United Utilities Group PLC
23 May 2019

FULL YEAR RESULTS FOR THE YEAR ENDED 31 MARCH 2019

Putting customers first

- 10% real reduction in average household bills since 2010, alongside improving customer service
- The sector's most innovative assistance schemes supporting over 100,000 customers struggling to pay
- Achieved our best ever customer satisfaction SIM scores, anticipating a reward of around £16m for AMP6

Achieved fast-track status for next regulatory period (AMP7)

- Awarded the highest grades for the sector in Ofwat's initial assessment of company business plans
- Fast-track status secures greater clarity with a year to go before the start of AMP7
- AMP6 additional investment increased by £100m to facilitate a flying start to AMP7
- Total outperformance sharing now £350m in AMP6 and over £600m across AMPs 5 and 6

Strong operational performance delivering shareholder value

- Pioneering Systems Thinking approach delivering sustained improvement in both operational performance and service for customers
- Leakage target met for 13 consecutive years
- Confident of delivering totex outperformance of £100m against our AMP6 scope
- Net wholesale ODI reward of £19m for the year, expect cumulative AMP6 reward of around £30m

Strong financial performance

- Underlying operating profit of £684.8m (reported operating profit of £634.9m)
- Dividend in line with AMP6 growth policy
- IFRS pension surplus of £484m at 31 March 2019, pension funding deficit eliminated in April 2019
- Robust capital structure providing resilience and future financial flexibility

Key financials

	Year ended	
	31 March 2019	31 March 2018
Revenue	£1,818.5m	£1,735.8m
Reported operating profit	£634.9m	£636.4m
Underlying operating profit[1]	£684.8m	£645.1m
Reported profit after tax	£363.4m	£354.6m
Underlying profit after tax[1]	£378.7m	£304.9m
Total dividend per ordinary share (pence)	41.28p	39.73p
Net regulatory capital spend	£821.0m	£816.1m
RCV gearing[2]	61%	61%

[1] Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on pages 16 and 17
[2] Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water's shadow RCV (outturn prices)

Steve Mogford, Chief Executive Officer, said:

"Always operating in the best interests of customers is at the very heart of our operations and this is reflected in our best ever customer satisfaction scores. We have taken the lead in transforming how the sector supports customers, particularly those in vulnerable circumstances, and have delivered more for customers whilst reducing bills by 10 per cent in real terms since 2010.

"We are achieving leading and sustainable results across many areas of operational performance, benefiting from the investment that we accelerated into the early years of the current regulatory period and from our deeply embedded innovation culture that is considered to be the best in the sector. Our Systems Thinking approach has underpinned a strong performance on our outcome delivery incentives against a backdrop of increasingly challenging targets and maintaining resilient services to customers during the extreme periods of weather in 2018.

"Ofwat's fast-track assessment of our 2020-2025 business plan - that achieved the highest grades for the sector - reflects the quality of our future plans and the performance improvements we have already delivered. We are increasing our additional investment by another £100 million, to total £350 million, to accelerate the delivery of further performance improvements and facilitate a flying start to the next regulatory period. We are well placed for the remainder of the current regulatory period and beyond as we maintain our focus on providing great service to customers and creating long-term value for all of our stakeholders."

For further information on the day, please contact:

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A presentation to investors and analysts starts at 9.00am on Thursday 23 May 2019, at the Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

The presentation can be accessed via a live webcast facility at the following link:
https://www.investis-live.com/united-utilities/5cc9b8b522b66b110077d935/ubrd

The presentation can be accessed via a live listen only call facility by dialling:
UK toll: +44 (0)20 3936 2999
Passcode: 860320

The webcast will be available on demand from Friday 24 May 2019 at the following link:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

This results announcement and the associated presentation will be available on the day at:
https://www.unitedutilities.com/corporate/investors/Reports-and-presentations/full-and-half-year-results/

OPERATIONAL OVERVIEW

The investment that we accelerated into the early years of AMP6 and our deeply embedded approach to innovation are contributing to sustainable and long-term improvements in operational performance. This provides a strong platform as we look towards AMP7 and beyond.

- **Sustained improvements in customer satisfaction** – our performance against Ofwat's Service Incentive Mechanism (SIM) has improved significantly since the start of AMP6 and we achieved our best ever scores in 2018/19. We now firmly trend above the industry average performance and therefore expect to be eligible for a £16 million reward in AMP6 assuming that Ofwat applies the same methodology as at PR14. This performance is mirrored across other indices and through awards and accreditations we receive for our great performance in customer service, collections and debt management, and complaint handling.

