United Utilities
Water for the North West

Building a stronger, greener, healthier North West

25 May 2023: United Utilities today announces Full Year results for the period to 31 March 2023.

Louise Beardmore, Chief Executive Officer, said:
"As the new CEO, it is an honour and privilege to lead United Utilities. I am very clear about our ambition to build a stronger, greener, healthier North West on behalf of customers, communities and the environment. Despite a challenging year of cost pressures, we have delivered our best ever performance on a range of measures that matter most to customers, including leakage, water quality and serious pollution incidents. To help ease cost of living pressures, we have provided financial support to over 330,000 customers so far this regulatory period and have continued to play a key role in the wider economy of the North West, supporting 22,000 jobs across the region.

I understand and share concerns about the use of storm overflows and I am committed to respond to the challenges we face. We have already achieved a 39% reduction in reported activations since 2020, but we need to go faster and drive a step change in performance. We have won support from regulators and are able to make an early start on over £900 million of investment. This will allow us to commence work now on one third of the overflows we are targeting in our AMP8 plans.

In October we will be putting forward an ambitious plan for the next regulatory period, including our biggest environmental programme yet, targeting a significant improvement in storm overflow performance. It is clear that we need to invest in infrastructure, assets and our people to meet new environmental targets and deliver the further performance improvements customers and communities want to see. Along with all my colleagues, we are committed to delivering even better performance and we are looking forward to the opportunity to do so."

Key financials (£m) - Year ended 31 March

	Reported			Underlying[1]		
	2023	**2022**	**% change**	**2023**	**2022**	**% change**
Revenue	**1,824.4**	1862.7	-2.1%	**1,824.4**	1,862.7	-2.1%
Operating profit	**440.8**	610.0	-27.7%	**440.8**	610.0	-27.7%
Profit/(loss) before tax	**256.3**	439.9	-41.7%	**(34.3)**	301.9	-111.4%
Profit/(loss) after tax	**204.9**	(56.8)	n/a	**(8.7)**	367.0	n/a
EPS (pence)	**30.0**	(8.3)	n/a	**(1.3)**	53.8	n/a

	2023	**2022**	**% change**
Total DPS (pence)	**45.51**	43.50	+4.6%
Net regulatory capex (£m)	**693.9**	644.5	+7.7%
RCV[2] (£m)	**14,000**	12,725	+10.0%
Net debt (£m)	**8,201**	7,570	+8.3%
RCV gearing[3] (%)	**58%**	59%	-1%
RoRE[4] (%)	**11.0%**	7.7%	+3.3%

2022/23 Financial highlights

- **Revenue in line with guidance** -2% to £1,824m largely reflecting lower consumption more than offsetting the allowed regulatory revenue increase. Around £40m of the reduction will be recoverable in two years' time under the revenue control.
- **Underlying operating profit of £441m**, down from £610m driven by lower revenue and the inflationary impact on operating costs, in particular procurement of electricity and chemicals.
- **Underlying EPS of -1.3p**, down from 53.8p due to the impact of inflation on debt indexation and the operating result.
- **Return on regulated equity (RoRE) +3% to 11.0% real for 2022/23**, reflecting strong financing, customer ODI and tax outperformance which more than outweighed total expenditure (totex) underperformance driven by additional investment in service and environmental improvements.
- **Strong balance sheet with RCV +10.0% to £14.0bn and RCV gearing at 58%**, slightly lower than the prior year equivalent 59% and within our target range of 55-65%.
- **ODI reward in line with guidance** at approximately £25m for FY23.
- **Recommended final dividend of 30.34p**, to bring full year dividend to 45.51p, up +4.6% in line with policy.

Performance highlights

- **Best performance to date against our leakage performance commitment,** with average leakage over the last three years at its lowest ever level and earning a customer ODI reward for the year.
- **39% reduction in reported activations from storm overflows** compared to our 2020 baseline, with monitoring in place on 97% of overflows and on track to achieve full coverage by end of calendar year.
- **Won support from regulators to bring forward c.£200m of AMP8 investment for key environmental improvements in the region**. Accelerated infrastructure delivery project allows us to make an early start on improving a third of the overflows targeted for improvement between now and 2030.
- **Remain sector leader in reducing serious pollution incidents**, achieving zero in 2022/23 and zero in 3 of the last 4 years. Remain the only company in the sector to achieve zero serious pollution incidents in consecutive years.
- **4 star performance in the Environment Agency's most recent Environmental Performance Assessment**, meaning "industry leading" status achieved in 5 of the last 7 years.
- **Internal sewer flooding reduced by 46%** during the current regulatory period, with 39% fewer repeat incidents this year demonstrating benefits of successful implementation of Dynamic Network Management.
- **Best water quality performance, posting 26% improvement in water quality contacts.** Investment in water quality, principally to avoid discolouration, contributes to ODI performance.
- **Provided affordability support to more than 330,000 households so far in this regulatory period** with our industry leading financial assistance support, helping customers to manage the rising cost of living.
- **83% of ODI performance commitments delivered for the year.**

Outlook for current regulatory period

- Forecasting to achieve an AMP7 average real RoRE of 6-8%
- Expect to deliver AMP7 asset growth of 4-5% nominal CAGR[5]
- Continue to target AMP7 total net ODI reward of around £200m
- Targeting dividend growth in line with CPIH
- Policy to target 55-65% net debt / RCV gearing

Enquiries

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Results and Strategy Update presentation webcast

We will be hosting a presentation of our results and strategy update to investors and analysts at 10.00am on Thursday 25 May 2023, at the Rothschild Sky Pavilion, New Court, St Swithin's Lane, London, EC4N 8AL.

This presentation can be accessed as a webcast here: https://primetime.bluejeans.com/a2m/live-event/zathatwh

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/

Notes

[1] Underlying measures are defined in the tables on pages 19 to 20
[2] United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior year figures have been re-presented for comparative purposes.
[3] RCV gearing calculated as group net debt including loan receivable from joint venture/United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior year figures have been re-presented for comparative purposes.
[4] Return on regulated equity
[5] Compound annual growth rate

OPERATIONAL REVIEW

We have delivered our best ever performance for customers, having met or exceeded more of our performance commitments this year than ever before. We were once again the top performing listed company for customer satisfaction as assessed by Ofwat's C-MeX measure. We have provided affordability support to more than 330,000 households so far in this regulatory period to support customers who are understandably struggling with cost of living pressures.

We are acutely aware that this is a critical time for the water sector, with many challenges facing us, especially around river health. We have delivered significant environmental improvements in recent years in areas such as improving beaches, reducing pollution and reducing leakage, but we should all have acted sooner to recognise and address the impact of storm overflows.

In the North West, we have delivered a 39 per cent reduction in reported activations from storm overflows compared to the 2020 baseline, but there is a lot more to do and we have ambitious plans to go further and faster to drive a real step change. This won't happen overnight, it will take sustained effort and investment over time, but we are committed to acting as fast as we can. With the support of our regulators we are accelerating investment, making a start on improvements at one third of the overflows we are targeting in AMP8. As a result we will be investing a further £200 million in the next two years.

In October we will be putting forward our business plan with the biggest environmental improvement programme we will have ever proposed. Along with all my colleagues, we are looking forward to the opportunity to build a stronger, greener and healthier North West.

Strengthening our industry-leading affordability support for customers

We are passionate about protecting customers in vulnerable circumstances through our comprehensive suite of support schemes and an industry-leading £280 million[1] package of affordability support. The cost of living crisis has made things even more challenging for deprived communities in our region. With a growing number of customers asking for help with their water bill, we have been working hard to increase awareness of available support, the option of flexible payment plans, and to provide water efficiency advice.

We are determined to play a role in making the North West stronger. This is the fourth year we have taken a leading role across our region, bringing together all stakeholders and communities to focus on affordability and vulnerability issues.

Delivering improvements in performance for customers and the environment

Our operational performance has been strong this year – we have met or exceeded 83 per cent of our performance commitments, earning a net customer ODI reward of approximately £25 million. This reflects strong delivery for customers and the environment in the North West.

[1] 50% company funded, over the course of the 2020-25 regulatory period (AMP7)

Our investment in improving water quality - principally to avoid discolouration - has supported a 26 per cent improvement in water quality contacts this year. This is contributing towards our ODI performance, alongside other water measures such as water service resilience and supporting the removal of lead pipes from customers' properties.

Reducing leakage is of huge importance for our stakeholders and for us as an organisation. This year we have delivered our best performance to date against our performance commitment, resulting in an ODI reward. While we are making great progress, we recognise we continue to have a high absolute level of leakage. We are challenging ourselves to go further in reducing leakage – from our network and in customer properties – as it is critical to helping us better manage and conserve water resources. Alongside this we have delivered our largest ever reduction in Per Capita Consumption (PCC), supported by help and advice to encourage customers to use less water and amplify the link between heating water and energy bills.

