerate the delivery of environmental outcomes. We recently published our river revival plan which progressively reduces the impact our operations have on river health. Our four-point strategy details how we will work with others to transform the rivers and waterways across our region.

"The maturing of our Systems Thinking approach – which uses innovative technology to deliver a better service for customers – continues to create value through sustainable performance improvements. This has contributed to another strong outcome delivery incentive (ODI) reward for the year and underpins our confidence in increasing our total AMP7 ODI target by a third, to £200 million. Financial performance has again been good, demonstrating resilience in a challenging environment and, together with the sustainable improvements in our performance, is delivering value for our stakeholders today as well as creating further value to be received in AMP8 and beyond."

Enquiries

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Presentation webcast and conference call details

We will be hosting a live virtual presentation at 9.00am on Thursday 26 May 2022, which can be accessed via the following link:
http://www.unitedutilitiestv.live/

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

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

OPERATIONAL PERFORMANCE

We are helping over 200,000 households currently struggling with their bills, and maintaining a high level of service for customers. We are earning higher outperformance thanks to strong operational performance against customer outcome delivery incentives as well as financial outperformance. As a responsible company we are sharing our success with customers, like we did in 2010-20, by investing an additional £765 million to help accelerate further enhancements for customers and the environment.

Our team has sustained a strong level of operational performance this year, delivering value for all our stakeholders. Customer satisfaction and employee engagement remain high, and we have achieved our best ever performance against customer outcome delivery incentives (ODIs). We are on track to deliver our AMP7 environmental improvement programme, which will improve river and bathing water quality in the North West, and have made good progress against our carbon pledges. We are upper quartile across a suite of environmental, social and governance (ESG) indices, and our robust balance sheet provides long-term financial resilience.

Helping customers struggling with bills

Many people across the country are facing real challenges as we emerge from a global pandemic and are faced with significant rises in the cost of living. We serve many of the most deprived areas in England and Wales, so it is more important than ever that we are doing what we can to help customers.

Our average household bill for 2022/23 is not increasing, and we are offering more support than ever before through our extensive range of affordability and vulnerability schemes, helping over 200,000 households this year and providing around £280 million of affordability support over AMP7.

There is still more we would like to be able to do, and we are a passionate supporter of the Consumer Council for Water's drive to introduce a national social tariff, which would help deliver a more equitable sharing of support for customers struggling to pay their bill regardless of where they live in the country.

Sustained high levels of operational and environmental performance

We were a sector leading company on outcome delivery in Ofwat's Service Delivery Report for 2020/21, with nine of 11 outcomes[1] being at or better than target, and were recognised as a top performer on supply interruptions and pollution incidents – two areas where we are now seeing the benefits of targeted investment we made in AMP6. On the two[1] outcomes where our performance was below target we have plans in place to improve this.

Our customer ODI performance has been strong across the board this year, meeting or beating over 80 per cent of our performance commitments. Based on our anticipated reward this year, we will have earned rewards in both the first two years of AMP7 against Ofwat's customer satisfaction measure, C-MeX, and we have achieved our lowest ever level of written complaints this year.

We were pleased to achieve a four star rating in the 2020 Environmental Performance Assessment from the Environment Agency (EA), meaning we were categorised as an industry leading company in the most recent annual assessment by the EA, taking into account performance across a broad range of environmental metrics. It reflected our best ever performance, and we were the first water company to achieve green status across all measures since 2015.

We continue to be at the sector frontier on pollution performance, having reduced overall pollution by a third since the start of the AMP. Our treatment works compliance remains strong and we expect to remain green on this measure in the EA's assessment for 2021.

Performance improvements earning outperformance

We earned a reported return on regulated equity (RoRE) of 7.9 per cent[2] for 2021/22, driven by our continued improvements in operational performance together with high levels of inflation, which increases financing outperformance, and tax outperformance.

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[1] Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID 19 and any enduring effects

[2] On a real, RPI/CPIH blended basis

Underlying RoRE is slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.

Cumulative RoRE for the first two years of AMP7 is 6.2 per cent on both a reported and underlying basis.

Our strong performance this year earned a £25 million reward[3] against customer ODIs, the highest annual reward we have achieved to date. We anticipate earning total customer ODI rewards over AMP7 of £200 million, a third higher than we estimated in last year's report.

We consistently issue debt at efficient rates, and we earned financing outperformance of 1.6 per cent of regulated equity this year. We also performed strongly on tax as a result of optimising government tax incentives.

The economic environment as we emerge from a global pandemic, as well as the war in Ukraine, has driven higher costs in our supply chain and we are starting to see significant cost increases in power and chemicals. We continue to seek efficiencies and exploit technology and innovation to help us deliver our total expenditure (totex) efficiently.

Sharing our success with customers

As a responsible company it is right that we should share our success with customers, and we feel the best way for us to create more value for customers and other stakeholders is through investing to accelerate improvements in performance. This is in line with the approach we have taken historically, sharing over £600 million over the 2010-20 period.

We have increased the investment we are making by a further £400 million meaning that, over the 2020–25 period, we are investing £765 million beyond the scope of our final determination allowance to help us accelerate environmental and customer outcomes.

Investing to improve service for customers

£250 million of the additional investment is helping us deliver further improvements to service for customers and better performance against our customer ODIs.

As mentioned above, our performance has been strong across the majority of our customer outcomes, but this investment is targeted at delivering sustainable improvements for customers in two specific areas where we want to do better – sewer flooding and water quality (specifically discolouration).

It includes investment in Dynamic Network Management (DNM), an advancement of Systems Thinking in our wastewater network that will help us reduce sewer flooding and pollution incidents using real-time performance data from a network of sensors to enable predictive and preventative optimisation.

Investing outperformance for environmental improvements

A further £250 million of the additional investment is being used to deliver environmental outcomes. This includes delivering elements of the new Environment Act requirements earlier, and improving the health of rivers across the North West.

In July 2021, we launched a collaborative partnership with The Rivers Trust, a first for any water company in the United Kingdom. To help kickstart a river revival in the North West we published 'Better Rivers: Better North West', our plan to improve the health of rivers across our region in the next three years. We are delivering improvements that support at least a one-third sustainable reduction in the number of spills recorded from our storm overflows between 2020 and 2025, with all storm overflows monitored by 2023 and real time data on their operation made publicly available. Our plans will lead to 184 kilometres of improved waterways across the region. We also continue to engage with the ongoing industry-wide investigations by Ofwat and the Environment Agency into possible unpermitted sewage discharges.

The remaining £265 million of the £765 million of additional investment is for projects where regulatory allowances and mechanisms have been secured, much of which will deliver further environmental benefits. For example, around £90 million will fund a project in Bolton that is part of our Water Industry National Environment Programme (WINEP), and £65 million will go towards supporting the country's green economic recovery in the wake of the pandemic.

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[3] Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID 19 and any enduring effects

Long-term investment needs for the environment
Protecting and enhancing the natural environment has always been a key priority for us and many of our stakeholders. In the last 12 months this has received increased public interest, particularly the health of rivers and the part the water industry can play in helping to improve this.

New and emerging requirements reflect the increased importance being given by the Government to the environmental agenda and we share the Government's ambitious improvement plans.

The Environment Act 2021 introduces several new challenges for the sector, including a requirement for water companies to secure a progressive but very substantial reduction in the average number of spills from storm overflows, and controlling nutrient pollution by reducing phosphate release from wastewater treatment works. The Industrial Emissions Directive broadens the scope of activities covered by compliance requirements, and the Environment Agency's recent interpretation of Farming Rules for Water restricts the application of biosolids to land in certain areas at certain times, requiring more storage capacity or alternative means of disposal.

We have delivered significant improvements in environmental performance in recent years, and through our original plans for AMP7 we will deliver further improvements, with good progress already having been made. The additional investment we are making will help accelerate improvements, but there is more that the industry will need to do.

Specific targets for the next regulatory period have not yet been agreed, but it is already clear that there is an ambition to deliver a fundamental change in the way drainage network systems were originally configured. The investment needed to deliver these changes will be significant for the industry as a whole, but particularly for the North West, where we have a much higher proportion of combined sewers. We are working with the Government and regulators to determine how these bold ambitions can be met and by when, recognising that the pace of change must consider customer affordability.

Resilience to climate change and population growth remains a material issue for many stakeholders, even more so since COP26, and this is something that will need to be addressed by water companies both regionally and nationally. Our Systems Thinking approach and investment are helping to deliver increased resilience across the North West, and longer-term we are involved in strategic planning for a national water transfer scheme.

We have committed to achieve net zero by 2030 with six pledges to reduce our carbon footprint, underpinned by ambitious science-based targets for reducing our greenhouse gas emissions, and we are making good progress against these. We are linking executive remuneration more tightly to our carbon commitments with four targets added to the Long Term Plan, and in this year's report we also include nature-related financial disclosures.

Haweswater Aqueduct Resilience Programme (HARP)
We have continued to develop HARP, an industry-first Direct Procurement for Customers (DPC) programme to design and build six replacement tunnel sections of the Haweswater Aqueduct, which transports water from Cumbria to Manchester.

We have undertaken extensive market engagement throughout the process – challenging for a project of this scale during the pandemic – and used innovative ways to manage stakeholder engagement including the use of digital channels and a virtual exhibition giving people access to information and the ability to ask questions remotely.

We developed the initial design following extensive ground investigation work to plot the best route, and planning applications have all been submitted with decisions expected later this year. During early 2022, we have been finalising tender documents, and we expect to start procurement in the summer of 2022.

Supported by a diverse and highly motivated workforce
We pride ourselves on being a quality employer, and are committed to maintaining a diverse and inclusive team of people, recruiting from every part of our community. We scored equal to the UK high performance norm with 87 per cent employee engagement this year, are rated 4.6 out of five by Glassdoor, and were the leading utility company in The Inclusive Top 50 UK Employers List 2021/22.

We believe in the importance of developing younger generations to keep the talent pool flowing. We have active graduate and apprentice schemes, including 30 green apprentices helping us work towards our climate and environmental ambitions. We support young people not in education, employment or training (NEETs), as well as being part of the government's Kickstart scheme providing opportunities to unemployed 16-24 year olds claiming universal credit.

Our commitment to health, safety and wellbeing has been recognised with our 10th consecutive Royal Society for the Prevention of Accidents (RoSPA) gold standard medal, meaning we have achieved the RoSPA President's award.

Thank you to our stakeholders

We are grateful to our employees for their continued hard work, and as we look forward at the many new challenges we and the rest of the sector will be meeting in the next AMP and beyond, we are delighted to have such a great team behind us. We would also like to extend our gratitude to our customers and other stakeholders for their continued support.