- **Innovation through Systems Thinking** – Ofwat's feedback on our PR19 business plan is that we were assessed as having the most embedded innovation culture in our sector. Our Systems Thinking approach is transforming the way that we run the business, our relationship with customers and our use of technology. This is delivering enhanced levels of service and resilience along with sustainable improvements in efficiency.

- **A highly trusted company** – integrity is one of our core values and we were delighted to have retained self-assurance status in Ofwat's annual company monitoring framework assessment, demonstrating that stakeholders can have the highest level of trust and confidence in the information that we report. This is the highest category available and we are the only company in the sector to have held this status for three consecutive years.

- **Delivering shareholder value through regulatory outperformance** – the low cost of debt we have already locked in places us in a strong position to deliver on our target of minimising our cost of debt compared with Ofwat's industry assumed cost for AMP6. We remain confident of delivering £100 million of totex outperformance against our Final Determination scope and expect to deliver a net reward in the region of £30 million against our wholesale Outcome Delivery Incentives (ODIs) for AMP6. Our strong performance on customer satisfaction means we anticipate a SIM reward of £16 million for AMP6 assuming that Ofwat applies the same methodology as at PR14.

- **Sharing outperformance** – investing a further £100 million of outperformance in AMP6 in areas where we have the opportunity to deliver improved performance earlier in AMP7. This takes total outperformance sharing to £350 million for AMP6 and over £600 million across AMPs 5 and 6.

- **Prolonged period of dry weather** – in the summer of 2018, the UK experienced a prolonged period of hot and dry weather resulting in exceptional demand from customers. To safeguard continuity of supplies and protect our water resources, we expect to spend additional totex of just under £80 million of which £66 million has been incurred in 2018/19. The IRE (£11 million) and operating cost (£26 million) elements are included in the reported income statement but excluded from the underlying results as shown in the underlying profit measure tables on pages 16 and 17.

- **Strong environmental, social and governance (ESG) credentials** – we have achieved a World Class rating in the Dow Jones Sustainability Index for the eleventh consecutive year, a very good achievement in light of the ever evolving standards. In addition, our best practice in the areas of affordability and vulnerability has received external recognition through several awards, many of which look beyond the water sector.

- **Fast-track company for AMP7** – awarded fast-track status by Ofwat for our PR19 business plan in recognition of the quality of our plans and the transformation of the business over recent years. We are using the early clarity to refine our delivery plans in order to achieve a flying start to AMP7. Ofwat published our draft determination on 11 April 2019 and we will continue to work constructively with Ofwat through to publication of final determinations in December 2019.

FINANCIAL OVERVIEW

The group has delivered a strong set of financial results for the year ended 31 March 2019.

- **Revenue** – was up £83 million, at £1,819 million, largely reflecting our allowed regulatory revenue changes.

- **Operating profit** – underlying operating profit was up £40 million, at £685 million. This reflects the £83 million increase in revenue partly offset by an £18 million increase in IRE and a £16 million increase in depreciation. Reported operating profit was down £1 million, at £635 million, impacted by the same movements as underlying operating profit as well as one off costs of £36 million associated with the dry weather in 2018 and £7 million associated with the equalisation of pension benefits for males and females in relation to Guaranteed Minimum Pension (GMP) benefits.

- **Capex** – total net regulatory capital investment in the year was £821 million. This includes £165 million of underlying IRE, £40 million additional capex and IRE associated with the dry weather in the summer of 2018 and £60 million of additional investment made available through sharing our net outperformance. As announced today, we are increasing the total net outperformance available for additional investment in AMP6 to £350 million. Neither the additional capex and IRE resulting from the dry weather nor the additional investment from sharing outperformance were anticipated at the time of the PR14 settlement. Our five-year regulatory capex programme is around £3.9 billion including this additional investment.

- **Profit before tax** – underlying profit before tax was up £90 million, at £460 million, largely reflecting the increase in underlying operating profit and a £46 million decrease in the underlying net finance expense. The decrease in the underlying net finance expense is mainly due to the impact of lower RPI inflation on our index-linked debt. Reported profit before tax was £436 million, reflecting fair value movements and other adjusting items as outlined in the underlying profit measures table on pages 16 and 17.

- **Profit after tax** – underlying profit after tax was up by £74 million, at £379 million. Reported profit after tax was lower at £363 million, reflecting the adjusting items as outlined in the underlying profit measures table on page 16 and 17.

- **Capital structure** – the group has a robust capital structure with gearing of 61 per cent as at 31 March 2019 (measured as group net debt to 'shadow' regulatory capital value, or RCV). Our shadow RCV adjusts for actual spend and was £11.6 billion as at 31 March 2019. This gearing level is comfortably within our target range, of 55 to 65 per cent, supporting a solid investment grade credit rating. United Utilities Water Limited's (UUW's) senior unsecured debt obligations are rated A3 from Moody's, A- from Standard & Poor's and A- from Fitch, all on stable outlook.