Our basket of measures for avoiding flooding is also delivering a net ODI reward, and we continue to make great progress in reducing flooding incidents. We have nearly halved the number of internal sewer flooding incidents since the start of AMP7. This year's performance includes a 39 per cent reduction in repeat internal flooding incidents[2]. This has been supported by our investment in Dynamic Network Management (DNM).

In the winter, we experienced a rapid and severe freeze-thaw event that resulted in burst pipes across the region. Our teams and partners worked exceptionally hard to minimise the disruption and we deployed significant resources to sustain services. However, some customers experienced short-term interruptions to their water supply, leading to an ODI penalty against this performance commitment and additional costs.

The great service we have delivered for customers has been reflected in further improvement in our performance against Ofwat's measure of customer satisfaction, C-MeX. We were the top listed company, ranked fourth of the water and wastewater companies and fifth out of 17 companies overall. As a result of this performance we expect to achieve a record £3 million reward. Customer service is hugely important to us, and are proud to be the first company ever to receive 100,000 commendations from customers through the WOW! Awards scheme, where customers provide independent, proactive feedback on the service we provide.

We look after important urban and rural landscapes and we continue to stretch ourselves to improve environmental performance, to create a greener North West. Our environmental performance this year has remained strong. We have also delivered all of our Water Industry National Environment Programme (WINEP) schemes by their planned delivery date since the beginning of AMP7, including 137 schemes in this year alone.

[2] These are incidents affecting a customer that has already experienced a previous incident

We have also achieved the top, 4 star rating in the Environmental Performance Assessment from the Environment Agency (EA) in five of the last seven years. This includes being assessed as an "industry leading" company in the most recent assessment for 2021. This was a significant achievement given that the criteria used to assess company performance becomes more challenging each year. We have consistently improved our performance when it comes to minimising pollution, having reduced the number of pollution incidents by over 50 per cent in the last decade and achieving zero serious pollution incidents in three of the last four years.

Driving a step change in river health

Communities are concerned about the country's rivers and particularly the impact of storm overflows. We have listened, understand the strength of feeling and we agree that we need to go further and faster to reduce the number of storm overflow activations.

Overflows have been a core feature of the sewer network in the UK and around the world for more than a century. We recognise that the time has come to change this and a step change is needed. Achieving this will take significant time and sustained, new investment. The North West has more rainfall and more combined sewers than elsewhere in the country, as well as a very large network. We are committed to delivering the changes needed as quickly and effectively as possible.

Last year, we announced our 'Better Rivers: Better North West' programme, supported by additional reinvestment of outperformance, to take action to improve river health across our region. We have made good progress so far and have delivered a 39 per cent reduction in reported activations compared to the 2020 baseline. This will get progressively tougher as we focus on more challenging overflows. Key to delivering this is our improvement in monitoring and operation of storm overflows. We currently monitor 97 per cent of overflows and will achieve full coverage before the end of this calendar year.

We have also won regulatory support to make an early start on our AMP8 investment. This means we expect to spend £200 million over the final two years of AMP7, making an early start on improving a third of the overflows targeted for improvement between now and 2030.

Creating a greener future

We continue to work towards our 2050 net zero ambition, underpinned by ambitious science-based targets. We are making good progress against our six carbon pledges, and have reduced our scope 1 and 2 greenhouse gas (GHG) emissions by a further 1.5 per cent this year. Our peatland restoration and woodland creation programmes help to protect water and other natural resources, support nature, and enable recreational access, as well as acting as natural carbon 'sinks' to help mitigate climate change.

We own and manage 56,000 hectares of land, which provides scope for the development of renewable and other clean technologies. Having previously delivered a portfolio of renewable assets across the North West, we are now moving to the next stage of the journey to net zero. As an initial step, we are working on plans to develop 150 megawatts of new installed capacity by 2030. This programme could comprise a combination of solar, wind and batteries, helping to deliver emissions reductions and further improve both operating and financial resilience.

Supported by a talented, diverse and engaged workforce

Our colleagues are at the heart of our current and future success, and we are committed to providing a safe and great place to work. Colleague engagement has been strong this year, and at 82 per cent we scored higher than UK Norm and Utilities Norm benchmarks. We have recruited record levels of graduates and apprentices onto our award winning programmes this year, and are proud that one of our own colleagues has been awarded the UK's apprentice of the year. We have also launched our new green apprenticeship scheme to recruit 100 apprentices by 2025, who will actively contribute to our environmental delivery.

The safety of our colleagues has been, and always will be, a top priority for us, and we are pleased to have delivered sustained year-on-year improvements in employee accident frequency rates for the last five years. In recognition of our commitment to health and safety, we have been awarded the Royal Society for the Prevention of Accidents (RoSPA) gold standard medal for the 11th consecutive year.

We are ranked in the top 100 companies in the Financial Times Inclusive Leaders Index 2023, having improved on our position from last year, and are the only UK utility company in the top 100. We are recognised as one of the top 15 FTSE companies when it comes to women in leadership, having exceeded the 40 per cent target for Women on Board and Women Leaders set by the FTSE 100 Women Leaders Review.

Building an ambitious future plan

Enhanced environmental standards, population growth and climate change are driving significant new investment needs. Our plan for the next regulatory period will be submitted in October with a substantial programme of work targeting a wide range of customer service and environmental benefits.

Reducing the use of storm overflows is a key component of our plan, which proposes improvements to over 400 sites by the end of AMP8. We expect this would represent a reduction of over 70,000 activations per annum, around a 60 per cent reduction against the 2020 baseline. Our plan also includes investment to reduce phosphorous and address nutrient imbalance, delivery targets set by the Environment Act 2021, further improving river health in the North West.

Our proposed programme of work is substantially larger than we have ever delivered before, and we are already working hard to prepare and mobilise to deliver this ambitious plan. We have appointed five new area stakeholder managers, one for each county in our region, who are working on early engagement with communities and planning approval. We have also brought in additional experience and knowledge to assist colleagues in our engineering, capital delivery and commercial teams. Our supply chain will be critical, and we have appointed an AMP8 mobilisation and organisational readiness partner to ensure that we have the skills and capabilities to successfully deliver AMP8.

Our engagement with customers shows their support for investment in environmental improvements, but the recent rises in cost of living are clearly putting pressure on household budgets and a plan of this size will inevitably drive an increase in customer bills. We are challenging ourselves to embed the highest levels of efficiency into the plan and identify the best value solutions. We also recognise the need to support customers with affordability challenges and we are planning to strengthen our industry-leading affordability support package as we head into AMP8.

We are confident that our strong and resilient corporate and financial structure, together with a highly competent and engaged team, means that we are well positioned to continue to deliver for all our stakeholders in AMP8 and beyond.

AMP7 FINANCIAL FRAMEWORK

Our five year financial framework captures anticipated performance in the five years to 31 March 2025. This period aligns with the AMP7 regulatory period.

Investment and regulated asset growth

We expect to deliver a number of capital programmes in AMP7, in addition to our base totex programme. These include Green Recovery and the recently approved AMP8 accelerated environmental enhancement programmes. Combined with the impact of inflation, our regulated assets are expected to grow at a compound annual growth rate of 4 to 5 per cent across the five years to March 2025.

Return on regulated equity

The return on regulatory equity (RoRE) metric measures returns (after tax and interest) earned by reference to notional regulated equity. Overall returns comprise a base return on equity plus a contribution from outcome delivery incentives, operating efficiency, financing efficiency and customer service. We currently expect to deliver average returns of between 6 and 8 per cent in AMP7, on a real RPI/CPIH blended basis.

Balance sheet

The board has set a target gearing range for the AMP7 regulatory period of 55 to 65 per cent net debt to regulated capital value. As at 31 March 2023 our gearing is in the lower half of this range at 58 per cent.

Dividend policy

The group maintains a dividend policy to target a growth rate of CPIH inflation each year through to 2025. The annual increase in the dividend is based on the CPIH element included within allowed regulated revenue for the current financial year. This is calculated as using the CPIH annual rate from the November prior (i.e. the 2022/23 dividend is equal to the 2021/22 dividend indexed for the movement in CPIH between November 2020 and November 2021).

OUTLOOK AND GUIDANCE

ODI rewards

We are targeting a net customer ODI reward of around £200 million in total over AMP7.

Revenue

Revenue is expected to increase by around £150 million in 2023/24, largely reflecting the November 2022 CPIH inflation of 9.3 per cent, partially offset by a £20 million net impact of over/under-recovery during 2022/23 and 2021/22.

Underlying operating costs

Operating costs are expected to be around £60 million higher year-on-year. This increase is largely driven by inflation, with the largest inflationary pressures impacting power and labour costs. The remaining increase reflects the 2023/24 operating cost impact of additional investments, including our Better Rivers programme.