Our key performance indicators (KPIs)

Our purpose, to provide great water and more for the North West, means we aim to create long-term value for all our stakeholders and, as such, for AMP7 we are reporting against operational KPIs that are linked to each stakeholder group for whom we create value. Our performance against these operational KPIs is reported below.

- Communities
  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 of £2.56 million per annum between 2010 and 2020. This year, our direct community investment was £2.8 million (calculated using the B4SI method).

- Customers
  Our key performance indicator to measure customer satisfaction over AMP7 is Ofwat's customer measure of experience (C-MeX), in which we target being in positive reward territory. In 2021/22 we expect to earn a £2.3 million reward and we continue to be the highest performing listed company.

- Employees
  Our key performance indicator to measure value created for our employees over AMP7 is our engagement score, in which we target being upper quartile against the UK Utilities Norm benchmark. Our overall engagement is at 87 per cent, 5 per cent higher than the UK Utilities Norm and equal to UK High Performance levels, which we have now been equal to or above for the last three years.

- Environment
  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. The most recent assessment was for 2020, in which we achieved our best ever performance, green across all measures – the first water company to achieve this level of performance since 2015 – and were awarded the maximum 4 star industry leading company status. The Environment Agency will publish its annual performance assessment for 2021 in July 2022.

- Investors
  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. Reported RoRE for 2021/22 was 7.9 per cent on a real, RPI/CPIH blended basis, double the base return. Underlying RoRE was slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.

- Suppliers
  Our key performance indicator to measure value created for our suppliers over AMP7 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this timeframe. In 2021/22, we have continued to exceed our target performance, with over 99 per cent of our invoices paid within 60 days, and our average time to pay is 13 days.

FINANCIAL PERFORMANCE

Revenue for the year to 31 March 2022 increased by 3 per cent, mainly driven by higher non-household consumption as business activity has returned to pre-pandemic levels. Household bad debt has returned to 1.8 per cent of regulated revenue, lower than the 2.2 per cent last year and consistent with the level we were achieving prior to the pandemic, helped by our wide ranging affordability schemes and effective approach to managing cash collection. Operating profit was up £8 million as the increase in revenue was largely offset by inflationary increases in power and other core costs.

While inflation has increased our operating costs and net finance expense this year, it has also led to a higher level of financing outperformance and, together with the £765 million additional investment we have announced beyond the scope of our final determination, will deliver higher regulatory capital value (RCV) growth over the 2020-25 period.

We have doubled our base return on regulated equity (RoRE) for 2021/22, delivering strong performance on financing, tax and customer ODIs.

We benefit from having one of the strongest balance sheets in the sector, with an industry-leading, fully funded pension scheme on a low dependency basis, a low level of customer debtor risk, and RCV gearing supporting a stable A3 credit rating with Moody's.

Revenue

	£m
Year to 31 March 2021	1,808.0
Regulatory revenue changes -1.5 per cent real reduction in allowed wholesale revenues and 0.6 per cent uplift in line with CPIH inflation	(13.5)
Non-household consumption increase	105.9
Household consumption decrease	(57.7)
Property sales	8.0
Other	12.0
Year to 31 March 2022	**1,862.7**

Revenue was up £55 million, at £1,863 million, largely reflecting higher consumption as business activity returns to pre-pandemic levels.

In 2021/22 we have had a £14 million reduction in the revenue cap, incorporating a 1.5 per cent real reduction in allowed wholesale revenues partly offset by a 0.6 per cent CPIH-linked increase.

With many more businesses able to operate compared with last year, when the impact of the initial lockdown was significant, non-household revenue has increased by £106 million. In contrast, consumption from households, although higher than pre-pandemic norms, has decreased £58 million this year. This is due to significantly higher consumption particularly during the first half of last year reflecting the initial impact of people being locked down at home through the warm weather of late spring 2020.

Operating profit

	£m
Underlying and Reported – year to 31 March 2021	602.1
Revenue increase	54.7
COVID-related costs in prior year	8.0*
Costs driving ODI performance	(17.0)
Power cost increase	(16.0)
Other costs, largely due to inflation	(16.0)
SaaS costs treated as operating expenses	(5.8)
Underlying and Reported – year to 31 March 2022	**610.0**

* £8m COVID-related costs was an estimate in the year ended 31 March 2021 because, with the passage of time and as conditions brought about by the pandemic have become embedded into normal business processes, the usefulness of tracking COVID-related costs specifically has diminished.

Underlying and reported operating profit at £610 million was £8 million higher than last year. The £55 million increase in revenue was mostly offset by higher power costs and inflationary pressures increasing our underlying cost base, predominantly in respect of materials and labour.

We have a reduction of around £8 million in operating costs as last year saw additional one-off costs incurred in adapting to operate through the pandemic.

The £17 million of additional costs driving ODI performance are targeted at improving performance against specific customer ODIs, such as spend associated with Dynamic Network Management.

Power costs have increased by £16 million this year, largely in relation to higher prices. Power is a significant cost for our business, which is why we manage this risk through a progressive policy of hedging the commodity price element of power costs to minimise short term volatility (commodity price makes up around half of our annual power costs, with the other half relating to the use-of-system charge and other levies). Through this hedging policy and self-generation, we locked in the cost on the majority of our consumption for 2021/22 before the most recent energy price rises, securing an average rate of £65 per megawatt hour (MWh) for the year, which is significantly lower than the current market rate of over £200 per MWh for next year and has been fundamental to our ability to minimise the impact on our cost base. We are also locked-in on over 90 per cent of expected consumption for 2022/23, and around two-thirds of expected consumption across the final two years of AMP7, at rates that compare favourably to the current market rate.

Cost increases of £16 million largely stem from higher inflation in the period. We are not immune to the impact of the current high inflation environment, but through hedging, constructive cost challenge and commercial negotiations, we have managed to mitigate much of the cost increase to date.

During the year, the IFRS Interpretations Committee (IFRIC) published clarifications on how arrangements in respect of a specific part of cloud technology – Software as a Service – should be accounted for, resulting in £6 million of costs that would previously have been accounted for as fixed asset additions now being treated as operating costs.

Household bad debt is back at our lowest ever level of 1.8 per cent of regulated revenue, having reduced from 2.2 per cent in the year to 31 March 2021 as we return to pre-pandemic levels.

Profit before tax

	£m
Underlying – year to 31 March 2021	460.0
Underlying operating profit increase	7.9
Underlying net finance expense increase	(173.5)
Share of JVs losses decrease	7.5
Underlying – year to 31 March 2022	**301.9**
Adjusted items *	138.0
Reported – year to 31 March 2022	**439.9**

* Adjusted items are set out on pages 16 to 18.

Underlying profit before tax was £302 million, £158 million lower than last year. This reflects the £8 million increase in underlying operating profit and a decrease in the share of losses of joint ventures of £8 million, more than offset by a £174 million increase in underlying net finance expense. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 16 to 18.

Reported profit before tax decreased by £111 million to £440 million reflecting the £8 million increase in reported operating profit and an £8 million decrease in the share of losses of joint ventures, more than offset by a £90 million increase in reported net finance expense (including fair value movements), and the inclusion last year of a £37 million profit on disposal of our share in the joint venture AS Tallinna Vesi.

- Net finance expense
  The underlying net finance expense of £306 million was £174 million higher than last year, mainly due to the non-cash impact of significantly higher inflation on our index-linked debt.

The indexation of principal on index-linked debt, excluding the impact of inflation swaps, amounted to a net charge in the income statement of £228 million, compared with a net charge of £53 million last year, resulting in an increase of £175 million. Interest on non index-linked debt of £110 million is consistent with last year, while various smaller year-on-year increases and decreases broadly offset against one another when considered together.

The £306 million underlying net finance expense included in the income statement for the year compares with £118 million net cash interest paid included in the statement of cash flows. This £188 million difference is due to non-cash inflation uplifts on index linked debt and derivatives of £256 million, less capitalised borrowing costs of £53 million and net pension interest income of £14 million, both of which are non-cash items.

Reported net finance expense of £168 million was £90 million higher than last year, reflecting the £174 million increase in underlying net finance expense, partially offset by an £84 million increase in net fair value gains on our debt and derivative portfolio, excluding interest on derivatives and debt under fair value option, from £54 million last year to £138 million this year.

- Joint ventures
  For the year to 31 March 2022, we recognised a £2 million loss in the income statement relating to our joint venture Water Plus, compared with a £9 million net share of losses from joint ventures last year, which included a share of profits from the AS Tallinna Vesi joint venture prior to its disposal. A profit £37 million was recognised on the disposal of our share in AS Tallinna Vesi, which was completed on 31 March 2021. In the year to 31 March 2021, we also recognised a £37 million profit on disposal of our share in AS Tallinna Vesi, which was completed on 31 March 2021.

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

Profit/(loss) after tax and earnings per share

	PAT £m	**Earnings per share Pence/share**
Underlying – year to 31 March 2021	383.0	*56.2p*
Underlying profit before tax decrease	(158.1)	
Tax credit relating to research and development tax allowances	72.5	
Underlying tax decrease, including the impact of capital allowance 'super deductions'	69.6	
Underlying – year to 31 March 2022	**367.0**	***53.8p***
Adjusted items *	(423.8)	
Reported – year to 31 March 2022	**(56.8)**	***(8.3)p***

* Adjusted items are set out on pages 16 to 18.

Underlying profit after tax of £367 million was £16 million lower than last year, and underlying earnings per share decreased from 56.2 pence to 53.8 pence, as the £158 million reduction in underlying profit before tax is partly offset by £142 million lower underlying tax (moving from a charge of £77 million last year to a net credit of £65 million this year). The reduction in underlying tax reflects a £73 million tax credit relating to optimising the available research and development UK tax allowances on innovation-related expenditure we had incurred in prior years, and the impact of the capital allowance 'super deductions' announced in the March 2021 Chancellors Budget, which lowers the current tax charge significantly in the current period.

The group has a reported loss after tax of £57 million this year, compared with a £453 million reported profit after tax last year. This £510 million difference reflects the £111 million decrease in reported profit before tax, and a £544 million increase in deferred tax largely due to a one-off charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate, partially offset by a £145 million positive movement in current tax primarily as a result of adjustments in respect of optimising available tax incentives on our innovation-related expenditure in prior years. Reported basic earnings per share decreased from 66.5 pence to (8.3) pence.