- **Financing headroom** – the group benefits from headroom to cover its projected needs into late 2020, enhanced by new finance raised in the period. At 31 March 2019, the group had headroom of £357 million consisting of cash and committed funding having taken account of short term debt and debt which falls due in the next 12 months. This headroom provides flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme.

- **Dividend** – the board has proposed a final dividend of 27.52 pence per ordinary share (taking the total dividend for 2018/19 to 41.28 pence), an increase of 3.9 per cent, in line with our policy of targeting an annual growth rate of at least RPI inflation through to 2020.

OUTLOOK

This has been another year in which we have gone from strength to strength, achieving leading and sustainable results across many areas of operational performance. We are outperforming the regulatory contract for the 2015-20 regulatory period allowing us to fund additional investment for the benefit of customers and to achieve a flying start to AMP7. We have been awarded fast-track status by Ofwat for our PR19 business plan submission, reflecting the quality of our plans and the transformation of the business over AMP6, and we are excited about the opportunity AMP7 represents for us and our stakeholders.

OPERATIONAL PERFORMANCE

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

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

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

Best service to customers

Customer service – sitting at the core of everything we do, our strong focus on customer service has helped us deliver substantial improvements in recent years, becoming the most improved company in the 2010-15 regulatory period with a reduction of over 70 per cent in the overall number of customer complaints.

We have continued to improve at a faster rate than the industry average in AMP6, positioning us as one of the leading water and wastewater companies. This year, we have again gone from strength to strength in our customer satisfaction performance, achieving our highest ever scores against Ofwat’s qualitative Service Incentive Mechanism (SIM) measure and finishing fourth out of the water and wastewater companies for the year overall. This performance is mirrored in the number of complaints that we receive. Since 2015/16 we have seen a 30 per cent reduction in complaints and a 64 per cent reduction in repeat complaints.

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

We have driven an increase in digital engagement through a new customer centric website, the introduction of an easy to use mobile app and a substantially enhanced social media presence on commonly used platforms such as Facebook and Twitter. In support of our most vulnerable customers we launched our Priority Services proposition, setting up dedicated teams for those that need it most. In January, we hosted the second North West Affordability summit, engaging with customers and key stakeholders.

We have received external recognition for the improvements that we have made in the quality of service that we deliver to customers. We are the first water company to receive Shaw Trust Accessibility status for our website, we received the Service Mark with Distinction from the Institute of Customer Service and in March we won three gold awards at the UK Complaint Handling Awards.

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

Robust water supply – customers benefit from our robust water supply and demand balance, along with high levels of water supply reliability. Our overall water quality continues to be good with an improvement in our water quality service index compared with the prior year. It is tracking above our historical average with plans in place to deliver further improvements going forward. We have delivered a reliable water service and although we inevitably experience some water no-supply incidents, our Systems Thinking approach is helping us to reduce the frequency and severity of such events and respond to them in a way that minimises customer impact.

During 2018/19, the UK experienced unprecedented extremes of weather beginning with a deep freeze and rapid thaw followed by the driest summer for our region since modern records began. Thanks to interventions that we were able to make, alongside the support of customers and regulators, we were able to minimise the impact of these events and maintain unrestricted service to customers.

Reducing sewer flooding – we have continued to invest heavily in schemes, projects and programmes of work designed to reduce the risk of flooding of customers' homes, including incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys and other innovative technologies. Our plan for the 2015-20 regulatory period includes a target of reducing sewer flooding incidents by over 40 per cent, in line with customers' affordability preferences, and we are making good progress. We have achieved our best ever five-year performance on our repeat flooding and internal operational flooding measures.

Our wastewater network will continue to benefit from significant investment going forward and we will continue to seek to work in collaboration with other external flood authorities and associated partners to address the widespread flooding events that hit our region, as we aim to help mitigate the effect of changing weather patterns likely to result from climate change.

Key performance indicators:

- **Outcome delivery incentives (ODIs)** – we have 19 wholesale financial ODIs, of which ten provide the potential to earn a reward in the 2015-20 regulatory period.

  In 2018/19 we have delivered our best annual performance against ODIs resulting in a net reward of £19.2 million, reflecting great operational performance across the board. Overall, performance was again good against our wastewater measures, and significantly improved against our water measures with a net reward achieved in both areas.