Underlying net finance expense

Underlying net finance expense is expected to be at least £150 million lower year-on-year, due to the impact of falling inflation. As at 31 March 2023, we had £4.5 billion of index-linked debt exposure, giving rise to a £45m swing in our interest charge for every 1 per cent change in inflation. Our cash interest in 2022/23 was £102 million and we expect this to be slightly higher in 2023/24.

Underlying tax

Our current tax charge is expected to be zero in 2023/24, reflecting expected benefits following the spring budget in relation to "full expensing" and the 50 per cent first year allowances on longer life assets.

Capital expenditure

Capex in 2023/24 is expected to be in the range of £720 million to £800 million. In addition to our AMP7 base programme, this reflects capital expenditure for the year in relation to our additional investment (including Green Recovery and investment supporting our Better Rivers programme), and AMP8 acceleration capital programmes.

FINANCIAL REVIEW

Key financials (£m)

	Reported			Underlying[1]		
	2023	**2022**	**% change**	**2023**	**2022**	**% change**
Revenue	1,824.4	1862.7	-2.1%	1,824.4	1862.7	-2.1%
Operating expenses	(766.5)	(665.0)	+15.2%	(766.5)	(665.0)	+15.2%
Infrastructure renewals expenditure	(193.5)	(169.5)	+14.2%	(193.5)	(169.5)	+14.2%
Depreciation and amortisation	(423.6)	(418.2)	+1.3%	(423.6)	(418.2)	+1.3%
Operating profit	440.8	610.0	-27.7%	440.8	610.0	-27.7%
Net finance expense	(215.7)	(168.3)	+28.2%	(475.1)	(306.3)	+55.1%
Share of losses of JVs	-	(1.8)	n/a	-	(1.8)	n/a
Profit on disposal of subsidiary	31.2	-	n/a	-	-	n/a
(Loss)profit before tax	256.3	(439.3)	-n/a	(34.3)	301.9	n/a
Tax credit/(charge)	(51.4)	(496.7)	+89.7%	25.6	65.1	-60.7%
(Loss)/profit after tax	204.9	(56.8)	n/a	(8.7)	367.0	n/a
EPS (pence)	30.0	(8.3)	n/a	(1.3)	53.8	n/a

	2023	**2022**	**% change**
Total DPS (pence)	**45.51**	43.50	+4.6%
Net regulatory capex (£m)	**693.9**	644.5	+7.7%
RCV[2] (£m)	**14,000**	12,725	+10.0%
Net debt (£m)	**8,201**	7,570	+8.3%
RCV gearing[3] (%)	**58%**	59%	-1%
RoRE[4] (%)	**11.0%**	7.7%	+3.3%

[1] Underlying measures are defined in the tables on pages 19 to 20
[2] United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior year figures have been re-presented for comparative purposes.
[3] RCV gearing calculated as group net debt including loan receivable from joint venture/United Utilities Water Limited's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms). Prior year figures have been re-presented for comparative purposes.
[4] Return on regulated equity

This has been a challenging year for the business. Revenue declined 2 per cent, mainly driven by lower than expected consumption while underlying operating profit fell 28 per cent or £169 million, primarily due to the reduction in revenue and inflationary pressures on core costs, particularly power and chemicals. The higher inflation has also significantly increased non-cash interest expense on our index-linked debt, which alongside the lower operating profit, has resulted in a small underlying loss for the year of £9m and an underlying earnings per share of minus 1.3 pence.

However, the inflation linkage for both the Regulatory Capital Value (RCV) and the allowance for total expenditure (Totex), provides additional longer term value that is not reflected in the income statement. This has contributed to a robust economic performance, including an increase in our return on regulated equity of 11.0 per cent. This extra value accruing to the RCV has resulted in a reduction in RCV gearing to 58 per cent, consistent with our strong balance sheet and supporting our dividend policy.

Revenue

	£m
Year to 31 March 2022	1,862.7
Regulatory revenue 4.6 per cent uplift in line with CPIH inflation partly offset by -1.3 per cent real reduction in allowed wholesale revenues	69.7
Non-household consumption impact	(80.1)
Household consumption impact	(22.3)
Other	(5.6)
Year to 31 March 2023	**1,824.4**

Revenue was down £38 million, at £1,824 million, largely reflecting lower consumption more than offsetting the allowed regulatory revenue increase.

In 2022/23 we had a £70 million increase in the revenue cap due to regulatory adjustments, incorporating £21 million in relation to ODI rewards earned in 2020/21 and a 4.6 per cent CPIH-linked increase partly offset by 1.3 per cent real reduction in allowed wholesale revenues as set out in our PR19 Final Determination.

Non-household revenue has decreased by £80 million compared with last year and household consumption has decreased by £22 million, as consumption across both customer groups has changed since charges and tariffs for the year were set in December 2021. Taking into consideration the regulatory adjustments, revenue for the year represents a £41 million under-recovery against allowed revenue, which, under the revenue control, will be recoverable in two years' time.

Operating profit

	£m
Year to 31 March 2022	610.0
Revenue decrease	(38.3)
Inflationary increases	(80.9)
Extreme weather costs	(19.5)
Costs driving ODI performance	(4.9)
Other	(25.6)
Year to 31 March 2023	**440.8**

Operating profit at £441 million was £169 million lower than last year, largely reflecting the decrease in revenue, inflation impacting our core cost base and the impact of operational incidents as a result of extreme weather during the year.

Inflationary pressures have impacted input costs resulting in a £81 million increase. The largest increases have been to power, chemical, labour costs and regulatory fees, where we have incurred an additional £27 million, £25 million, £8 million and £8 million respectively. We have experienced smaller inflationary increases to other costs of £13 million, which on a cost base of £518 million represents an inflationary impact of 3 per cent, which was less than CPIH inflation.

Our regulatory model allows for indexation of our overall totex allowance (including capital expenditure) and with average CPIH of 8.9 per cent, we are managing to contain the inflation impact on overall costs within the totex inflation allowance.

Extreme weather events adversely impacted not only our ODI performance, but also drove an adverse operating cost impact of £20 million.

The £5 million of additional expenditure driving improvements to ODI performance was primarily in relation to infrastructure renewals expenditure (IRE) investment in Dynamic Network Management (DNM) – our innovative approach to managing our sewer network – and improving water quality.

The rising cost of living increases the strain on customers' ability to pay their bills and therefore cash collection. However, we have 81 per cent of household customers on direct debit and other payment plans and, with the help of proactive engagement, innovative solutions and tailored assistance, we have achieved our best ever performance for cash collection. This has contributed to bad debt remaining at an all time low 1.8 per cent of household revenue.

Profit/(loss) before tax

	£m
Underlying – year to 31 March 2022	301.9
Underlying operating profit decrease	(169.2)
Underlying net finance expense increase	(168.8)
Share of JVs losses decrease	1.8
Underlying loss before tax – year to 31 March 2023	**(34.3)**
Adjusted items *	290.6
Reported – year to 31 March 2023	**256.3**

* Adjusted items are set out on pages 19 to 20.

Underlying loss before tax of £34 million compared to a £302 million underlying profit before tax last year. The £336 million difference reflects the £169 million reduction in underlying operating profit and a £169 million increase in underlying net finance expense, partly offset by a decrease in the share of losses of joint ventures of £2 million. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 19 to 20.

Reported profit before tax decreased by £184 million to £256 million reflecting the £169 million decrease in reported operating profit and a £48 million increase in reported net finance expense, partly offset by a £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited, and a decrease in the share of losses of joint ventures of £2 million.

- <u>Net finance expense</u>
  The underlying net finance expense of £475 million was £169 million higher than last year mainly due to significantly higher inflation resulting in a £520 million increase in the non-cash indexation on our debt and derivative portfolio, partly offset by higher capitalised interest of £127 million (2021/22: £53 million) and higher net pension interest income of £29 million (2021/22: £14 million).

  Cash interest of £102 million was £16 million lower than last year. Cash interest excludes non-cash items mainly comprising the indexation on our debt and derivative portfolio, capitalised interest and net pension interest income.

  Reported net finance expense of £216 million was £48 million higher than last year, reflecting the £169 million increase in the underlying net finance expense, partly offset by a £123 million increase in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £138 million last year to £261 million this year.

- Joint ventures
  In the prior year we recognised a £1.8 million net share of losses from joint ventures primarily in relation to Water Plus. For the year to 31 March 2023, Water Plus's financial performance has improved to a breakeven position, and we therefore recognise neither a share of profit or loss in our income statement.