- <u>Tax</u>

  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 third 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 over 5,000 strong workforce. The total payments for 2021/22 were around £230 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 2021/22, we paid corporation tax of around £9 million, which represents an effective cash tax rate on underlying profits of 3 per cent, which is 16 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment including the new temporary capital allowance 'super deductions', where the current year tax benefit was around £40m representing a 13 per cent reduction to the effective cash tax rate. We expect a similar tax benefit from the temporary super deduction regime for 2023 as well.

  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.

  For 2021/22, the group recognised an overall current tax credit of £66 million in 2021/22. This includes a current tax charge relating to 2021/22 of £7 million this year, compared with £80 million in the previous year, key reconciling items being the lower taxable profits and the availability of capital allowance 'super deductions' for 2021/22. In addition, in the current year, there were prior period tax credits of £73 million, compared with £1 million in 2020/21. The current year credit mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure for multiple prior years.

  For 2021/22, the group recognised a deferred tax charge of £562 million, compared with £18 million for 2020/21. For 2021/22, £403 million relates to the government's planned increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to continue to be broadly in line with the headline rate of corporation tax for the medium term.

  In 2021/22, there are £136 million of tax adjustments recorded within other comprehensive income, 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.

Dividend per share

The Board has proposed a final dividend of 29.0 pence per ordinary share in respect of the year ended 31 March 2022. Taken together with the interim dividend of 14.5 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2021/22 of 43.5 pence. This is an increase of 0.6 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 0.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2021/22 financial year (i.e. the movement in CPIH between November 2019 and November 2020).

The final dividend is expected to be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022. The ex-dividend date is 23 June 2022. The election date for the Dividend Reinvestment Plan is 11 July 2022.

Cash flow

Net cash generated from continuing operating activities for year to 31 March 2022 was £934 million, £75 million higher than £859 million last year. The group's net capital expenditure was £627 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure, which is treated as an operating cost.

Pensions

As at 31 March 2022, the group had an IAS 19 net pension surplus of £1,017 million, compared with a surplus of £689 million at 31 March 2021. This £328 million increase principally reflects an increase in credit spreads during the year, partially offset by a higher inflation assumption. The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. The IAS 19 position remains volatile to changes in credit spread and changes in mortality, neither of which have been hedged at this current time. This is primarily due to difficulties hedging against credit spread volatility over long durations, and, for mortality, there is lower volatility in the short term and relatively high hedging costs. The scheme specific funding basis does not suffer volatility due to credit spread movements to the same extent as it uses a prudent, fixed credit spread assumption.

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 2021	7,305.8
Cash generated from operations	(1,061.6)
Net capital expenditure	626.7
Dividends	295.5
Indexation	227.9
Interest	118.3
Fair value movements	28.7
Extension of loans to joint ventures	13.0
Tax	8.9
Other	6.8
At 31 March 2022	**7,570.0**

Net debt at 31 March 2022 was £7,570 million, compared with £7,306 million at 31 March 2021. This comprises gross borrowings with a carrying value of £7,980 million net of cash and short-term deposits of £241 million and net derivative assets hedging specific debt instruments of £169 million.

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

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend and timing difference) regulatory capital value of £12.4 billion, was 61 per cent at 31 March 2022. This is slightly lower than gearing of 62 per cent as at 31 March 2021, and remains comfortably within our target range of 55 to 65 per cent.

- Cost of debt

  As at 31 March 2022, the group had approximately £3.2 billion of RPI-linked instruments and £0.4 billion of CPI or CPIH-linked instruments held as debt. In recent years, in response to Ofwat's decision to transition away from RPI inflation linkage, the group has entered into a number of transactions swapping RPI-linked cash flows to CPI-linked cash flows or swapping floating rate cash flows to CPI-linked cash flows. As a result, including these swaps, the group has RPI-linked debt exposure of £3.1 billion at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

  A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 5.1 per cent being higher than the rate of 2.5 per cent last year. The average underlying interest rate represents the underlying net finance expense adjusted for capitalised borrowing costs and net pension interest income, divided by average notional debt. More information on this can be found on page 18.

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

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

- Debt financing
  The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme. The MTN programme is updated at least annually and this year's update was completed in November 2021, at which time the previous €7 billion euro programme limit was increased and redenominated to £10 billion. The MTN 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 £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.4 billion, taking advantage of attractive rates available and extending our liquidity position (as at 31 March 2022) out to February 2025.

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

  In August 2021, we raised around £74 million of term funding via the issue off our MTN programme of a JPY11 billion privately placed note swapped to GBP with a 9-year maturity, and in September 2021 we priced a £100 million fixed note with a 7-year maturity, the proceeds of which were received in early October.

  In April 2022, we raised £100 million of term funding with an 8-year maturity via a bilateral loan with Export Development Canada (EDC). AAA-rated EDC is the Canadian Government's Export Development Agency that looks to promote trade with Canadian firms worldwide. This follows collaboration with EDC in relation to some of the innovation activities that we have undertaken, and we expect such collaboration to continue.

  Since March 2021, we have extended £100 million of revolving credit facilities for a further year, renewed £100 million of revolving credit facilities for a further 5-year term and entered into £50 million of new revolving credit facilities for a 5-year term. The group has also amended the documentation for all of its existing revolving credit facilities to remove references to LIBOR and replace with SONIA.

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

  Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2022, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around nine per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

- Liquidity

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

  At 31 March 2022, we had liquidity out to February 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme. In October 2021, UUW prepaid a £100 million floating rate loan a year ahead of its scheduled maturity, this being efficient use of our available liquidity.

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

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

Return on Regulated Equity (RoRE)

Reported RoRE for 2021/22 was 7.9 per cent on a real, RPI/CPIH blended basis.

This comprises 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), tax outperformance of 2.7 per cent, financing outperformance of 1.6 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the total expenditure (totex) impact on RoRE of -0.8 per cent as a result of our additional investment.

Underlying RoRE was slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.

- Totex performance

  The totex impact on RoRE of -0.8 per cent, on both a reported and underlying basis, largely reflects the year two impact of the additional investment we are making outside the scope of our Final Determination (FD), for example our investment in Dynamic Network Management.

  Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector, and our performance improvements over AMP6 meant we started AMP7 at a totex run rate that supported delivery of the stretching efficiency challenge in our FD allowance. We are not immune to the impact of inflation, both directly and indirectly through our supply chain, with many of our costs rising above the headline rate. Our totex allowance does increase with inflation, which helps to mitigate some of this cost pressure, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

  In this second year of AMP7, we have invested £645 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure), representing the continued acceleration of our AMP7 investment programme and early expenditure against the extension to our original totex plans as set out above. Cumulatively, this is £1.3 billion in the first two years of the period, which represents a good start to the delivery of our AMP7 programme. 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.

  Our investment strategy delivers long-term efficiency and sustainable performance improvements, and the additional £765 million investment we are making beyond the scope of our FD will drive further enhancements for customer and environmental performance. £265 million of this investment we expect to be fully recovered through regulatory mechanisms, including Green Recovery and projects that form part of our Water Industry National Environment Programme (WINEP). £250 million of this investment is improving environmental outcomes, funded through investment of outperformance, and subject to regulatory sharing mechanisms. The final £250 million of this investment will drive improved performance against customer outcomes and is supported on a business case basis, delivering improved customer ODI performance.

While we continue to strive to deliver our investment efficiently, as we have demonstrated through this additional investment, 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)
  Customer ODI outperformance of 0.5 per cent, on both a reported and underlying basis, reflects a net reward of £25 million[4]. This is our highest ever one-year net reward against customer ODIs, reflecting our continued improvements in performance for customers.
  Our customer ODI performance has been strong across the board, meeting or beating over 80 per cent of our performance commitments, giving us the confidence to increase our total AMP7 ODI guidance by a third, targeting a cumulative net ODI reward over the five-year period of around £200 million.

  The additional investment we are making will help improve performance in areas where we want to do better. This includes £100 million investment in Dynamic Network Management, which will help us improve performance on sewer flooding, and around £100 million investment in improving water quality.

  Customer ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore the net reward earned this year will be reflected in an increase to revenues earned in 2023/24 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism.

- Financing outperformance
  We earned financing outperformance this year of 1.6 per cent, on both a reported and underlying basis, compared with 1.2 per cent last year. This increase mainly results from recent high levels of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

  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 locked-in for AMP7 compare favourably with the price review assumptions.

- Tax outperformance
  The 2.7 per cent outperformance on tax on a reported basis reflects our optimisation of available government tax incentives, including research and development tax allowances and the temporary capital allowance ‘super deductions’, net of the tax impact of financing outperformance. The 2.5 per cent outperformance on tax on an underlying basis excludes the tax that will be recovered through the regulatory sharing mechanism.

OUTLOOK

We have delivered another good year of performance, maintaining high levels of customer satisfaction underpinned by our Systems Thinking approach, improving operational performance, and long-term financial resilience, giving us confidence in our ability to continue to create value for customers, the environment, and other stakeholders.

We are accelerating our AMP7 capital programme and investing an additional £765 million over the regulatory period to help us deliver even more sustainable improvements in customer and environmental performance, and to get ahead of the requirements coming into force through the Environment Act. This investment, together with latest views of inflation, contributes to RCV growth over AMP7 of 21 per cent on a nominal basis, more than 10 per cent higher than we expected at the beginning of the period.

Our sustained high level of operational performance is earning outperformance, and we have increased our target of cumulative net outperformance against customer ODIs by a third to around £200 million in total over AMP7. As a consequence of our performance in AMP7 and the additional investment we are making, we are generating around £750 million of value that we expect to receive through an RCV uplift and additional revenues in AMP8.

[4] Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID 19 and any enduring effects

2022/23 FULL YEAR GUIDANCE

- **Revenue** is expected to be around 1 per cent higher than 2021/22, largely reflecting the November 2021 CPIH inflation of 4.6 per cent, largely offset by the regulatory revenue reduction of 1.3 per cent and over-recovery in the current year due to higher than anticipated consumption.
- **Underlying operating costs** are expected to be around £100 million higher year-on-year. Approximately half of this increase relates to inflationary cost pressures on labour, chemicals and other costs, while the other half largely reflects the 2022/23 operating cost impact of the £765 million additional investment.
- **Underlying finance expense** is expected to be around £150 million higher year-on-year based on our current inflation forecast. As at 31 March 2022, we had £4.3 billion of index-linked debt exposure, therefore every 1 per cent increase in inflation equates to an around £43 million higher interest charge. Our cash interest in 2021/22 was £118 million and we expect this to be broadly the same in 2022/23, with the overall increase in underlying net finance expense largely relating to the non-cash indexation of our index-linked debt. Our cash metrics therefore remain strong and the higher inflation will also apply to our RCV, of which 70 per cent is exposed to the benefits of higher inflation, giving shareholders around a 1.75 times leveraged position to inflation.
- **Underlying tax** is expected to be a small charge of up to £10 million in 2022/23, as we continue to optimise the use of capital allowance ‘super deductions’.
- **Capital expenditure (capex)** in 2022/23 is expected to be in the range of £640 million to £690 million, including the 2022/23 element of incremental capital expenditure in relation to the £765 million additional investment.
- We are targeting a **net customer ODI reward** of around £30 million, which is consistent with our updated investment plans and guidance of around £200 million reward in total over AMP7.
- Our AMP7 **dividend** policy is to grow the dividend in line with CPIH inflation out to 2025, which for 2022/23 would equate to an increase of 4.6 per cent based on November 2021 CPIH inflation.