  We are pleased with our cumulative performance over the first four years of the current regulatory period, which has resulted in a net reward of £21.4 million, exceeding our initial expectations. Whilst a number of our ODI measures are susceptible to one-off events and, on the whole, our ODI targets get tougher each year, our strong performance to date coupled with continued targeted investment, alongside our Systems Thinking and innovative approach to the way we operate, gives us confidence that we will achieve a cumulative net ODI outcome over the 2015-20 regulatory period of around £30 million.

  Our main areas of reward to date have come through our performance in the areas of private sewers, pollution and leakage. Our main penalty has been on reliable water service and water quality service, although particularly pleasing this year was a significantly improved performance against our reliable water service index where we are seeing the benefit of our targeted investment and Systems Thinking approach.

- **Service incentive mechanism (SIM)** – we have previously stated our target was to move towards the upper quartile in the medium-term, and we are particularly pleased with the progress we have made over AMP6, ending the four year period to 2018/19 in fourth place overall for the water and wastewater companies. This means we should be eligible for a reward of around £16 million assuming that Ofwat applies the same methodology as at PR14.

  Qualitative: Ofwat has undertaken the four surveys for 2018/19 and we have improved our score to 4.53 points, compared with 4.49 points in 2017/18, putting us in fifth position for the year out of the 18 water companies, and fourth position out of the 11 companies providing both water and wastewater services. In particular, customers scored us highly for our billing services.

  Quantitative: the quantitative assessment measures customer contacts, and performance is assessed on both an absolute and relative basis. Whilst relative performance can only be assessed in full following the end of each financial year when the other companies publish their respective results, on absolute performance for 2018/19, our score of 70 points represents a further improvement on our 2017/18 score of 71 points. For the first nine months of the year, of the companies that share data on quantitative SIM, we were first of the seven water and wastewater companies and fourth of the 11 water companies.

Lowest sustainable cost

Power and chemicals – our asset optimisation programme continues to provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy. In addition to the electricity we generate from bioresources, we are developing other renewable energy facilities. This is primarily in the area of solar, where we have invested £59 million in the first four years of the 2015-20 regulatory period. We have also substantially locked-in our power commodity costs across 2015-20, providing greater cost certainty for the regulatory period.

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

Debt collection – our region suffers from high levels of income deprivation and we offer wide-ranging schemes to help customers struggling to pay. We now have over 100,000 customers on affordability schemes, almost double the commitment we made at the start of AMP6. Notwithstanding our industry-leading debt management processes, deprivation remains the principal driver of our higher than average bad debt and we expect this to continue to be a challenging area for us.

Reflecting our ongoing focus on bad debt through initiatives such as our affordability schemes, our household bad debt expense has reduced to 2.1 per cent of revenue from 2.3 per cent last year.

Pensions – we have taken progressive steps to de-risk our pension provision. The group had an IFRS retirement benefit surplus of £484 million as at 31 March 2019, compared with a surplus of £344 million as at 31 March 2018. Further details of the group's pension provision are provided in the pensions section on page 38.

From 1 April 2018, the majority of active members in the defined benefit sections of the United Utilities Pension Scheme (UUPS) transitioned to a hybrid section comprising a capped defined benefit element and a top up defined contribution component. Pension benefits under the defined benefit element of the new UUPS hybrid section that became effective for pensionable service from 1 April 2018 are linked to CPI rather than RPI.

Capital delivery and regulatory commitments – we are strongly focused on delivering our commitments efficiently and on time, and have a robust commercial capital delivery framework in place. Across the 2015-20 regulatory period, we are working with a single engineering partner and four design and construction partners to deliver our regulatory capital investment programme of around £3.9 billion. We are involving our partners much earlier in project definition and packaging projects by type, geography and timing in order to deliver efficiencies. Projects are allocated on an incentive or competitive basis leading to our partners presenting a range of solutions, innovations and pricing.

We have accelerated our 2015-20 investment programme in order to improve services for customers and deliver early operational and environmental benefits. Regulatory capital investment in 2018/19, was £821 million. This includes £165 million of underlying IRE, £40 million additional capex and IRE associated with the dry weather in the summer of 2018 and £60 million of additional investment made available through sharing our net outperformance. This, combined with £2.4 billion invested in the first three years of the regulatory period, brings our total spend to around £3.2 billion of our expected £3.9 billion capital investment across the 2015-20 regulatory period.

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

Key performance indicators:

- **Total expenditure (totex) performance** – our totex allowance for the 2015-2020 regulatory period represented a significant challenge compared with the costs we originally submitted as part of our business plan. We have not only closed the gap to our allowance but we are now also confident of outperforming that allowance by

£100 million. This has been achieved through a combination of driving efficiency into our capital programme and also through Systems Thinking.