Profit/(loss) after tax and earnings per share

	PAT £m	Earnings per share Pence/share
Underlying – year to 31 March 2022	367.0	*53.8p*
Underlying profit before tax decrease	(336.2)	
Reduction in underlying tax credit	(39.5)	
Underlying loss after tax – year to 31 March 2023	**(8.7)**	***(1.3)p***
Adjusted items *	214.0	
Reported – year to 31 March 2023	**204.9**	***30.0p***

* Adjusted items are set out on pages 19 to 20.

The underlying loss after tax of £9 million is £376 million lower than the underlying profit after tax of £367 million last year, reflecting the £336 million reduction in underlying profit before tax and a £40 million reduction in underlying tax credit.

Reported profit after tax is higher at £205 million and reported earnings per share at 30.0 pence per share with the adjusted items between underlying and reported profit after tax set out on pages 19 to 20.

- Tax
  The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we are delighted to have retained the Fair Tax Mark independent certification for a fourth year.

  In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 5,000 strong workforce. The total payments for 2022/23 were around £229 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges.

  In the current year, we received a net corporation tax repayment of £1 million which represents an effective cash tax rate of 0 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment including the temporary capital allowance 'super deductions'.

  The group recognised a current tax credit of £25 million, mainly due to a prior year adjustment to recognise the utilisation of tax losses previously assumed to be carried forwards.

The deferred tax charge of £77 million is £486 million lower than last year primarily due to a £403 million charge in the prior year relating to the increase in the tax rate from 19 per cent to 25 per cent from 1 April 2023.

There are £171 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 30.34 pence per ordinary share in respect of the year ended 31 March 2023. Taken together with the interim dividend of 15.17 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2022/23 of 45.51 pence. This is an increase of 4.6 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 4.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2022/23 financial year (i.e. the movement in CPIH between November 2020 and November 2021).

The final dividend is expected to be paid on 1 August 2023 to shareholders on the register at the close of business on 26 June 2023. The ex-dividend date is 22 June 2023. The election date for the Dividend Reinvestment Plan is 11 July 2023.

Cash flow

Net cash generated from continuing operating activities for year to 31 March 2023 was £788 million, £146 million lower than £934 million last year, principally due to the reduced revenue of £38 million and inflationary impacts on costs of £81 million.

The net cash generated from continuing operating activities supports the dividends paid for the year of £301 million and partially funds some of the group's net capital expenditure of £690 million, with the balance being funded by net borrowings and cash and cash equivalents. This forms part of a £2.0 billion capital programme undertaken in the first three years of the period, representing 62 per cent delivery of our AMP7 programme. We have been able to deliver this expenditure effectively, scoring 92.9 per cent against our Capital Programme Delivery incentive (CPDi) measure this year.

Pensions

As at 31 March 2023, the group had an IAS 19 net pension surplus of £601 million, compared with a surplus of £1,017 million at 31 March 2022. This £416 million decrease principally reflects a decrease in the value of the schemes' assets due to changes in financial conditions over the course of the financial year, as well as experience losses resulting from actual inflation being higher than assumed at 1 April 2022. This more than offsets the significant reduction in the schemes' liabilities during the year due to an increase in the average discount rate since the start of the year and a lower long term RPI 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 2022	7,570.0
Cash generated from operations	(883.1)
Proceeds from disposal of subsidiary	(90.5)
Net capital expenditure	688.9
Indexation	463.4
Dividends	301.2
Interest	102.4
Fair value movements	32.3
Exchange rate movements on bonds and term borrowings	20.6
Other	(4.4)
At 31 March 2023	**8,200.8**

Net debt at 31 March 2023 was £8,201 million, compared with £7,570 million at 31 March 2022. This comprises gross borrowings with a carrying value of £8,435 million and net derivative liabilities hedging specific debt instruments of £106 million net of cash and short-term deposits of £340 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 including a £76 million loan receivable from joint venture divided by UUW's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms) regulatory capital value of £14.0 billion, was 58 per cent at 31 March 2023, slightly lower than the equivalent 59 per cent at 31 March 2022, and remains within our target range of 55 to 65 per cent.

- <u>Cost of debt</u>
  As at 31 March 2023, the group had approximately £3.4 billion of RPI-linked instruments and £0.5 billion of CPI or CPIH-linked instruments held as debt Including swaps, the group has RPI-linked debt exposure of £3.3 billion at an average real rate of 1.3 per cent, and £1.2 billion of CPI or CPIH-linked debt exposure at an average real rate of –0.6 per cent.

  A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 8.0 per cent being higher than the rate of 5.1 per cent last year. More information on this can be found on page 21.

  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 2.9 per cent for the remainder of the AMP7 regulatory period.

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

- Debt financing
  The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme.

  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 £1.8 billion, taking advantage of attractive funding opportunities available and extending our liquidity out to August 2025.

  In the year to March 2023 we raised £638 million of term funding including new/renewed bank facilities.

  Following the year end we issued a further £400m of term funding, with the proceeds of a £300m sustainable public bond being received on 6 April and executing a £100m 9 year maturity bilateral loan with one of the group's relationship banks during April 2023.

- Interest rate management

  Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings under the regulatory model. At 31 March 2023, approximately 40 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 9 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 17 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 2023, we had liquidity out to August 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 capital investment programme.

Return on Regulated Equity (RoRE)

Reported RoRE for 2022/23 was 11.0 per cent on a real, RPI/CPIH blended basis.

This comprises the base return of 4.0 per cent (including our 11 basis point fast track reward that we receive in each of the five years of the AMP), financing outperformance of 4.7 per cent, tax outperformance of 2.5 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 to improve operational and environmental performance.

- Totex performance
  The totex impact on RoRE of -0.8 per cent, largely reflects the year three impact of the additional investment we are making outside the scope of our Final Determination (FD) to improve operational and environmental performance. This includes, for example, our investment in Dynamic Network Management and investment as part of our Better Rivers programme.

  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. Our totex allowance increases with inflation, which helps to mitigate some of the cost pressures experienced this year, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

- Customer outcome delivery incentives (ODIs)
  Customer ODI outperformance of 0.5 per cent reflects a net reward of £25 million[3]. Our customer ODI performance has been strong across the board, meeting or exceeding 83 per cent of our performance commitments, our best ever performance. We continue to target a total a cumulative net ODI reward over this five-year period of around £200 million.

  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 2024/25 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism.

- Tax outperformance
  The 2.5 per cent outperformance on tax reflects the current year underlying tax credit, including capital allowances associated with temporary ‘super deductions’.

- Financing outperformance
  We earned financing outperformance this year of 4.7 per cent. 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. Our financing outperformance this year has also been supported by the recent high level of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

[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

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 29. As such, they represent non-GAAP measures.

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

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

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

Underlying profit	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Operating profit per published results	**440.8**	**610.0**
Underlying operating profit	**440.8**	**610.0**

Net finance expense

	£m	£m
Finance expense	(262.7)	(187.7)
Investment income	47.0	19.4
Net finance expense per published results	**(215.7)**	**(168.3)**
Adjustments:		
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(259.4)	(138.0)
Underlying net finance expense	**(475.1)**	**(306.3)**

	£m	£m
Share of profits/(losses) of joint ventures	**-**	**(1.8)**
Profit on disposal of business	**31.2**	**-**
Adjustments:		
Profit on disposal of subsidiary	(31.2)	-
Underlying profit on disposal of subsidiary	**-**	**-**
Profit before tax per published results	**256.3**	**439.9**
Adjustments:		
In respect of operating profit	-	-
In respect of net finance expense	(259.4)	(138.0)
In respect of profit on disposal of subsidiary	(31.2)	-
Underlying profit before tax	**(34.3)**	**301.9**
Profit/(Loss) after tax per published results	**204.9**	**(56.8)**
Adjustments:		
In respect of profit before tax	(290.6)	(138.0)
Deferred tax adjustment	76.6	562.5
Tax in respect of adjustments to underlying profit before tax	0.4	(0.7)
Underlying (loss)/profit after tax	**(8.7)**	**367.0**

Earnings per share

	£m	£m
Profit/(Loss) after tax per published results (a)	204.9	(56.8)
Underlying (loss) / profit after tax (b)	(8.7)	367.0
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	30.0	(8.3)
Underlying earnings per share, in pence (b/c)	(1.3)	53.8
Dividend per share, in pence	45.51p	43.50p

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

Average effective interest rate	**Year ended 31 March 2023 £m**	**Year ended 31 March 2022 £m**
Underlying net finance expense	(475.1)	(306.3)
Adjustments:		
Net pension interest income	(28.7)	(14.3)
Adjustment for capitalised borrowing costs	(127.5)	(52.7)
Net finance expense for effective interest rate	**(631.3)**	**(373.3)**
Average notional net debt	**(7,849)**	**(7,368)**
Average effective interest rate	**8.0%**	**5.1%**

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:

	Year ended 31 March 2023 £m	**Year ended 31 March 2022 £m**
Group underlying operating profit	**440.8**	**610.0**
Underlying operating profit not relating to UUW	3.1	(8.3)
UUW statutory underlying operating profit (unaudited)	**443.9**	**601.7**
Revenue recognition	9.3	6.2
Capitalised borrowing costs	7.5	7.8
Reclassification of regulatory other income (not included in UUW operating profit)	(32.8)	(26.9)
Reversal of the innovation fund	6.4	**15.4**
Other differences (including non-appointed business)	(0.2)	(0.8)
UUW regulatory underlying operating profit (unaudited)	**434.1**	**603.1**

Return on Regulated Equity (RoRE)

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

	Year ended 31 March 2023	**AMP7 To date**
Base return	3.97%	3.94%
Totex performance	(0.80)%	(0.76)%
Customer ODI performance	0.51%	0.46%
Tax performance	2.54%	1.70%
Financing performance	4.74%	2.52%
Reported RoRE[2]	10.96%	7.86%

PRINCIPAL RISKS AND UNCERTAINTIES

Our approach to risk management

Our overall approach to risk management, including how we identify and assess risk, the oversight and governance process, and focus on continual improvement remains unchanged and is detailed in our Annual Report for the year ended 31 March 2023.