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 34. As such, they represent non-GAAP measures.

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

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

<table>
<tr><th>Adjusted item</th><th>Rationale</th></tr>
<tr><td colspan="2">Adjustments not expected to recur</td></tr>
<tr><td>Profit on disposal of joint ventures</td><td>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.</td></tr>
<tr><td colspan="2">Consistently applied presentational adjustments</td></tr>
<tr><td>Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option</td><td>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.</td></tr>
<tr><td>Deferred tax adjustment</td><td>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.</td></tr>
<tr><td>Tax in respect of adjustments to underlying profit before tax</td><td>Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.</td></tr>
</table>

Underlying profit	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Operating profit per published results	**610.0**	**602.1**
Underlying operating profit	**610.0**	**602.1**

Net finance expense	£m	£m
Finance expense	(187.7)	(103.5)
Investment income	19.4	25.0
Net finance expense per published results	**(168.3)**	**(78.5)**
Adjustments:		
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(138.0)	(54.3)
Underlying net finance expense	**(306.3)**	**(132.8)**

	£m	£m
Share of (losses) of joint ventures	**(1.8)**	**(9.3)**
Profit on disposal of joint ventures	-	36.7
Adjustments:		
Profit on disposal of AS Tallinna Vesi joint venture	-	(36.7)
Underlying profit on disposal of joint ventures	**-**	**-**
Profit before tax per published results	**439.9**	**551.0**
Adjustments:		
In respect of operating profit	-	-
In respect of net finance expense	(138.0)	(54.3)
In respect of profit on disposal of joint ventures	-	(36.7)
Underlying profit before tax	**301.9**	**460.0**
(Loss)/Profit after tax per published results	**(56.8)**	**453.4**
Adjustments:		
In respect of profit before tax	(138.0)	(91.0)
Deferred tax adjustment	562.5	18.4
Tax in respect of adjustments to underlying profit before tax	(0.7)	2.2
Underlying profit after tax	**367.0**	**383.0**

Earnings per share	£m	£m
(Loss)/profit after tax per published results (a)	(56.8)	453.4
Underlying profit after tax (b)	367.0	383.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	(8.3)	66.5
Underlying earnings per share, in pence (b/c)	53.8	56.2
Dividend per share, in pence	43.50p	43.24p

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

Average effective interest rate	**Year ended 31 March 2022 £m**	**Year ended 31 March 2021 £m**
Underlying net finance expense	(306.3)	(132.8)
Adjustments:		
Net pension interest income	(14.3)	(17.5)
Adjustment for capitalised borrowing costs	(52.7)	(30.4)
Net finance expense for effective interest rate	**(373.3)**	**(180.7)**
Average notional net debt	**(7,368)**	**(7,315)**
Average effective interest rate	**5.1%**	**2.5%**

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 2022 £m	**Re-presented Year ended 31 March 2021 £m**	**As reported Year ended 31 March 2021 £m**
Group underlying operating profit	**610.0**	**602.1**	**602.1**
Underlying operating profit not relating to UUW	(8.3)	(0.4)	(0.4)
UUW statutory underlying operating profit (unaudited)	**601.7**	**601.7**	**601.7**
Revenue recognition	6.2	8.2	8.2
Capitalised borrowing costs	7.8	6.8	6.8
Reclassification of regulatory other income (not included in UUW operating profit)	(26.9)	(21.5)	(21.5)
Reversal of the innovation fund	15.4	6.2	-
Other differences (including non-appointed business)	(0.8)	(1.0)	(1.0)
UUW regulatory underlying operating profit (unaudited)	**603.1**	**600.4**	**594.2**

Reflecting Ofwat's guidance in relation to the reversal of innovation fund provisions, prior year numbers have been re-presented for comparative purposes.

Return on Regulated Equity (RoRE)

UUW's RoRE, presented on a real return basis:

	Year ended 31 March 2022	**AMP7 To date**
Base return	3.94%	3.93%
Totex performance	(0.84)%	(0.65)%
Customer ODI performance	0.52%	0.43%
Financing performance	1.58%	1.37%
Tax performance	2.71%	1.13%
Reported RoRE[1]	**7.91%**	**6.21%**
Adjustment for impact of tax true up mechanism	(0.24)%	(0.06)%
Underlying RoRE	**7.67%**	**6.15%**

1 Calculated in accordance with RAG 4.10, published in March 2022.

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 and resilience 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. This includes further enhancement to risk appetite and tolerance, greater focus and analysis of cross-cutting themes and improved escalation of data from operational risk management systems.

Risk appetite and tolerance

Focused on supporting decision-making, the risk appetite and tolerance framework consists of a package of measures. The General Risk Appetite represents financial limits against which event-based risks are compared at each full and half-year assessment and reporting cycle. In parallel are a series of strategic statements which align directly to the principal risks. Each statement reflects the strategic intent, strategic theme, relevant stakeholders and governance, but fundamentally emphasises the attitude to risk taking and control relative to four descriptors:

- **Averse**: A strong opposition to accept risk within business strategy or operational activity.
- **Prudent**: A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries.
- **Moderate**: Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits.
- **Accepting**: Willingness to accept risk with regard to business strategy or operational activity.

As a regulated company providing essential public services none of the principal risks have risk accepting as a strategic direction or approach.

Underpinning each strategic statement, and currently under development, are a series of more tangible, tactical statements with specific levels and limits.

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, consultations 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 is based on the value chain of the company, with the ten principal risks representing inherent risk areas (primary and supportive) where value can be gained, preserved or lost relative to the performance, future prospects or reputation of the company. Underpinning the principal risks, the profile consists of approximately 100 event-based risks, each of which is allocated to one of the ten inherent risk areas based on the context of the event, enabling the company to consider interdependency and correlation of common themes and control effectiveness

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, which incorporate the four components of resilience (resistance; reliability; redundancy; and response/recovery), 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, which combined with the analysis of the strengths, weaknesses, gaps and interdependency of control across the business, enables a more integrated approach to risk mitigation.

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, while positive to customers and markets, can affect ongoing revenue and the asset base.
- Economic conditions: Macro events 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, corporate culture is important to maintain high performance and cuts across the majority of risks in the profile. In an increasingly challenging business environment, our focus is to continue to embed a culture of innovation, customer service and behaving in a responsible manner 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 large 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 stable
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.

Causal factors themes (Drivers/influences of risk)
- Climate change
- Demographic change
- Legal and regulatory change
- Asset health

Consequence themes and stakeholder groups
- Customer
- Environment
- Investors

Appetite and tolerance
- Water - Averse

Control/mitigation
- Strict quality controls and sampling regime
- Physical and chemical treatment with automation
- Cleaning, maintenance and replacement of assets
- Water resources and production planning
- Pressure/flow management and leak detection
- Integrated network and response capability

Top five event-based business risk (*most significant group risks)
- Failure of Haweswater Aqueduct*
- Water sufficiency*
- Failure to treat water
- Failure of the distribution system (leakage)
- Dam failure

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

Causal factors themes (Drivers/influences of risk)
- Climate change
- Demographic change
- Legal and regulatory change
- Asset health

Consequence themes and stakeholder groups
- Customer
- Environment
- Investors

Appetite and tolerance
- Wastewater - Prudent
- Bioresources - Moderate

Control/mitigation
- Physical and chemical treatment
- Odour management systems
- Drainage and wastewater management plans
- Wastewater network operating model
- Cleaning, maintenance and replacement of assets
- Customer campaigns

Top five event-based business risk (*most significant group risks)
- Wastewater network failure (sewer flooding)*
- Failure to treat sludge*
- Recycling biosolids to agriculture*
- Wastewater treatment (permits)
- Mersey Valley Sludge Pipeline

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.

Causal factors themes (Drivers/influences of risk)
- Legal and regulatory change
- Economic conditions
- Asset health
- Culture

Consequence themes and stakeholder groups
- Customer
- Investors

Appetite and tolerance
- Retail - Prudent
- Commercial - Moderate

Control/mitigation
- Customer-focused initiatives
- Best practice collection techniques
- Customer segmentation
- Priority Services scheme
- Data management and data sharing
- Non-regulated operation governance

Top five event-based business risk (*most significant group risks)
- Customer experience
- Cash collection
- Billing accuracy
- Wholesale revenue collection
- Developer services

4. Supply chain and programme delivery - risk increasing
The potential ineffective delivery of capital, operational or functional processes/programmes including change.

Causal factors themes (Drivers/influences of risk)
- Legal and regulatory change
- Economic conditions

Consequence themes and stakeholder groups
- Customer
- Investors
- Environment
- Community
- Suppliers

Appetite and tolerance
- Supply Chain - Prudent
- Capital Delivery - Moderate

Control/mitigation
- Category management
- Supplier relationship management
- Capital, change and operational programme management
- Portfolio, programme and project risk management

Top five event-based business risk (*most significant group risks)
- Price volatility*
- Unfunded developer programmes
- Security of the supply chain
- Dispute with supplier
- Capital delivery programme

5. Resource - risk stable
The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.

Causal factors themes (Drivers/influences of risk)
- Climate Change
- Legal and regulatory change
- Economic conditions
- Asset health
- Culture

Consequence themes and stakeholder groups
- Customer
- Investors
- Employees

Appetite and tolerance
- Resource - Moderate

Control/mitigation
- Adoption of effective technology
- Multiple communication channels
- Training and personal development
- Talent, apprentice and graduate schemes
- Change programmes and innovative strategies
- Maintenance, replacement or renovation of assets

Top five event-based business risk (*most significant group risks)
- Land management
- IT asset support
- Loss or failure of NIS systems
- Business critical data
- Employee relations

6. Finance - risk stable

The potential inability to finance the business appropriately.