- **Financing outperformance** – the low cost of debt we have already locked in places us in a strong position to deliver significant outperformance for the 2015-20 regulatory period compared with the industry allowed cost.

- **Household retail cost to serve** – we continue to deliver against a challenging benchmark set for AMP6. Our target is to minimise our costs compared with our revenue allowance and we have delivered a good performance in 2018/19, outperforming this year's revenue allowance (including margin) by around £5 million. By 2020, we are forecasting a cost to serve in line with the regulatory cost allowance and we are confident that our cost plans will move us towards upper quartile performance in AMP7.

Responsible manner

Behaving responsibly is fundamental to the manner in which we undertake our business, and the group has for many years included corporate responsibility factors in its strategic decision making. Our environmental, social and governance performance across a broad front has received external recognition. Earlier in the 2018/19 financial year, we retained a World Class rating in the Dow Jones Sustainability Index for the eleventh consecutive year, again achieving industry leading performance status in the multi-utility/water sector. We look at our performance across a range of other Environmental, Social and Governance (ESG) indices, where we also perform well.

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

One of the consequences of the extreme weather events that we faced during 2018/19 was an increased level of pipe movements in the ground. We significantly increased our leakage detection and repair efforts in order to combat the higher levels of background leakage that resulted from this. This has delivered good performance against our leakage targets in what has been a very challenging year.

Additionally, we continue to encourage customers to save water through water efficiency programmes as this not only enables them to help preserve this precious resource but can also save money on their water bill. We are particularly grateful for customer support in protecting our water resources through the dry weather period.

Environmental performance – this is a high priority for us and we were delighted to have retained our Industry Leading Company status in the Environment Agency's latest performance metrics, as described in the KPIs section below. This is a result of our approach to managing our assets in an integrated way to minimise the number of environmental incidents.

Carbon footprint – by 2020, we aim to reduce our carbon footprint by 50 per cent compared with a 2005/06 baseline. This year our carbon footprint has reduced to 167,856 tonnes of carbon dioxide equivalent, a reduction of 71 per cent since 2005/06 and we have therefore achieved our emissions target early. This has been as a result of purchasing certified renewable electricity, with over 95 per cent of the electricity we use having zero emissions.

In addition, we generated the equivalent of 173 gigawatt hours, an increase of 6 gigawatt hours on the previous year. This illustrates good progress in our energy strategy to use less and generate more renewable energy.

Employees – we continue to work hard to engage all of our employees in the transformation of the group's performance. Employee engagement was at 81 per cent this year, higher than the UK norm. We remain focused on maintaining high levels of employee engagement.

We have been successful in attracting and retaining people and have continued with our apprentice and graduate programmes for 2018/19. We now have a total of 39 graduates and 116 apprentices across the business. Our investment in recruiting graduates and apprentices is already benefiting the company, with 214 employees who have previously been on either the graduate or apprentice scheme having secured permanent roles across our business.

Over the last year we have continued our sustained focus on health, safety and wellbeing. We've started our new campaign, Home Safe and Well, which includes a significant focus on employee behaviour and organisational culture in relation to Health and Wellbeing, Personal Safety and Process Safety. In 2018/19, we retained our Gold award status with the Royal Society for the Prevention of Accidents for the 7th year and our status under the UK workplace wellbeing charter. We have also won REBA awards for our work on Mental and Physical Health and been recognised by Britain's Healthiest Workplace for all the improvements we have made over the last year.

Our employee accident frequency rate for 2018/19 increased to 0.152 accidents per 100,000 hours, compared with a rate of 0.101 in 2017/18. For the same period, our contractor accident frequency rate remained the same at 0.092 per 100,000 hours. Whilst it is disappointing that these accident frequency rates have not improved since last year, they still demonstrate an improved performance against our historical average. We recognise that there is always more to do, and health, safety and wellbeing will continue to be a significant area of focus as we strive to ensure that everyone gets home safe and well.

Communities – we continue to support partnerships, both financially and in terms of employee time through volunteering with other organisations across the North West. Our approach to integrated catchments helps to tackle water quality issues in lakes, rivers and coastal waters across the North West, and our LoveMyBeach contribution includes employees volunteering to help to keep our region's beaches tidy. We continue to support local communities through contributions and schemes such as providing debt advisory services, and our community partnership with Youth Focus North West has addressed one of our region's major issues of affordability through co-creating the 'managing your money' training module.

Key performance indicators:

- **Leakage** – although leakage is included within our outcome delivery incentives, we intend to continue publishing our leakage position separately, with it being an important measure from a corporate responsibility perspective. In 2018/19 we have again met our regulatory leakage target of 463 megalitres per day.