Risk profile

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

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

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

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 and the five non-financial capitals (Human, Intellectual, Manufactured, Natural and Social) 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 – E):

1. Price Review 2024 outcome

Risk exposure: 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. There is a blend of internal audit and external assurance focused on the quality of the submission.

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).

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 internal audits and external assurance over the HARP procurement process.

3. Wastewater network failure

Risk exposure: Blockages, operational issues or inadequate hydraulic capacity relative to population growth, extreme weather, asset health, and legal/regulatory change, resulting in unpermitted storm overflow activations, sewer flooding and environmental damage.

Control/mitigation: Preventative maintenance and inspection regimes, customer campaigns, sewer rehabilitation program and Better Rivers programme.

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. Totex efficiency challenge

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

Control/mitigation: Integrated Business Planning (IBP), risk-based investment prioritisation and the company business planning process all contribute to efficient delivery of services and the capital programme. In addition, there are number of executive led initiatives to realise efficiency opportunities.

Assurance: First line assurance is undertaken through monthly price control meetings, with the strategic programme board, monthly executive performance review meetings and quarterly business reviews providing second line governance and assurance. Third line assurance is undertaken through cyclical internal audits.

5. Cyber

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

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

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

6. Water sufficiency

Risk exposure: Water sufficiency is one of the most sensitive risks to climate change, with the increased frequency of hot and dry weather being evidence of changing circumstances. Extended periods of low rainfall and exceptionally hot weather impacts, with accompanying increased customer demand, impacts our water resources which can result in the need to implement water use restrictions.

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

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

7. Carbon commitments

Risk exposure: The capacity and capability to decarbonise water and wastewater activity to meet commitments and legal obligations across the various time horizons of 2030, 2035 and 2050 in light of expected population growth pressures and uncertainty regarding the required technological advances to decarbonise operational activity.

Control/mitigation: In the near-term we are creating woodland, restoring peatland and have initiatives to address process and energy emissions. We are working with suppliers and industry partners to better understand and optimise decarbonisation opportunities and pathways.

Assurance: First line assurance by Carbon team using water industry team for technical support and guidance. Climate change mitigation steering group and corporate risk framework provides second line assurance. Our Science Based Targets, energy and carbon reporting are subject to external assurance and verification.

8. Recycling of biosolids to agriculture

Risk exposure: Represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. The risk considers the Environment Agency's interpretation of the Farming Rules for Water regulations and the increasing threat to recycling a large proportion of biosolid to land.

Control/mitigation: Treatment, sampling and testing regimes ensure that sludge meets acceptable standards for application with formal service level agreements between wastewater and bioresources. We work closely with farmers, land owners and contractors to ensure regulations such as Farming Rules for Water and the standard operating procedures are met.

Assurance: Bioresource production planning team undertake first line assurance against UK Biosolids Assurance Scheme (BAS) accreditation, and other codes of practice such as the safe sludge matrix which certifies our recycling activities. Second and third line assurance is also undertaken by the assurance and internal audit teams respectively.

9. Failure to treat sludge

Risk exposure: Relates to the interdependency between wastewater and bioresource treatment activity in light of changing demographics, asset health and legislative/regulatory change such as the Industrial Emissions Directive (IED) now applying to biological treatment of sewage sludge.

Control/mitigation: We look to maximise our treatment capacity by adopting a Throughput, Reliability, Availability and Maintainability (T-RAM) approach for our facilities. We also undertake a digester and tank clean programme, regular testing and analysis of sludge, and balance capacity and demand through the bioresource production planning team.

Assurance: Bioresource production planning team undertake first line assurance against UK Biosolids Assurance Scheme (BAS) accreditation, and other codes of practice such as the safe sludge matrix which certifies our treatment. Second and third line assurance is also undertaken by the assurance and internal audit teams respectively.

10. Credit ratings

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

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

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.

High impact, low likelihood risks

A. Erosion of pension scheme surplus

Risk exposure: The potential for the pension scheme funding 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 sensitivity testing as part of our company business planning process relative to assumed periods of low inflation both in isolation and in conjunction with the realisation of severe but plausible risks.

Assurance: First line assurance is undertaken by the finance team as part of the company business planning process, with second line assurance undertaken at monthly executive level meetings. Further oversight is provided by the group board and treasury committee and third line assurance is provided through 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, assurance team and regular board reviews. Independent assurance is provided by panel engineers and internal audit.

D. Disease pandemic

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

Control/mitigation: We have a pandemic contingency plan which is regularly reviewed and was updated to reflect lessons learned from COVID-19. The plan includes multi-channel communication with non-pharmaceutical interventions.

Assurance: The assurance team second line assurance, with internal audit undertaking various reviews.

E. Terrorism

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

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

Assurance: Security measures are reviewed on a regular basis by our internal asset owners in conjunction with the central security team. Second line assurance is provided by the cross business security steering group. In addition, internal audit undertakes cyclical audits with external technical assurance being delivered by specialists.

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. While our directors remain of the opinion that the likelihood of a material adverse impact on the group's financial position is remote, based on the facts currently known to us and the provisions in our statement of financial position, the following three cases are worthy of note:

- In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal in 2022 and the main additional points raised by MSCC were dismissed, although MSCC were granted leave to appeal to the Supreme Court. The final appeal was heard in early March 2023 and the Court's decision is awaited. This 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;

- As reported in previous years, in February 2009, United Utilities International Limited (UUIL) was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks which was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. The Argentine Court has recently scheduled various hearings to receive the testimony of fact witnesses and experts (starting in May). UUIL will vigorously resist the proceedings given the robust defences that UUIL has been advised that it has on procedural and substantive grounds; and

- A Letter Before Action was received by UUW in February 2023 in respect of potential collective proceedings before the Competition Appeal Tribunal. We are informed that the Proposed Class Representative (PCR) is intending to bring a claim on behalf of a class comprising consumers of UUW (on an opt-out basis) who have allegedly been overcharged for sewerage services as a result of an alleged abuse of a dominant position. We have been informed that the PCR also intends to bring the claim against United Utilities Group PLC, as the ultimate parent company of UUW. Proceedings have not yet been issued.

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.

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Classification – Full Year Results

Consolidated income statement

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Revenue	**1,824.4**	**1,862.7**
Staff costs	**(192.2)**	**(184.3)**
Other operating costs (note 4)	**(556.4)**	**(461.7)**
Allowance for expected credit losses - trade and other receivables	**(22.7)**	**(23.4)**
Other income	**4.8**	**4.4**
Depreciation and amortisation expense	**(423.6)**	**(418.2)**
Infrastructure renewals expenditure	**(193.5)**	**(169.5)**
Total operating expenses	**(1,383.6)**	**(1,252.7)**
Operating profit	**440.8**	**610.0**
Investment income (note 5)	**47.0**	**19.4**
Finance expense (note 6)	**(262.7)**	**(187.8)**
Allowance for expected credit losses - loans to joint ventures	**-**	**0.1**
Investment income and finance expense	**(215.7)**	**(168.3)**
Share of losses of joint ventures (note 11)	**-**	**(1.8)**
Profit on disposal of business (note (7)	**31.2**	**-**
Profit before tax	**256.3**	**439.9**
Current tax credit	**25.2**	**65.8**
Deferred tax charge	**(76.6)**	**(562.5)**
Tax (note 8)	**(51.4)**	**(496.7)**
Profit/(loss) after tax	**204.9**	**(56.8)**

All of the results shown above relate to continuing operations.