Causal factors themes (Drivers/influences of risk)
- Demographic change
- Legal and regulatory change
- Economic conditions
- Asset health

Consequence themes and stakeholder groups
- Customer
- Investors
- Employees

Appetite and tolerance
- Finance - Prudent

Control/mitigation
- Long-term refinancing
- Liquidity reserves
- Counterparty credit exposure and settlement limits
- Hedging strategies
- Sensitivity analysis
- Monitoring of the markets

Top five event-based business risk (*most significant group risks)
- Credit ratings*
- Pension scheme funding deficit*
- Financial outperformance*
- Tax efficiency/fair share*
- Totex efficiency challenge*

7. Health, safety and environmental - risk increasing
The potential harm to employees, contractors, the public or the environment.

Causal factors themes (Drivers/influences of risk)
- Climate change
- Asset health
- Culture

Consequence themes and stakeholder groups
- Employee
- Environment
- Investors
- Communities

Appetite and tolerance
- Health, safety and welfare - Averse
- Environment - Averse

Control/mitigation
- Strong governance and management systems
- Certification to ISO 45001 and ISO 14001
- Benchmarking, auditing and inspections
- Targeted engagement and improvement programmes
- Carbon reduction initiatives
- Self-generation of energy

Top five event-based business risk (*most significant group risks)
- Carbon commitments*
- Disease pandemic*
- Occupational health exposure
- Minor injuries
- Process safety (bioresources and wastewater)

8. Security - risk stable
The potential for malicious activity (physical or technological) against people, assets or operations.

Causal factors themes (Drivers/influences of risk)
- Environmental Conditions
- Asset health
- Culture

Consequence themes and stakeholder groups
- Customer
- Investors
- Employees
- Community

Appetite and tolerance
- CNI and SEMD - Averse
- Other - Prudent

Control/mitigation

- Physical and technological security measures
- Strong governance, inspections and audits
- Security authority liaison and NIS compliance
- System and network integration
- Business continuity and disaster recovery
- Insurance

Top five event-based business risk (*most significant group risks)

- Cyber*
- Terrorism*
- Criminality
- Fraud
- Data protection

9. Conduct and compliance - risk stable

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

Causal factors themes (Drivers/influences of risk)

- Climate change
- Demographic change
- Legal and regulatory change
- Economic conditions
- Asset health
- Culture

Consequence themes and stakeholder groups

- Customer
- Environment
- Investors
- Employees
- Community
- Suppliers

Appetite and tolerance

- Legislation - Averse
- Other - Prudent

Control/mitigation

- Ethical supply chain, diversity and inclusivity policies
- Data classification and levels of authorisation
- Stakeholder engagement activities
- Audits and peer reviews
- Governance, risk assessment and horizon scanning
- Brand comparisons and dashboard of culture metrics

Top five event-based business risk (*most significant group risks)

- Water Plus
- Bribery
- Non-regulated asset
- Procurement compliance
- Corporate governance and listing rules compliance

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

<u>Causal factors themes (Drivers/influences of risk)</u>
- Legal and regulatory change
- Economic conditions

<u>Consequence themes and stakeholder groups</u>
- Customer
- Environment
- Investors
- Employees

<u>Appetite and tolerance</u>
Appetite or tolerance cannot be determined due to no genuine choice or control

<u>Control/mitigation</u>
- Consultation with government and regulators
- Communicate with customers

<u>Top five event-based business risk (*most significant group risks)</u>
- Price Review 2024 outcome*
- Upstream competition (bioresources)
- DPC exit – HARP
- ASHE index
- Upstream competition (water resource)

The company's most significant event-based risks
The most significant event-based risks represent the ten highest-ranked risks by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact) and those risks which have been assessed as having a significantly high impact, but low likelihood.

Depending on the circumstances, financial impacts will include loss of revenue, additional or extra cost, fines, regulatory penalties and compensation. Reputational impact relative to our multiple stakeholders is also assessed, reported and considered as part of the mitigation.

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

1. Price Review 2024 Outcome
Risk exposure: This risk focuses on the capacity and capability to develop a business plan that creates value for customers, communities, and the environment that is sustainable and resilient for the long term relative to the unique characteristics of the region we serve, in light of multiple influencing factors notably changing demographics, climate change and asset health.

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

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

2. Failure of the Haweswater Aqueduct

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

Control/mitigation: A capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP) by 2029.

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

3. Wastewater network failure (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.

Assurance: Second line assurance provided by Wholesale Assurance, Engineering Technical Governance and Flood Review Panel. Subject to regular internal audits and external assurance of regulatory reporting.

4. Cyber

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

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

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

5. Water sufficiency

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

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

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

6. Carbon Commitments

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

Control/mitigation: We will continue to develop near-term initiatives to address process and energy emissions, and create woodland and restore peatland, while responding to an evolving policy and technological landscape.

We are also developing a long-term strategy to reduce emissions and to fully understand and optimise potential decarbonisation initiatives and pathways.

Assurance: Water industry research and technical support combined with a Climate Change Mitigation Steering Group provides second line assurance. An internal audit is scheduled and external assurance of emissions, regulatory reporting lines and science-based targets has been established.

7. Failure to treat sludge

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

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

Assurance: Wholesale Assurance and Engineering Technical Governance provide second line assurance. Subject to cyclical internal audit and ad-hoc external strategic reviews.

8. Recycling of biosolids to agriculture

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

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

Assurance: Wholesale Assurance and Engineering Technical Governance provide second line assurance. Subject to both cyclical internal and external audit.

9. Price volatility

Risk exposure: This risk reflects the inflationary pressures across all commodities notably Energy, associated with the post COVID-19 economic bounce back which have been exacerbated further by the conflict in the Ukraine.

Control/mitigation: Contract provision with suppliers, hedging policy and supply agreements manage volatility and minimise vulnerability in the contract and price risk with the suppliers including periods of agreed fixed pricing and negotiation of CPI/H uplift on an annual basis.

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

10. Credit rating

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

Assurance: Second line assurance provided by Financial Control and Quarterly Business Reviews, with oversight provided by the treasury committee. The treasury function is subject to regular internal audits.

A. Pensions 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.

Assurance: Policy and oversight is led by the Pensions Review Management Group, taking into account advice from accountancy and law firms. Pension governance is subject to periodic internal audits.

B. Financial Outperformance

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

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

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

C. Dam failure

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

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

Assurance: Various sources of second line assurance, including Supervising Engineers, Dam Safety Group, Wholesale Assurance and regular board reviews. Independent assurance is provided by Panel Engineers and internal audit.

D. 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.

Assurance: Tax policies are based on advice from multiple sources, including accountancy firms. Third-party assurance is provided by internal audit and accountancy firms.

E. Disease pandemic

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

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

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

F. Terrorism

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

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

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

New and emerging risk

Following horizon scanning activity undertaken by the business, a watching brief is held over risks/issues which are worthy of note due to their new, emerging or reputational status, and typically have too high levels of uncertainty or complexity to quantify.

- Plastics: Attention on single-use plastic and microplastic (plastics less than 5 mm) pollution is ongoing, with their presence in the environment being linked to the water cycle. We are responding proactively and have formed a two pillar approach to addressing plastics, focusing on operational plastic waste and plastic in the water cycle.

- Perfluoroalkyl and polyfluoroalkyl substances (PFAS): There is a growing focus on PFAS chemicals including from our public liability insurers who are looking to exclude related liability claims. PFAS are manufactured chemicals used in everyday products. Known as 'forever chemicals', they are persistent, bio accumulate and may be toxic even at low levels. We have completed an assessment of the likely presence of PFAS in raw water sources, the results of which are incorporated into the Drinking Water Safety Plan and aligned to the requirements set out by the Drinking Water Inspectorate.

Conflict in Ukraine

The conflict in Ukraine has led to a number of risks emerging (growing, developing or becoming more prominent) from a security and economic perspective.

- Cyber: The likelihood of the cyber risk has been increased to reflect the rising tensions between Russia and the west, while taking into account the adoption of increased security measures which include security operations teams on extended high alert and the rapid deployment of technical blocking of critical indicators of compromise.
- Price volatility: This risk reflects inflationary uplift across multiple commodities with energy the most volatile.
- Security of the supply chain: This risk reflects the knock on impact of inflationary pressure on manufacturing output with some production facilities reducing operations. It also reflects sanctions imposed against Russia and Belarus and the restriction or prevention of access to certain goods.
- Cash collection: Inflationary pressure is having a significant impact on the cost of living, affecting customers' ability to pay bills.
- Supplier viability: This risk reflects the impact the unprecedented price increases are having on suppliers who cannot honour locked prices in contracts and the threat of suppliers going into administration with a knock-on effect to operations and the capital delivery programme.
- Credit rating: Whilst underlying credit quality is not a concern, the impact of high inflation on finance expense results in the potential for Credit Agency thresholds to be breached when combined with other factors such as additional investment spend to meet environmental and service improvements over and above price review allowances.

Legislative/regulatory change
In addition to the emerging economic conditions exacerbated by the conflict in Ukraine, legislative and regulatory change is also a prominent emerging theme which impacts a number of event-based risks.

Relatively recent developments include uncertainty associated with the Environment Agency's interpretation of the Industrial Emissions Directive (IED) and Farming Rules for Water (FRfW) and implications for ongoing compliance, process and investment across wastewater and bioresources risk.

As a responsible company, United Utilities is committed to the protection and enhancement of the environment and can demonstrate many previous and current initiatives, the most recent being the road map to 'better river health' including a pledge to invest £230 million into 184 kilometres of rivers by 2025. We will continue to work closely with all our regulators and partners to deliver better solutions including full cooperation with the ongoing industry wide investigation by Ofwat and the Environment Agency into possible unpermitted sewage discharges into rivers and watercourses.

The Environment Act, which was enacted in November 2021, has potentially far more significant implications for the water sector, due to it being the UK's new framework of environmental protection. Depending on how the new legislation will be interpreted and applied, meeting its requirements may demand a fundamental shift in the water industry's approach to environmental risks, requiring significant investment across multiple AMPs.

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.

In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal at the end of March 2022. A decision is expected during summer 2022, which may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses.

Beyond this, there is nothing to report regarding material litigation, including in respect of the Argentina multiparty 'class action' reported on in previous years, and to which there have been no material developments.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This financial report contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. These forward-looking statements include without limitation any projections or guidance relating to the results of operations and financial conditions of the group as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and any strategic initiatives relating to the group, as well as discussions of our business plan and our assumptions, expectations, objectives and resilience with respect to climate scenarios. The forward-looking statements reflect knowledge and information available at the date of preparation of this financial report and the company undertakes no obligation to update these forward-looking statements. Nothing in this financial report should be construed as a profit forecast.