- **Environmental performance** – on the Environment Agency's latest annual assessment, published in July 2018, we were awarded Industry Leading Company status across the range of operational metrics for the third year running. This indicates we were in joint first position amongst the nine water and wastewater companies assessed, and aligns with our medium-term goal of being a first quartile company on a consistent basis.

- **Corporate responsibility** – we have a strong focus on operating in a responsible manner and are the only UK water company to have a World Class rating as measured by the Dow Jones Sustainability Index. In 2018/19, we retained a World Class rating for the eleventh consecutive year.

FINANCIAL PERFORMANCE

United Utilities delivered a strong set of financial results for the year ended 31 March 2019.

Revenue

Revenue was up £83 million, at £1,819 million, largely reflecting our allowed regulatory revenue changes.

As a result of Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), we have reduced revenue by £8 million in 2018/19 and will reduce revenue by a further £14 million in 2019/20 (outturn prices). This consists of two components; firstly reflecting actual volumes being higher than our original assumptions during AMP6, and secondly reductions relating to the 2014/15 "AMP5 blind year", which are £4 million in 2018/19 and £5 million in 2019/20.

Operating profit

Underlying operating profit at £685 million was £40 million higher than last year. This reflects our allowed regulatory revenue changes, partly offset by an £18 million increase in IRE and a £16 million increase in depreciation. The remaining cost base has increased by £9 million as a result of small increases in employee costs, materials, bad debts and property rates, partly offset by a credit resulting from the settlement of an historical commercial claim.

Reported operating profit decreased by £1 million, to £635 million, reflecting the increase in underlying operating profit being more than offset by an increase in adjusted items. Adjusted items for 2018/19 included £36 million of costs associated with the dry weather of 2018, £7 million associated with the equalisation of pension benefits between males and females in relation to Guaranteed Minimum Pension (GMP) benefits, and £7 million of restructuring costs. Adjusted items in the prior year amounted to £9 million, of which £6 million related to restructuring costs.

Investment income and finance expense

The underlying net finance expense of £231 million was £46 million lower than last year, mainly due to the impact of lower RPI inflation on the group's index-linked debt.

Interest of £84 million on non index-linked debt was £8 million lower than last year, due to the lower rates locked in, including the full year impact of re-couponing a portion of the group's regulatory swap portfolio in the prior year. The indexation of principal on index-linked debt amounted to a net charge in the income statement of £98 million, compared with a net charge of £138 million last year. As at 31 March 2019, the group had approximately £3.8 billion of index-linked debt at an average real rate of 1.3 per cent.

The lower RPI inflation charge compared with last year contributed to the group's average underlying interest rate of 3.3 per cent being lower than the rate of 4.2 per cent for the year ended 31 March 2018. The average underlying interest rate represents the underlying net finance expense divided by average debt.

Reported net finance expense of £205 million was broadly in line with the £207 million expense in 2017/18, principally reflecting a decrease in the fair value gains on debt and derivative instruments, from a £47 million gain in 2017/18 to a £9 million gain in 2018/19, offset by the £39 million decrease in the indexation charge in the year.

The group has fixed the interest rates on most of its non index-linked debt for the 2015-20 regulatory period.

Profit before tax

Underlying profit before tax was £460 million, £90 million higher than last year, primarily reflecting the £40 million increase in underlying operating profit and the £46 million decrease in underlying net finance expense. This underlying measure excludes the adjusted items, as outlined in the underlying profit measures table on pages 16 and 17.

Reported profit before tax increased by £4 million to £436 million reflecting the £1 million reduction in reported operating profit more than offset by a £1 million reduction in reported net finance expense including fair value movements and a £4 million increase in our share of profits from joint ventures.

Tax

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 further amounts for its 5,000 strong workforce. The total payments for 2018/19 were around £241 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges, as well as corporation tax.

In 2018/19, we paid corporation tax of £28 million, which represents an effective cash tax rate on underlying profits of 6 per cent, which is 13 per cent lower than the headline rate of corporation tax of 19 per cent. We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. Our normal effective cash tax rate on underlying profits is around 11 per cent with the key reconciling items to the headline rate of corporation tax (currently at 19 per cent) being allowable tax deduction on capital investment and pension payments, these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation. In the current year the effective rate is further reduced as a result of the phasing of quarterly tax payments and also the impact of increased underlying profits as the relevant quarterly payments relate to 2017/18 whereas the underlying profits relate to 2018/19. This phasing of tax payments will not be an issue going forward as from next year the quarterly instalment tax payment rules are being amended to ensure that payments become aligned with financial years.

The total tax charge for 2018/19 was £73 million as compared to a total tax charge of £78 million for 2017/18. For both periods, the total underlying tax effective rate remains in line with the headline rate (currently at 19 per cent) and subject to any legislative or tax practice changes, we would expect this to continue for the medium-term.