Earnings per share (note 9)		
Basic	**30.0p**	**(8.3)p**
Diluted	**30.0p**	**(8.3)p**
Dividend per ordinary share (note 10)	**45.51p**	**43.50p**

Consolidated statement of comprehensive income

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit/(loss) after tax	**204.9**	**(56.8)**
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges – effective portion of fair value movements	**(50.6)**	**106.7**
Tax on items recorded within other comprehensive income	**12.7**	**(26.8)**
Reclassification of cash flow hedge effectiveness to consolidated income statement	**(36.6)**	**-**
Tax on reclassification to consolidated income statement	**7.0**	**-**
Other comprehensive income that may be reclassified to profit or loss	**(67.5)**	**79.9**
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement (losses)/gains on defined benefit pension schemes (note 12)	**(445.3)**	**313.6**
Change in credit assumption for debt reported at fair value through profit and loss	**4.8**	**(4.1)**
Cost of hedging - cross currency basis spread adjustment	**6.3**	**-**
Tax on items recorded within other comprehensive income	**151.5**	**(109.4)**
Other comprehensive income that will not be reclassified to profit or loss	**(282.7)**	**200.1**
Total comprehensive income	**(145.3)**	**223.2**

Consolidated statement of financial position

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**12,570.7**	**12,147.5**
Intangible assets	**142.3**	**160.8**
Interests in joint ventures and other investments (note 11)	**16.5**	**16.6**
Inventories	**1.2**	**0.4**
Trade and other receivables	**75.7**	**81.7**
Retirement benefit surplus (note 12)	**600.8**	**1,016.8**
Derivative financial instruments	**428.6**	**399.4**
	13,835.8	**13,823.2**
Current assets		
Inventories	**13.1**	**17.8**
Trade and other receivables	**190.5**	**222.7**
Current tax asset	**98.9**	**74.4**
Cash and short-term deposits	**340.4**	**240.9**
Derivative financial instruments	**48.5**	**58.0**
	691.4	**613.8**
Total assets	**14,527.2**	**14,437.0**
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(892.4)**	**(835.2)**
Borrowings (note 13)	**(8,259.0)**	**(7,671.0)**
Deferred tax liabilities	**(2,048.1)**	**(2,148.1)**
Derivative financial instruments	**(243.1)**	**(136.7)**
	(11,442.6)	**(10,791.0)**
Current liabilities		
Trade and other payables	**(376.7)**	**(365.8)**
Borrowings (note 13)	**(176.4)**	**(308.8)**
Provisions	**(13.1)**	**(13.5)**
Derivative financial instruments	**(9.7)**	**(0.5)**
	(575.9)	**(688.6)**
Total liabilities	**(12,018.5)**	**(11,479.6)**
Total net assets	**2,508.7**	**2,957.4**
EQUITY		
Share capital	**499.8**	**499.8**
Share premium account	**2.9**	**2.9**
Other reserves (note 17)	**353.4**	**416.2**
Retained earnings	**1,652.6**	**2,038.5**
Shareholders' equity	**2,508.7**	**2,957.4**

Consolidated statement of changes in equity

Year ended 31 March 2023

	Share capital £m	Share premium account £m	[(1)]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2022	499.8	2.9	416.2	2,038.5	2,957.4
Profit after tax	-	-	-	204.9	204.9
Other comprehensive income					
Remeasurement losses on defined benefit pension schemes (note 12)	-	-	-	(445.3)	(445.3)
Change in credit assumption for debt reported at fair value through profit and loss	-	-	-	4.8	4.8
Cash flow hedges – effective portion of fair value movements	-	-	(50.6)	-	(50.6)
Cost of hedging – cross-currency basis spread adjustment	-	-	6.3	-	6.3
Tax on items recorded within other comprehensive income (note 8)	-	-	11.1	153.1	164.2
Reclassification of items recorded directly in equity	-	-	(36.6)	-	(36.6)
Tax on reclassification to income statement	-	-	7.0	-	7.0
Total comprehensive income	**-**	**-**	**(62.8)**	**(82.5)**	**(145.3)**
Dividends (note 10)	-	-	-	(301.2)	(301.2)
Equity-settled share-based payments	-	-	-	4.6	4.6
Purchase of shares to satisfy exercise of share options	-	-	-	(6.8)	(6.8)
At 31 March 2023	**499.8**	**2.9**	**353.4**	**1,652.6**	**2,508.7**

Year ended 31 March 2022

	Share capital £m	Share premium account £m	[(1)]Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	499.8	2.9	336.3	2,192.0	3,031.0
Loss after tax	-	-	-	(56.8)	(56.8)
Other comprehensive income					
Remeasurement gains on defined benefit pension schemes (note 12)	-	-	-	313.6	313.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(4.1)	(4.1)
Cash flow hedges – effective portion of fair value movements	-	-	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**

[(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 2023 £m	Year ended 31 March 2022 £m
Operating activities		
Cash generated from operations (note 15)	**883.1**	**1,061.6**
Interest paid	**(118.2)**	**(121.9)**
Interest received and similar income	**15.8**	**3.6**
Tax paid	**(10.8)**	**(8.9)**
Tax received	**17.6**	**-**
Net cash generated from operating activities	**787.5**	**934.4**
Investing activities		
Purchase of property, plant and equipment	**(675.9)**	**(609.0)**
Purchase of intangible assets	**(18.1)**	**(19.5)**
Grants and contributions received	**5.1**	**1.8**
Extension of loans to joint ventures (note 19)	**5.0**	**(13.0)**
Proceeds from disposal of investments (note 7)	**90.5**	**-**
Net cash used in investing activities	**(593.4)**	**(639.7)**
Financing activities		
Proceeds from borrowings net of issuance costs	**501.0**	**173.7**
Repayment of borrowings	**(278.0)**	**(681.8)**
Dividends paid to equity holders of the company (note 10)	**(301.2)**	**(295.5)**
Exercise of share options – purchase of shares	**(6.8)**	**(6.1)**
Net cash used in financing activities	**(85.0)**	**(809.7)**
Effects of exchange rate changes	**(1.3)**	**1.5**
Net increase/(decrease) in cash and cash equivalents	**107.8**	**(513.5)**
Cash and cash equivalents at beginning of the year	**220.1**	**733.6**
Cash and cash equivalents at end of the year	**327.9**	**220.1**

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2023 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 2023, for which the auditors have given an unqualified opinion.

The comparative figures for the year ended 31 March 2022 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified 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 2022.

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. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact of £500 million arising in the assessment period; elevated levels of bad debt of £15 million per annum; outcome delivery incentive penalties equivalent to 1.0 per cent of RoRE per annum; 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

The group disclosed a number of critical accounting judgements and key sources of estimation uncertainty in its annual reports and financial statements for the year ended 31 March 2022. The area most impacted by developments during the year relates to the group's allowance for expected credit losses in respect of receivables.

Judgements and estimates have been kept under review during the year to 31 March 2023 in order to ensure that they reflect the most up-to-date information available, including changes in the broader economic outlook, particularly the inflationary pressures across most industries and sectors which have increased the cost of living. These 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 – allowance for expected credit losses in respect of household trade receivables: As a result of the Covid-19 pandemic and more recently ongoing cost of living pressures, recent years have seen a higher level of uncertainty around how economic conditions may impact the recoverability of household receivables for a significant proportion of the Group's customer base. A range of collection scenarios have been used to inform the allowance for expected credit losses charged to the income statement during the period. These take account of cash collection rates in the current year as well as in recent years incorporating the onset of the Covid-19 pandemic, periods of lockdown, and periods of recovery, as well as current levels of economic uncertainty in order to provide a range of views as to how recoverability of household receivables may be impacted by different conditions.

The group has historically used the average collection evidenced in the previous two years as a basis for estimating future collection, however cash collection during the current year has been particularly strong and therefore may not be reflective of the impact of cost of living challenges experienced by customers that may impact cash collection in the near future. The two year look-back period broadly reflects periods of recovery following the Covid-19 pandemic, and so may not provide a representative view of future cash collection in light of current levels of economic uncertainty. Accordingly, we have calculated the allowance for expected credit losses based on the average cash collection history over the last three years, which is considered to give a more balanced position as it includes periods of relatively strong cash collection but also periods where cash collection was more challenging during the Covid-19 pandemic. Recognising the current levels of economic uncertainty and that it is reasonably possible that cash collection could become more challenging in the near future, this three year look-back period is considered to give a reasonable view of what cash collection on a forward-looking basis could look like.

This supports a charge equivalent to around 1.8 per cent of household revenue recorded during the period, which is broadly consistent with the position at 31 March 2022.