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

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

LEI 2138002IEYQAOC88ZJ59
Classification – Full Year Results

Consolidated income statement

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Revenue	**1,862.7**	**1,808.0**
Staff costs (note 4)	**(184.3)**	**(173.4)**
Other operating costs (note 5)	**(461.7)**	**(420.3)**
Allowance for expected credit losses - trade and other receivables	**(23.4)**	**(28.7)**
Other income	**4.4**	**3.6**
Depreciation and amortisation expense	**(418.2)**	**(422.3)**
Infrastructure renewals expenditure	**(169.5)**	**(164.8)**
Total operating expenses	**(1,252.7)**	**(1,205.9)**
Operating profit	**610.0**	**602.1**
Investment income (note 6)	**19.4**	**25.0**
Finance expense (note 7)	**(187.8)**	**(107.2)**
Allowance for expected credit losses - loans to joint ventures	**0.1**	**3.7**
Investment income and finance expense	**(168.3)**	**(78.5)**
Profit on disposal of joint venture (note 11)	**-**	**36.7**
Share of profits of joint ventures (note 11)	**(1.8)**	**(9.3)**
Profit before tax	**439.9**	**551.0**
Current tax credit/(charge)	**65.8**	**(79.2)**
Deferred tax charge	**(562.5)**	**(18.4)**
Tax (note 8)	**(496.7)**	**(97.6)**
(Loss)/Profit after tax	**(56.8)**	**453.4**

All of the results shown above relate to continuing operations.

Earnings per share (note 9)		
Basic	**(8.3)p**	**66.5p**
Diluted	**(8.3)p**	**66.3p**
Dividend per ordinary share (note 10)	**43.50p**	**43.24p**

Consolidated statement of comprehensive income

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
(Loss)/profit after tax	**(56.8)**	**453.4**
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cashflow hedge effectiveness	**106.7**	**9.3**
Tax on items recorded within other comprehensive income (note 8)	**(26.8)**	**(1.8)**
Foreign exchange adjustments (note 11)	**-**	**(1.6)**
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	**79.9**	**9.9**
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains/(losses) on defined benefit pension schemes (note 12)	**313.6**	**(82.7)**
Change in credit assumption for debt reported at fair value through profit and loss	**(4.1)**	**(43.3)**
Cost of hedging - cross currency basis spread adjustment	**-**	**(12.7)**
Deferred tax adjustments in respect of prior years on net fair value gains	**-**	**-**
Tax on items recorded within other comprehensive income (note 8)	**(109.4)**	**36.6**
Other comprehensive income that will not be reclassified to profit or loss	**200.1**	**(102.1)**
Total comprehensive income	**223.2**	**361.2**

Consolidated statement of financial position

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**12,147.5**	**11,799.0**
Intangible assets	**160.8**	**181.1**
Interests in joint ventures and other investments (note 11)	**16.6**	**0.1**
Inventories	**0.4**	**-**
Trade and other receivables	**81.7**	**86.7**
Retirement benefit surplus (note 12)	**1,016.8**	**689.0**
Derivative financial instruments	**399.4**	**410.3**
	13,823.2	**13,166.2**
Current assets		
Inventories	**17.8**	**18.3**
Trade and other receivables	**222.7**	**229.2**
Current tax asset	**74.4**	**6.9**
Cash and short-term deposits	**240.9**	**744.1**
Derivative financial instruments	**58.0**	**14.4**
	613.8	**1,012.9**
Total assets	**14,437.0**	**14,179.1**
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(835.2)**	**(798.3)**
Borrowings (note 13)	**(7,671.0)**	**(7,797.0)**
Deferred tax liabilities	**(2,148.1)**	**(1,449.5)**
Derivative financial instruments	**(136.7)**	**(107.8)**
	(10,791.0)	**(10,152.6)**
Current liabilities		
Trade and other payables	**(365.8)**	**(322.7)**
Borrowings (note 13)	**(308.8)**	**(654.8)**
Provisions	**(13.5)**	**(11.1)**
Derivative financial instruments	**(0.5)**	**(6.9)**
	(688.6)	**(995.5)**
Total liabilities	**(11,479.6)**	**(11,148.1)**
Total net assets	**2,957.4**	**3,031.0**
EQUITY		
Share capital	**499.8**	**499.8**
Share premium account	**2.9**	**2.9**
Other reserves (note 17)	**416.2**	**336.3**
Retained earnings	**2,038.5**	**2,192.0**
Shareholders' equity	**2,957.4**	**3,031.0**

Consolidated statement of changes in equity

Year ended 31 March 2022

	Share capital £m	Share premium account £m	[1]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Loss after tax	-	-	-	(56.8)	(56.8)
Other comprehensive income					
Remeasurement gains on defined benefit pension schemes (note 12)	-	-	-	313.6	313.6
Change in credit assumption for debt reported at fair value through profit and loss	-	-	-	(4.1)	(4.1)
Cashflow hedge effectiveness	-	-	106.7	-	106.7
Tax on items recorded within other comprehensive income (note 8)	-	-	(26.8)	(109.4)	(136.2)
Total comprehensive income	**-**	**-**	**79.9**	**143.3**	**223.2**
Dividends (note 10)	-	-	-	(295.5)	(295.5)
Equity-settled share-based payments	-	-	-	4.8	4.8
Exercise of share options-purchase of shares	-	-	-	(6.1)	(6.1)
At 31 March 2022	**499.8**	**2.9**	**416.2**	**2,038.5**	**2,957.4**

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 recorded within other comprehensive income (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**

[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 2022 £m	Year ended 31 March 2021 £m
Operating activities		
Cash generated from operations (note 15)	**1,061.6**	**1,037.2**
Interest paid	**(121.9)**	**(136.7)**
Interest received and similar income	**3.6**	**7.4**
Tax paid	**(8.9)**	**(75.4)**
Tax received	**-**	**26.9**
Net cash generated from operating activities	**934.4**	**859.4**
Investing activities		
Purchase of property, plant and equipment	**(609.0)**	**(610.4)**
Purchase of intangible assets	**(19.5)**	**(33.6)**
Grants and contributions received	**1.8**	**5.0**
Extension of loans to joint ventures (note 19)	**(13.0)**	**(2.0)**
Dividends received from joint ventures (note 11)	**-**	**6.4**
Proceeds from disposal of investments (note 11)	**-**	**85.3**
Net cash used in investing activities	**(639.7)**	**(549.3)**
Financing activities		
Proceeds from borrowings net of issuance costs	**173.7**	**909.7**
Repayment of borrowings	**(681.8)**	**(703.5)**
Dividends paid to equity holders of the company (note 10)	**(295.5)**	**(291.9)**
Exercise of share options – purchase of shares	**(6.1)**	**(4.0)**
Net cash used in financing activities	**(809.7)**	**(89.7)**
Effects of exchange rate changes	**1.5**	**-**
Net increase/(decrease) in cash and cash equivalents	**(513.5)**	**220.4**
Cash and cash equivalents at beginning of the year	**733.6**	**513.2**
Cash and cash equivalents at end of the year	**220.1**	**733.6**

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2022 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 2022, for which the auditors have given an unqualified opinion.

The comparative figures for the year ended 31 March 2021 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified 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 the requirements of the Companies Act 2006, and with UK-adopted international accounting standards. 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 are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2021.

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 latest views of the current economic climate, including high levels of inflation in the near term. 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 and increases in the cost of living

Following the onset of the Covid-19 pandemic at the beginning of the 2020 calendar year, the group has disclosed a number of associated critical accounting judgements and key sources of estimation uncertainty in its annual reports and financial statements for the years ended 31 March 2020 and 31 March 2021. The most significant of these related to revenue recognition and the group's allowance for expected credit losses in respect of receivables, and accounting for the group's joint venture, Water Plus, although the level of judgement and estimation associated with the latter of these has reduced markedly following the restructuring of Water Plus's financing arrangements by its shareholders as described in note 11.

These judgements and estimates have been kept under review during the year to 31 March 2022 in order to ensure that they reflect the most up-to-date information available as the situation has developed, including changes in the broader economic outlook; increased power and food costs, due in large part to the ongoing conflict in Ukraine, are likely to have a significant impact on many of the group's customers. The significant increases in the cost of living have largely superseded the direct effects of the Covid-19 pandemic as the key source of uncertainty. An update on these judgements and estimates is as follows:

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

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

While lockdown measures have now eased, household consumption remains higher than pre-pandemic levels. Customer behaviours appear to have changed as a result of the pandemic, with many household customers choosing to spend more time at home during the year for a number of reasons, including international travel restrictions that have been in place, businesses transitioning to hybrid working arrangements that facilitate increased levels of working from home, and other businesses moving employees to permanent home working. However, levels of household consumption have fallen in the final quarter of the reporting period, suggesting that patterns of future usage in the longer term are yet to fully crystallise.

However, over the course of the previous financial year, and through the year to 31 March 2022, the group has seen an increase in the volume of household meter reads, which have now returned to pre-pandemic levels. Meter read data collected during the period therefore reflect the increased consumption brought about by the pandemic, together with current usage patterns. This in turn has been captured in actual bills and therefore the level of estimation has steadily reduced, with the system generated revenue accrual now largely aligned to independent automated meter read (AMR) data. AMR data is captured for around 25 per cent of all measured household customers, and has been extrapolated across the remaining measured household customer base. The reasonableness of this approach has been validated through an assessment of bills raised in the period.

During the prior year a number of code changes were introduced by Ofwat and MOSL in relation to the non-household retail market. These included the introduction of annual consumption adjustments which allowed retailers to reduce or suspend volumetric charges for customers impacted by the lockdown of their activities. As many of these adjustments were initially applied by retailers to broad sector groups, this inevitably included some end users who continued to consume above their yearly volume estimate. This resulted in a higher level of estimation being required in relation to non-household consumption than would normally be the case. These estimates were based on the latest available consumption information, considering the vacancy status of all premises during the period and recognising the number and timing of meter reads received. In the year to 31 March 2022, we have seen retailers begin to remove consumption adjustments, which together with an increase in meter reads has reduced the level of estimation required. Non-household wholesale revenue recognised during the period is around £10 million higher than the total in-period revenue estimated in the CMOS system as part of the normal settlement process (around £14 million higher at 31 March 2021).