The current tax charge was £42 million in 2018/19, compared with £25 million in the previous year; the main differences relating to timing with a corresponding equal and opposite adjustment to deferred tax. There were current tax credits of £3 million in 2018/19 and £7 million in 2017/18, following agreement of prior years' tax matters.

For 2018/19, the group recognised a deferred tax charge of £35 million, compared with a charge of £52 million for 2017/18. In addition, the group recognised a deferred tax credit of £1 million in 2018/19 and a deferred tax charge of £7 million in 2017/18 relating to prior years' tax matters.

Profit after tax

Underlying profit after tax of £379 million was £74 million higher than last year, principally reflecting the £90 million increase in underlying profit before tax.

The approach used to derive underlying profit after tax is not consistent across the industry, with the most significant difference relating to the treatment of deferred tax. Having considered whether to change our calculation of underlying profit after tax to exclude the impact of deferred tax, we have decided to retain our current methodology therefore retaining comparability with our past performance and most FTSE companies but not our listed water peers. We will reassess this position once we have clarity of Ofwat's final determination by which time it is also possible that there could be further clarity on the direction of travel of the IASB's rate-regulated activities project which could also have an impact on the underlying profit measures.

Reported profit after tax was £363 million, compared with £355 million in the previous year, largely reflecting the £4 million increase in the reported profit before tax.

Earnings per share

Underlying earnings per share increased from 44.7 pence to 55.5 pence. This underlying measure is derived from underlying profit after tax.

As noted above, we have considered whether to change our calculation of underlying profit after tax to exclude the impact of deferred tax and we have decided to retain our current methodology.

Basic earnings per share increased from 52.0 pence to 53.3 pence for the same reasons that caused the increase in profit after tax.

Dividend per share

The board has proposed a final dividend of 27.52 pence per ordinary share in respect of the year ended 31 March 2019. Taken together with the interim dividend of 13.76 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2018/19 of 41.28 pence. This is an increase of 3.9 per cent, compared with the dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of at least RPI inflation each year through to 2020. The inflationary increase of 3.9 per cent is based on the RPI element included within the allowed regulated revenue increase for the 2018/19 financial year (i.e. the movement in RPI between November 2016 and November 2017).

The final dividend is expected to be paid on 1 August 2019 to shareholders on the register at the close of business on 21 June 2019. The ex-dividend date is 20 June 2019.

Our dividend policy targets a growth rate of at least RPI inflation each year through to 2020, with further details set out below.

- ***Policy period*** – the dividend policy aligns with the five-year regulatory period which runs from 1 April 2015 to 31 March 2020.

- ***Policy approval process*** – the dividend policy was considered and approved by the United Utilities Group Board in January 2015, as part of a comprehensive review of the 2015-20 regulatory final determination in the context of a detailed business planning process, with due regard for the group's financial metrics, credit ratings and long-term financial stability, and is reviewed at least annually.

- ***Distributable reserves*** – as at 31 March 2019, the company had distributable reserves of £3,139 million. The total external dividends relating to the 2018/19 financial year amounted to £282 million. The company distributable reserves support over 11 times this annual dividend.

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

- ***Cash flows from subsidiaries*** – the directors consider that the group's principal operating subsidiary, United Utilities Water Limited, has sufficient resources to pay dividends to United Utilities Group PLC for the duration of the current dividend policy period to support the external payment of dividends to shareholders.

- ***Financial stability*** – the water industry has invested significant capital since privatisation in 1989 to improve services for customers and provide environmental benefits, a large part of which is driven by legislation. Water companies have typically raised borrowings to help fund the capital investment programme. Part of total expenditure is additive to the regulatory capital value, or RCV, on which water companies earn a return allowed by the economic regulator, Ofwat. RCV gearing is useful in assessing a company's financial stability in the UK water industry and is one of the key credit metrics that the credit rating agencies focus on. We have had a relatively stable RCV gearing level over the last nine years, always comfortably within our target range of 55 to 65 per cent, supporting a solid A3 credit rating for UUW with Moody's. RCV gearing at 31 March 2019 was 61 per cent and the movement in net debt is outlined in the cash flow section below.

- ***Dividend sustainability*** – in approving the policy, the board is satisfied that across the current regulatory period the projected dividend is adequately covered by underlying profit after tax. Separately, during the current regulatory period the executive directors' long-term incentive awards have been directly linked to a measure of sustainable dividends. Whilst specific targets are not disclosed in advance, for commercial sensitivity reasons, there is a major focus on the creation of strong earnings that ensure the sustainability of dividends.