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 (KPIs), with operational KPIs aligned to the group's purpose, and financial KPIs focused on profitability and financial sustainability. 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

	2023 £m	2022 £m
Wholesale water charges	**758.1**	776.5
Wholesale wastewater charges	**914.7**	946.3
Household retail charges	**83.0**	68.9
Other	**68.6**	71.0
	1,824.4	1,862.7

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. Other operating costs

	2023 £m	2022 £m
Materials	**132.7**	90.8
Power	**130.8**	99.6
Hired and contracted services	**103.7**	95.4
Property rates	**87.1**	90.5
Regulatory fees	**36.7**	28.4
Insurance	**19.7**	16.9
Accrued innovation costs	**6.1**	5.9
Loss on disposal of property, plant and equipment	**4.2**	3.9
Cost of properties disposed	**1.4**	3.0
Other expenses	**34.0**	27.3
	556.4	461.7

During the year ended 31 March 2023, the group experienced inflationary pressures across much of its operating cost base. This was most notable in relation to materials costs for consumables such as chemicals, and power costs, which increased by £41.9 million and £31.2 million respectively compared with the prior year.

Included within operating costs for the year are £8.4 million relating to operational incidents over the dry summer period in 2022, and £11.1 million relating to the group's response to periods of extreme cold weather over the winter of 2022/23, including a rapid freeze-thaw in December 2022 leading to burst pipes. The costs associated with this response include the cost of emergency network repairs, customer compensation where short-term supply interruptions were experienced, and the provision of bottled water.

Research and development expenditure for the year ended 31 March 2023 was £1.2 million (2022: £1.2 million). In addition, £6.1 million (2022: £5.9 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 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.

5. Investment income

	2023 £m	2022 £m
Interest receivable	**18.3**	5.1
Net pension interest income (note 12)	**28.7**	14.3
	47.0	19.4

6. Finance expense

	2023 £m	2022 £m
Interest payable	**497.7**	330.7
Net fair value gains on debt and derivative instruments	**(235.0)**	(142.9)
	262.7	187.8

Interest payable is stated net of £127.5 million (2022: £52.7 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying an average capitalisation rate of 7.9 per cent (2022: 4.2 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

Interest payable includes a £463.5 million (2022: £227.9 million) non-cash inflation expense in relation to the group's index-linked debt.

In addition to the £262.6 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 £nil million during the current year (2022: decrease of £0.1 million).

Net fair value gains on debt and derivative instruments includes £31.8 million income (2022: £33.2 million income) due to net interest on derivatives and debt under fair value option, and £56.2 million expense (2022: £28.3 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 £215.7 million (2022: £168.3 million) reported in the Income Statement to exclude the £235.0 million of fair value gains in the above table, but include £31.8 million income due to net interest on derivatives and debt under fair value option, and £56.2 million expense due to non-cash inflation uplift on index-linked derivatives.

7. Disposal of subsidiary

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

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

	2023 £m
Total consideration received	**98.5**
Total net assets disposed	**(63.8)**
Fees and transaction costs	**(3.5)**
Profit on disposal of subsidiary	**31.2**

7. Disposal of subsidiary (continued)

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

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

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

8. Tax

During the year ended 31 March 2023 there was a current tax credit of £25.2 million (31 March 2022: £72.5 million) and a deferred tax charge of £32.5 million (31 March 2022: £66.9 million) relating to prior years. The current year figure mainly relates to the utilisation of tax losses. The prior year 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/(loss) after tax by the weighted average number of shares in issue during the year.

	2023 £m	2022 £m
Profit/(loss) after tax attributable to equity holders of the company	**204.9**	**(56.8)**
Weighted average number of shares in issue in millions		
Basic	**681.9**	**681.9**
Diluted	**684.1**	**683.8**
Earnings per share in pence		
Basic	**30.0**	**(8.3)**
Diluted	**30.0**	**(8.3)**

10. Dividends

	2023 £m	2022 £m
Dividends relating to the year comprise:		
Interim dividend	**103.4**	98.9
Final dividend	**206.9**	197.8
	310.3	296.7
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**103.4**	98.9
Final dividend	**197.8**	196.6
	301.2	295.5

The proposed final dividends for the years ended 31 March 2023 and 31 March 2022 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 2023 and 31 March 2022 respectively.

The final dividend of 30.34 pence per ordinary share (2022: 29.00 pence per ordinary share) is expected to be paid on 1 August 2023 to shareholders on the register at the close of business on 24 June 2023. The ex-dividend date for the final dividend is 23 June 2023.

The interim dividend of 15.17 pence per ordinary share (2022: 14.50 pence per ordinary share) was paid on 1 February 2023 to shareholders on the register at the close of business on 17 December 2022.

11. Joint ventures and other investments

	2023 £m	2022 £m
Joint ventures at the start of the year	**16.5**	-
Additions	**-**	18.3
Share of losses of joint ventures	**-**	(1.8)
Joint ventures at the end of the year	**16.5**	16.5
Other investments	**-**	0.1
Interest in joint ventures and other investments	**16.5**	16.6

The group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement. The group also has a 50 per cent interest in Lingley Mere Business Park Development Company Limited, which is jointly owned and controlled by the group and Muse Developments Limited under a joint venture agreement.

The group's total share of Water Plus profits for the year was £nil (2022: £1.8 million share of losses, all of which is recognised in the income statement). The group incurred a share of the losses of Lingley Mere Business Park Development Company Limited for the year of £0.4 million (2022: nil), which have not been recognised as at 31 March 2023. This is unrecognised as the brought forward carrying amount of the group's interest in the joint venture is nil.

Additions in the prior year relate to an equity investment in Water Plus following the conversion of the existing fully drawn facility to equity share capital as executed on 23 April 2021.

The group recognised a disposal in the year of £0.1 million (2022: £nil) in its other investments.

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:

	2023 %pa	2022 %pa
Discount rate	4.70	2.80
Pension increases	3.40	3.75
Pensionable salary growth (pre-2018 service):		
ESPS	3.40	3.75
UUPS	3.40	3.75
Pensionable salary growth (post-2018 service):		
ESPS	3.40	3.75
UUPS	2.85	3.20
Price inflation - RPI	3.40	3.75
Price inflation – CPI[(1)]	2.85	3.20

Note:
[(1)]The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.50 per cent pre-2030 and 3.30 per cent post-2030 (31 March 2022: 2.85 per cent pre-2030 and 3.65 per cent post-2030).

12. Retirement benefit surplus (continued)

The discount rate is consistent with a high quality corporate bond rate, with 4.70 per cent being equivalent to gilts plus 95 basis points (2022: 2.80 per cent being equivalent to gilts plus 110 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 (2022: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2023. 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 £61 million, and therefore an increase in the net retirement benefit surplus of around £61 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 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 £7 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 2023, as in the prior year, the base tables used for the mortality in retirement assumption are the Continuous Mortality Investigation's (CMI) S3PA (2022: S3PA) year of birth tables, with a scaling factor of 109 per cent (2022: 109 per cent) and 115 per cent (2022: 115 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2022: 110 per cent) and 111 per cent (2022: 111 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. At 31 March 2023, future improvements in mortality are based on the extended CMI 2021 (2022: CMI 2021) projection model, with a long-term annual rate of improvement of 1.25 per cent (2022: 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 £16.5 million increase in the fair value of defined benefit obligations, and therefore a reduction in the overall retirement benefit surplus.

The CMI 2022 tables are not expected to be released until the summer of 2023 and have therefore not been incorporated into the mortality assumptions used in arriving at the 31 March 2023 year-end accounting figures. There remains considerable uncertainty around the long-term impact and the choice of appropriate adjustment remains subjective and is limited to the available parameters within the CMI model. As such, in arriving at mortality assumptions for 31 March 2023, the group has retained the same assumptions as used for the 31 March 2022.

Although the long-term impacts of the COVID-19 pandemic are not yet fully known, mortality over 2022 and the early part of 2023 has remained above pre-pandemic levels. This suggests that the general level of mortality in the population will be higher than had previously been projected pre-pandemic. Accordingly, the group has retained its COVID-19 adjustment of a w2021 parameter of 10 per cent within the CMI 2021 projections.

12. Retirement benefit surplus (continued)

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

	2023 £m	2022 £m
Current service cost	**6.0**	7.5
Curtailments/settlements	**-**	-
Administrative expenses	**2.5**	2.1
Pension expense charged to operating profit	**8.5**	9.6
Net pension interest credited to investment income (note 6)	**(28.7)**	(14.3)
Net pension income credited before tax	**(20.2)**	(4.7)

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

	2023 £m	2022 £m
At the start of the year	**1,016.8**	689.0
Income recognised in the income statement	**20.2**	4.7
Contributions	**9.1**	9.5
Remeasurement (losses)/gains gross of tax	**(445.3)**	313.6
At the end of the year	**600.8**	1,016.8

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

	2023 £m	2022 £m
Present value of defined benefit obligations	**(2,330.5)**	(3,018.9)
Fair value of schemes' assets	**2,931.3**	4,035.7
Net retirement benefit surplus	**600.8**	1,016.8

The IAS 19 remeasurement loss of £445.3 million (2022: £313.6 million gain) has largely resulted from an increase to the average discount rate by 1.9 per cent since the start of the year and a 0.35% decrease to long-term RPI assumptions have led to significant reduction in the value of the schemes' defined benefit obligations. This has been offset by a decrease in the fair value of the schemes' assets due to changes in financial conditions over the course of the reporting year, as well as experience losses resulting from actual inflation being greater than previously assumed, including the impact of pension increases.