Accounting estimate – allowance for expected credit losses in respect of household trade receivables: The onset of the Covid-19 pandemic introduced a high level of uncertainty around how economic conditions may impact the recoverability of household receivables. This uncertainty has continued throughout the year to 31 March 2021 and is further compounded in the year to 31 March 2022 and to date by increases in the cost of living that are likely to impact a significant proportion of the group's customer base.

Cash collection during the year has been stronger than previously anticipated, and is higher than the current year collection rate in the prior year, although the economic situation remains uncertain. This is particularly the case given increases in the cost of living that may further impact the ability of some customers to pay. A range of collection scenarios have been used to inform the bad debt charge applied. These take account of current year cash collection rates as well as collection of prior year and legacy debt and consider experience before the onset of the Covid-19 pandemic, periods of lockdown, and periods of recovery, as well as current levels of economic uncertainty. This supports a bad debt charge of 1.8 per cent of household revenue at the reporting date, which compares with a charge equivalent to 2.2 per cent of household revenue recognised for the year ended 31 March 2021.

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.

3. Revenue

	2022 **£m**	**2021** **£m**
Wholesale water charges	**776.5**	751.0
Wholesale wastewater charges	**946.3**	941.5
Household retail charges	**68.9**	64.1
Other	**71.0**	51.4
	1,862.7	1,808.0

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, property sales, 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. Staff costs

In order to give a clearer view of the group's total staff costs, these now include the cost of non-permanent staff who have worked for the group, whose costs were previously included within hired and contracted services presented within other operating costs, which have also been re-presented (see note 5). Accordingly, staff costs and other operating costs for the year ended 31 March 2021 have been re-presented, which has resulted in an increase in staff costs and a reduction in the cost of hired and contracted services of £11.6 million compared with what was presented in the published financial statements for that year.

Staff costs have increased during the year due primarily to an increase in the average number of staff employed by the group, including the impact of in-sourcing of certain activities that were previously carried out by third parties.

Included within staff costs were £0.4 million (2021: £1.9 million) of restructuring costs.

5. Other operating costs

	2022 £m	2021 £m
Power	**99.6**	**83.6**
Hired and contracted services	**95.4**	**84.7**
Materials	**90.8**	**82.2**
Property rates	**90.5**	**89.4**
Regulatory fees	**28.4**	**28.0**
Insurance	**16.9**	**13.1**
Accrued innovation costs	**5.9**	**6.2**
Loss on disposal of property, plant and equipment	**3.9**	**10.7**
Cost of properties disposed	**3.0**	**2.6**
Other expenses	**27.3**	**19.8**
	461.7	**420.3**

During the year ended 31 March 2022, the group experienced inflationary pressures across much of its operating cost base. This was most notable in relation to power costs, which increased by £16.0 million compared with the prior year, largely due to price increases. Through its progressive hedging policy the group was able to lock in the commodity price on the majority of its consumption for the year ended 31 March 2022 before the most recent energy price rises, and therefore secured an average rate over the year of £78 per MWh. This compares favourably with the market rate of over £200 per MWh as at the year-end reporting date and has been fundamental to the group's ability to minimise the impact of price rises on its cost base.

Incremental costs totalling £5.8 million have been incurred during the year in relation to the implementation of Software as a Service (SaaS) arrangements, which are increasingly expected to be recognised within operating costs in accordance with clarifications on the appropriate accounting treatment issued by the IFRS Interpretations Committee (IFRIC) during the year. The majority of SaaS implementation costs in previous years have been accounted for as intangible asset additions. These prior year amounts have not been restated to reflect the group's updated approach as they have not been material.

Research and development expenditure for the year ended 31 March 2022 was £1.2 million (2021: £1.0 million). In addition, £5.9 million (2021: £6.2 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses directly offset amounts recognised in revenue during each 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

	2022 £m	2021 £m
Interest receivable	**5.1**	7.5
Net pension interest income (note 12)	**14.3**	17.5
	19.4	25.0

7. Finance expense

	2022 £m	2021 £m
Interest payable	**330.7**	181.7
Net fair value gains on debt and derivative instruments	**(142.9)**	(74.5)
	187.8	107.2

Interest payable is stated net of £52.7 million (2021: £30.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. Interest payable includes a £227.9 million (2021: £52.6 million) non-cash inflation expense in relation to the group's index-linked debt.

In addition to the £192.6 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 £0.1 million during the current year (2021: decrease of £3.7 million).

Net fair value gains on debt and derivative instruments includes £33.2 million income (2021: £21.5 million income) due to net interest on derivatives and debt under fair value option, and £28.3 million expense (2021: £1.3 million expense) 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 £168.3 million (2021: £78.5 million) reported in the Income Statement to exclude the £138.0 million of fair value gains (2021: £54.3 million fair value gains) on debt and derivative instruments included in the above table.

8. Tax

During the year ended 31 March 2022 there was a current tax credit of £72.5 million (31 March 2021: £0.6 million) and a deferred tax charge of £66.9 million (31 March 2021: £1.8 million credit) relating to prior years. The current year figure mainly relates to optimising the available tax incentives on our innovation related expenditure, for multiple earlier years.

The split of the total tax charge between current and deferred tax was due to ongoing timing differences in relation to deductions on capital investment, and unrealised gains and losses on treasury derivatives. Going forward, we expect the total effective tax rate, ignoring non-recurring items such as the current year rate change adjustment, to remain broadly in line with the headline rate.

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.

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.

	2022	2021
	£m	£m
(Loss)/Profit after tax attributable to equity holders of the company	**(56.8)**	453.4
Weighted average number of shares in issue in millions		
Basic	**681.9**	681.9
Diluted	**683.8**	683.5
Earnings per share in pence		
Basic	**(8.3)**	**66.5**
Diluted	**(8.3)**	**66.3**

10. Dividends

	2022	2021
	£m	£m
Dividends relating to the year comprise:		
Interim dividend	**98.9**	98.3
Final dividend	**197.8**	196.6
	296.7	294.9
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**98.9**	98.3
Final dividend	**196.6**	193.6
	295.5	291.9

The proposed final dividends for the years ended 31 March 2022 and 31 March 2021 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 2022 and 31 March 2021 respectively.

The final dividend of 29.00 pence per ordinary share (2021: 28.83 pence per ordinary share) is expected to be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022. The ex-dividend date for the final dividend is 23 June 2022.

The interim dividend of 14.50 pence per ordinary share (2021: 14.41 pence per ordinary share) was paid on 1 February 2022 to shareholders on the register at the close of business on 17 December 2021.

11. Joint ventures and other investments

	2022 £m	2021 £m
Joint ventures at the start of the year	**-**	46.8
Additions*	**18.3**	-
Share of losses of joint ventures	**(1.8)**	(9.3)
Less: losses allocated to other components of long-term interest	**-**	14.2
Dividends received from joint ventures	**-**	(6.4)
Currency translation differences	**-**	(1.6)
Disposal of joint venture	**-**	(43.7)
Joint ventures at the end of the year	**16.5**	-
Other investments	**0.1**	0.1
Interest in joint ventures and other investments	**16.6**	0.1

*Additions of £18.3 million comprise a £32.5 million subscription in the equity share capital of Water Plus during the year, net of £14.2 million of the group's share of joint venture losses recognised in prior years that were allocated against its long-term interest in Water Plus previously recognised within amounts owed by related parties (see below).

Following the disposal of the group's overseas investment in AS Tallinna Vesi (Tallinn Water) in March 2021, 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 £1.8 million (2021: £8.9 million share of losses), all of which has been recognised in the income statement.

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

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:

	2022 %pa	**2021** %pa
Discount rate	2.80	2.05
Pension increases	3.75	3.35
Pensionable salary growth (pre-2018 service):		
ESPS	3.75	3.35
UUPS	3.75	3.35
Pensionable salary growth (post-2018 service):		
ESPS	3.75	3.35
UUPS	3.20	2.75
Price inflation - RPI	3.75	3.35
Price inflation – CPI[1]	3.20	2.75

Note:
[1]The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.85 per cent pre-2030 and 3.65 per cent post-2030 (31 March 2021: 2.45 per cent pre-2030 and 3.25 per cent post-2030).

The discount rate is consistent with a high quality corporate bond rate, with 2.80 per cent being equivalent to gilts plus 110 basis points (2021: 2.05 per cent being equivalent to gilts plus 75 basis points).

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, though this is subject to judicial review. 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 (2021: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2022. 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 £90 million, and therefore an increase in the net retirement benefit surplus of around £90 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 (2021: 0.2 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 per annum, reducing to 0.1 per cent per annum 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 £8 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 per annum 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 31 March 2022, the base tables used for the mortality in retirement assumption are the Continuous Mortality Investigation's (CMI) S3PA (2021: S2PA) year of birth tables, with a scaling factor of 109 per cent (2021: 106 per cent) and 115 per cent (2021: 109 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2021: 104 per cent) and 111 per cent (2021: 105 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. At 31 March 2022, future improvements in mortality are based on the extended CMI 2021 (2021: CMI 2020) projection model, with a long-term annual rate of improvement of 1.25 per cent (2021: 1.25 per cent). The long-term annual rate of improvement is a subjective estimate, and an increase in this rate to 1.50 per cent would have resulted in a circa £30 million increase in the fair value of defined benefit obligations, and therefore a reduction in the overall retirement benefit surplus.

12. Retirement benefit surplus (continued)

To adjust for the impact of circumstances arising as a result of the COVID 19 pandemic on future mortality trends for the schemes' membership, an adjustment has been made to reflect an expectation that the direct and indirect consequences of the pandemic will have an adverse impact on longevity in the short to medium term. Accordingly, in arriving at the mortality assumptions for the current year the group has included a w2021 parameter of 10 per cent within the CMI2021 projections, which is a subjective estimate that has an impact of circa £30 million decrease in the defined benefit obligation. All other parameters within the future improvements model are consistent with prior year.

To adjust for the impact of circumstances arising as a result of the COVID 19 pandemic on future mortality trends for the schemes' membership, an adjustment has been made to reflect an expectation that the direct and indirect consequences of the pandemic will have an adverse impact on longevity in the short to medium term.

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

	2022 £m	2021 £m
Current service cost	**7.5**	4.9
Curtailments/settlements	**-**	0.6
Administrative expenses	**2.1**	3.0
Pension expense charged to operating profit	**9.6**	8.5
Net pension interest credited to investment income (note 6)	**(14.3)**	(17.5)
Net pension income credited before tax	**(4.7)**	(9.0)

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

	2022 £m	2021 £m
At the start of the year	**689.0**	754.1
Income recognised in the income statement	**4.7**	9.0
Contributions	**9.5**	8.6
Remeasurement gains/(losses) gross of tax	**313.6**	(82.7)
At the end of the year	**1,016.8**	689.0

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

	2022 £m	2021 £m
Present value of defined benefit obligations	**(3,018.9)**	(3,295.7)
Fair value of schemes' assets	**4,035.7**	3,984.7
Net retirement benefit surplus	**1,016.8**	689.0

The IAS 19 remeasurement gain of £313.6 million (2021: £82.7 million loss) has largely resulted from an increase in credit spreads during the year partially offset by an RPI inflation assumption increase of 0.4 per cent (2021: 0.55 per cent increase). The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement gain recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

Further details on the approach to managing pension scheme risk are set out in the audited consolidated financial statements of United Utilities Group PLC for the year ended 31 March 2022.

12. Retirement benefit surplus (continued)

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

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuation as at 31 March 2021 for both the group's ESPS and UUPS schemes.

Defined contribution schemes
During the year, the group made £26.1 million (2021: £23.4 million) of contributions to defined contribution schemes which are included in staff costs.

13. Borrowings

New borrowings raised during the year ended 31 March 2022, all of which were issued under the Euro medium-term note programme, were as follows:

- On 27 August 2021, the group issued JPY11 billion fixed rate notes due August 2030.
- On 27 September 2021, the group traded £100 million fixed rate notes due October 2028.

On issue, the JPY bond was immediately swapped to £73.7 million of principal outstanding.

In April 2022, the group issued a £100 million term loan facility to Export Development Canada due April 2030.

The group renewed four of its undrawn committed borrowing facilities in the period and extensions to existing facilities were approved on a further four, with amounts available under these facilities totalling £200 million. Two further facilities were entered into after the period end with a total amount available of £50 million.

Borrowings at 31 March 2022 include £60.9 million in relation to lease liabilities (2021: £60.0 million), of which £57.6 million (2021: £56.7 million) was classified as non-current and £3.3 million (2021: £3.3 million) was classified as current.

14. Fair values of financial instruments

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

	Fair value	2022 Carrying value	Fair value	2021 Carrying value
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets - fair value hedge	156.3	156.3	275.6	275.6
Derivative financial assets - held for trading	190.1	190.1	142.6	142.6
Derivative financial assets - cash flow hedge	111.0	111.0	6.5	6.5
Investments	0.1	0.1	0.1	0.1
Financial liabilities at fair value through profit or loss			-	-
Derivative financial liabilities - fair value hedge	(87.4)	(87.4)	(12.6)	(12.6)
Derivative financial liabilities - held for trading	(49.8)	(49.8)	(102.1)	(102.1)
Derivative financial liabilities - cash flow hedge	-	-	-	-
Financial liabilities designated as fair value through profit or loss	(369.9)	(369.9)	(373.6)	(373.6)
Financial instruments for which fair value does not approximate carrying value			-	-
Financial liabilities in fair value hedge relationships	(2,511.5)	(2,494.0)	(2,913.6)	(2,895.5)
Other financial liabilities at amortised cost	(6,283.7)	(5,115.9)	(6,568.1)	(5,182.7)
	(8,844.8)	(7,659.5)	(9,545.2)	(8,141.7)

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 £2,206.6 million (2021: £2,766.0 million) for financial liabilities in fair value hedge relationships, and £2,383.8 million (2021: £2,321.6 million) for other financial liabilities at amortised cost.

The £497.2 million decrease (2021: £2,906.2 million increase) in 'level 1' fair value liability measurements primarily reflects the maturity of the 5.75% £375 million bond in March 2022, which was classified as a 'level 1' fair value measurement in the prior financial year, and a reduction in the number of observable quoted bond prices in active markets at 31 March 2022.

In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data, which are classified as 'level 2' valuations. More information in relation to the valuation techniques used by the group and the IFRS 13 hierarchy can be found in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2022.

The reason for the decrease in the difference between the fair value and carrying value of the group's borrowings at 31 March 2022 compared with the position at 31 March 2021 is due to an increase in both the risk free rate and credit spreads.

15. Cash generated from operations

	2022 £m	2021 £m
Operating profit	**610.0**	602.1
Adjustments for:		
Depreciation of property, plant and equipment	**377.0**	379.8
Amortisation of intangible assets	**41.2**	42.5
Loss on disposal of property, plant and equipment	**3.9**	10.7
Amortisation of deferred grants and contributions	**(15.8)**	(15.0)
Equity-settled share-based payments charge	**4.8**	3.6
Changes in working capital:		
Increase/(decrease) in inventories	**0.1**	(1.7)
Decrease in trade and other receivables	**13.2**	18.1
Increase in trade and other payables	**24.7**	2.5
Decrease/(increase) in provisions	**2.4**	(5.3)
Pension contributions paid less pension expense charged to operating profit	**0.1**	(0.1)
Cash generated from operations	**1,061.6**	1,037.2

16. Net debt

	2022	2021
	£m	**£m**
At the start of the year	**7,305.8**	7,227.5
Net capital expenditure	**626.7**	639.0
Dividends (note 10)	**295.5**	291.9
Interest	**118.3**	129.3
Inflation expense on index-linked debt (note 7)	**227.9**	52.6
Tax	**8.9**	48.5
Non-cash movements in lease liabilities	**2.4**	4.1
Extension of loans to joint ventures	**13.0**	2.0
Proceeds from disposal of joint ventures and other investments	**-**	(85.3)
Dividends from joint ventures	**-**	(6.4)
Other	**4.4**	5.3
Fair value movements	**28.7**	34.5
Cash generated from operations (note 15)	**(1,061.6)**	(1,037.2)
At the end of the year	**7,570.0**	7,305.8

Fair value movements includes the indexation expense relating to the group's inflation swap portfolio of £29.9 million (2021: a credit of £0.7 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

Notional net debt totals £7,534.3 million as at 31 March 2022 (2021: £7,268.5 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 2022

	Cumulative exchange reserve	Capital redemption reserve	Merger reserve	Cost of hedging reserve	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2021	-	1,033.3	(703.6)	0.4	6.2	336.3
Changes in fair value recognised in other comprehensive income	-	-	-	-	108	108
Amounts reclassified from other comprehensive income to profit and loss	-	-	-	-	(1.3)	(1.3)
Tax on items recorded within other comprehensive income	-	-	-	-	(26.8)	(26.8)
At 31 March 2022	**-**	**1,033.3**	**(703.6)**	**0.4**	**86.1**	**416.2**

17. Other reserves (continued)

Year ended 31 March 2021

	Cumulative exchange reserve	Capital redemption reserve	Merger reserve	Cost of hedging reserve	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£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 recorded within other comprehensive income	-	-	-	2.4	(1.8)	0.6
Foreign exchange adjustments	(1.6)	-	-	-	-	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	4.0	-	-	-	-	4.0
At 31 March 2021	**-**	**1,033.3**	**(703.6)**	**0.4**	**6.2**	**336.3**

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

The 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 2022, there were commitments for future capital expenditure contracted but not provided for of £292.8 million (2021: £336.7 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, and while the litigation has progressed during the year it remains in its early stages. The litigation's likely direction and the quantum of any compensation being claimed is uncertain at this stage; however, based on the information currently available, the likelihood of the claim's success is considered to be low, and any potential outflow is not expected to be material.

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no contingent liabilities to be disclosed in this regard (2021: 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:

	2022	2021
	£m	**£m**
Sales of services	**363.1**	362.9
Charitable contributions advanced to related parties	**0.1**	-
Purchases of goods and services	**-**	-
Costs recharged at nil margin under transitional service agreements	**-**	-
Interest income and fees recognised on loans to related parties	**2.8**	3.7
Amounts owed by related parties	**116.4**	113.8
Amounts owed to related parties	**-**	2.4

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 2022, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £116.4 million (March 2021: £113.8 million), comprising £28.5 million (March 2021: £27.1 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £80.4 million (March 2021: £86.7 million) relating to loans. £6.1 million owed by Water Plus relating to the repayment of amounts surrendered as consortium relief tax losses is also included within the amounts owed by joint ventures as at 31 March 2022.

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

- £79.4 million (2021: £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 rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £80.5 million outstanding, net of a £1.1 million allowance for expected credit losses (2021: £67.5 million net of a £1.2 million allowance for expected credit losses); and

- £1.0 million (2021: £0.7 million) receivable being the £10.6 million (2021: £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 (2021: £0.1 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2022 and 31 March 2021 of £12.5 million, comprising £10.6 million (2021: £10.3million) receivable measured at fair value, and £1.9 million (2021: £2.2 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

In the prior year, amounts owed by Water Plus also included £18.3 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, comprising £32.5 million outstanding net of the group's £14.2 million share of Water Plus losses allocated against this amount as at 31 March 2021. At that date, the facility formed part of the group's long-term interest in the Water Plus joint venture given that there was a clear expectation that this revolving credit facility would be replaced with additional share capital, with this transaction subsequently executed in April 2021. Accordingly, this £18.3 million balance ceased to be treated as a related party receivable and was recognised as an addition to the group's joint ventures balance during the year ended 31 March 2022 (see note 11).

19. Related party transactions (continued)

A further £1.4 million (2021: £1.4 million) of non-current receivables was owed by other related parties at 31 March 2022.

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 2022, amounts owed to related parties were nil (March 2021: £2.4 million). The amount outstanding at 31 March 2021 included £1.1 million due to Water Plus for the surrender of consortium relief tax losses, and a small amount of trade balances settled in accordance with normal credit terms. These amounts were paid during the current year bringing this balance to a nil position.

20. Events after the reporting period

In March 2022, the process to market the group's renewable energy business, United Utilities Renewable Energy Limited (UURE), for sale commenced having been approved by the group's board of directors earlier in the year. As at the 31 March 2022 reporting date, the criteria for presenting the assets and liabilities of the UURE disposal group as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' had not yet been met as the active programme to locate a buyer and complete the planned sale was only subsequently initiated in May 2022. The assets that are subject to the sales process primarily comprise property, plant and equipment with a carrying value of £64.6 million in the group's consolidated statement of financial position as at 31 March 2022.

In addition to this, after the reporting period the group raised new borrowings and entered into new undrawn committed borrowing facilities as described in note 13.

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 2022. 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 UK-adopted international accounting standards; 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
Louise Beardmore
Liam Butterworth
Stephen Carter
Kath Cates
Alison Goligher
Paulette Rowe
Doug Webb

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

………………………..	……………………….
Steve Mogford	Phil Aspin
25 May 2022	25 May 2022
Chief Executive Officer	Chief Financial Officer