The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' Technical Provisions funding positions, and are therefore more than 100% hedged on an IAS19 basis. As a result, increases in net yields are expected to reduce the Schemes' assets by a greater amount than the IAS19 liabilities. 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 2023.

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.

12. Retirement benefit surplus (continued)

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 £29.2 million (2022: £26.1 million) of contributions to defined contribution schemes which are included in staff costs.

13. Borrowings

New borrowings raised during the year ended 31 March 2023 were as follows:

- On 26 April 2022, the group executed a £100 million loan facility, due April 2030.
- On 29 July 2022, the group executed a £150 million loan facility, due June 2032.
- On 30 August, the group executed a £135 million loan facility, due August 2030.
- On 16 December 2022, the group issued a JPY8.5 billion fixed rate notes, due December 2037. On issue, the JPY bond was immediately swapped to £51.1 million of principal outstanding.
- On 31 January 2023, the group issued £75 million fixed rate notes as a fungible increase to £250 million fixed rate notes issued previously, due February 2038.

On 6 April 2023, the group issued £300 million fixed rate notes, due October 2038.

On 27 April 2023, the group executed a £100 million loan facility, due April 2032.

Notes were issued through private placement under the Euro Medium-Term Note Programme.

The group entered into two undrawn committed borrowing facilities in the period, and a further four were renewed, with amounts available under these facilities totalling £150 million.

Borrowings at 31 March 2023 include £59.5 million in relation to lease liabilities (2022: £60.9 million), of which £55.9 million (2022: £57.6 million) was classified as non-current and £3.6 million (2022: £3.3 million) was classified as current.

14. Fair values of financial instruments

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

	Fair value	2023 Carrying value	Fair value	2022 Carrying value
	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets - fair value hedge	65.4	65.4	156.3	156.3
Derivative financial assets - held for trading	352.0	352.0	190.1	190.1
Derivative financial assets - cash flow hedge	59.7	59.7	111.0	111.0
Investments	0.1	0.1	0.1	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities - fair value hedge	(215.3)	(215.3)	(87.4)	(87.4)
Derivative financial liabilities - held for trading	(3.4)	(3.4)	(49.8)	(49.8)
Derivative financial liabilities - cash flow hedge	(34.1)	(34.1)	-	-
Financial liabilities designated as fair value through profit or loss	(361.0)	(361.0)	(369.9)	(369.9)
Financial instruments for which fair value does not approximate carrying value				
Financial liabilities in fair value hedge relationships	(2,310.1)	(2,332.3)	(2,511.5)	(2,494.0)
Other financial liabilities at amortised cost	(5,400.0)	(5,742.1)	(6,283.7)	(5,115.9)
	(7,846.7)	(8,211.0)	(8,844.8)	(7,659.5)

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair Value Measurement'* hierarchy of £1,936.1 million (2022: £2,206.6 million) for financial liabilities in fair value hedge relationships, and £2,541.3 million (2022: £2,383.8 million) for other financial liabilities at amortised cost.

The £113.0 million decrease (2022: £497.2 million decrease) in 'level 1' fair value liability measurements primarily reflects the significant rise in interest rates during the year.

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 2023.

The reason for the decrease in the difference between the fair value and carrying value of the group's borrowings at 31 March 2023 compared with the position at 31 March 2022 is due to an increase in both the risk free rate and credit spreads.

15. Cash generated from operations

	2023 £m	2022 £m
Operating profit	**440.8**	610.0
Adjustments for:		
Depreciation of property, plant and equipment	**385.5**	377.0
Amortisation of intangible assets	**38.1**	41.2
Loss on disposal of property, plant and equipment	**4.2**	3.9
Amortisation of deferred grants and contributions	**(16.2)**	(15.8)
Equity-settled share-based payments charge	**5.1**	4.8
Changes in working capital:		
Increase/(decrease) in inventories	**3.9**	0.1
Decrease in trade and other receivables	**27.2**	13.2
Increase/(decrease) in trade and other payables	**(5.5)**	24.7
Increase/(Decrease) in provisions	**(0.4)**	2.4
Pension contributions paid less pension expense charged to operating profit	**0.4**	0.1
Cash generated from operations	**883.1**	1,061.6

16. Net debt

	2023 £m	2022 £m
At the start of the year	**7,570.0**	7,305.8
Net capital expenditure	**688.9**	626.7
Dividends (note 10)	**301.2**	295.5
Interest	**102.4**	118.3
Inflation expense on index-linked debt (note 7)	**463.4**	227.9
Exchange rate movement on bonds and term borrowings	**20.6**	4.3
Tax	**(6.8)**	8.9
Non-cash movements in lease liabilities	**(1.1)**	2.4
Extension of loans to joint ventures	**(5.0)**	13.0
Proceeds from disposal of subsidiary	**(90.5)**	-
Other	**8.5**	0.1
Fair value movements	**32.3**	28.7
Cash generated from operations (note 15)	**(883.1)**	(1,061.6)
At the end of the year	**8,200.8**	7,570.0

Fair value movements includes the indexation credit relating to the group's inflation swap portfolio of £85.3 million (2022: £29.9 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 £8,193.3 million as at 31 March 2023 (2022: £7,534.3 million). Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and short-term deposits, taking: the face value issued of any nominal sterling debt; the inflation accreted principal of the group's index-linked debt; and the sterling principal amount of the cross-currency swaps relating to the group's foreign currency debt.

17. Other reserves

Year ended 31 March 2023

	Capital redemption reserve	Merger reserve	Cost of hedging reserve	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m
At 1 April 2022	1,033.3	(703.6)	0.4	86.1	416.2
Changes in fair value recognised in other comprehensive income	-	-	6.3	(50.6)	(44.3)
Amounts reclassified from other comprehensive income to profit and loss	-	-	-	(36.6)	(36.6)
Tax on items recorded within other comprehensive income	-	-	(1.6)	19.7	18.1
At 31 March 2023	**1,033.3**	**(703.6)**	**5.1**	**18.6**	**353.4**

Year ended 31 March 2022

	Capital redemption reserve	Merger reserve	Cost of hedging reserve	Cash flow hedge reserve	Total
	£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**

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 2023, there were commitments for future capital expenditure contracted but not provided for of £338.9 million (2022: £292.8 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 (2022: 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:

	2023	**2022**
	£m	**£m**
Sales of services	**335.1**	363.1
Charitable contributions advanced to related parties	**0.2**	0.1
Purchases of goods and services	**(1.3)**	-
Interest income and fees recognised on loans to related parties	**4.7**	2.8
Amounts owed by related parties	**102.2**	116.4
Amounts owed to related parties	**-**	-

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

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

At 31 March 2023, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £102.2 million (March 2022: £116.4 million), comprising £26.7 million (March 2022: £28.5 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £75.5 million (March 2022: £80.4 million) relating to loans.

19. Related party transactions (continued)

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

- £74.4 million (2022: £79.4 million) outstanding on a £95.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2026, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £75.5 million outstanding, net of a £1.1 million allowance for expected credit losses (2022: £80.5 million net of a £1.1 million allowance for expected credit losses); and

- £1.4 million (2022: £1.0 million) receivable being the £11.0 million (2022: £10.6 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 (2022: £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 2023 and 31 March 2022 of £12.5 million, comprising a £11.0 million (2022: £10.6 million) receivable representing the present value of the £12.5 million payable at maturity discounted using an appropriate market rate of interest at the inception of the loan, and £1.5 million (2022: £1.9 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A further £0.1 million (2022: £1.4 million) of non-current receivables was owed by other related parties at 31 March 2023.

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 £48.9 million, of which £26.0 million related to guarantees to United Utilities Water Limited.

At 31 March 2023, amounts owed to related parties were £nil (March 2022: £nil).

20. Events after the reporting period

With the exception of the new borrowings and entering into of a new undrawn committed borrowing facilities as described in note 12, there were no significant events after the reporting period requiring disclosure or any adjustments to the financial position, financial performance, or cash flows reported as at 31 March 2023

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 2023. 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
Louise Beardmore
Phil Aspin
Alison Goligher
Liam Butterworth
Kath Cates
Michael Lewis
Paulette Rowe
Doug Webb

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

………………………..	……………………….
Louise Beardmore	Phil Aspin
24 May 2023	24 May 2023
Chief Executive Officer	Chief Financial Officer