- ***Viability statement*** – the dividend policy is underpinned by the group's long-term viability statement (contained within the group's annual report and financial statements). Assurance supporting this statement is provided by the review of: the group's key financial measures; the key credit financial metrics; the group's liquidity position; the contingent liabilities of the group; and the key risks of the group together with the associated mitigating actions.

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

- ***Policy sustainability***

  2015-20

  - the policy is considered by the board to be sufficiently robust to withstand reasonable changes in assumptions, such as inflation, opex, capex and interest rates;

  - extreme economic, regulatory, political or operational events, which could lead to a significant deterioration in the group's financial metrics during the policy period, may present risks to policy sustainability;

  2020-25

  - a dividend policy for the 2020-25 regulatory period will be formulated after Ofwat announces the outcome of the regulatory price review (currently expected in December 2019).

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2019 was £832 million, and therefore broadly consistent with £816 million in the previous year. The group's net capital expenditure was £625 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under IFRS. Cash flow capex differs from regulatory capex, since regulatory capex includes infrastructure renewals expenditure and is based on capital work done in the period, rather than actual cash spent.

Net debt including derivatives at 31 March 2019 was £7,067 million, compared with £6,868 million at 31 March 2018. This increase largely reflects regulatory capital expenditure, payments of dividends, interest and tax, the inflationary uplift on index-linked debt and fair value movements, partly offset by operating cash flows.

Fair value of debt

The group's gross borrowings at 31 March 2019 had a carrying value of £7,816 million. The fair value of these borrowings was £8,905 million. This £1,089 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has decreased from £1,140 million at 31 March 2018 due primarily to an increase in credit spreads.

Debt financing and interest rate management

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 61 per cent at 31 March 2019. This is the same level of gearing as at 31 March 2018 and remains comfortably within our target range of 55 to 65 per cent.

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

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

Cash and short-term deposits at 31 March 2019 amounted to £339 million. Over 2015-20 we have financing requirements totalling around £2.5 billion to cover refinancing and incremental debt, supporting our five-year investment programme, and we have now raised all of this requirement.

In January 2019, UUW's financing subsidiary, United Utilities Water Finance PLC (UUWF), raised around £32 million of term funding, via the issue of HKD320 million private placement notes, with a 7-year maturity, off our EMTN programme. Also in January 2019, UUWF increased the amount outstanding on its £350 million public bond with a maturity date in February 2025 by an additional £100 million, taking the total size to £450 million. In February 2019, UUWF raised £250 million fixed rate notes in the public bond market with a 12-year maturity.

UUW remains one of the sector leaders in the issuance of CPI-linked debt having previously raised £165 million, in response to Ofwat's decision to transition away from RPI inflation linkage. In April 2019, we have increased the CPI-linkage in our debt portfolio by a further £200 million by executing a new £100 million bank loan with a 10-year maturity, and entering into inflation swaps against three existing RPI-linked bonds with a notional value of around £100 million, swapping cash flows from RPI to CPI-linkage. As both the CPI-linked loan and inflation swaps were executed subsequent to the year end, neither are included in the statement of financial position as at 31 March 2019.

Since September 2018, the group has renewed £100 million of committed bank facilities for initial 5-year terms, extended a further £50 million by one year to 2024, and signed £50 million of new committed bank facilities with a 5-year term. The group has sufficient headroom to cover its financing needs into late 2020.

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

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2019, approximately 53 per cent of the group's net debt was in index-linked form, representing around 32 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 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 just under 20 years.

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

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, the debt is generally swapped to create a floating rate sterling liability for the term of the debt. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis. Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination. In line with this, the group has fixed interest costs for substantially all of its floating rate exposure over the 2015-20 regulatory period, locking in an average annual interest rate of around 3.2 per cent nominal (inclusive of credit spreads).

Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020-25 regulatory period, we will retain the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance basis, but we will no longer supplement this with the additional 'top up' fixing at the start of each new regulatory period.

Liquidity

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

Available headroom at 31 March 2019 was £357 million based on cash, short-term deposits and committed bank facilities, net of short-term debt as well as committed facilities and term debt falling due within 12 months.

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

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

Pensions

As at 31 March 2019, the group had an IAS 19 net pension surplus of £484 million, compared with a net pension surplus of £344 million at 31 March 2018. This £140 million increase mainly reflects the favourable impact of updating mortality assumptions and updating membership data based on the 2018 funding valuations. The scheme specific funding basis does not suffer from volatility due to inflation and credit spread movements as it uses a prudent, fixed credit spread assumption. Therefore, any inflation and credit spread movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

The most recent pension scheme valuation was signed off as at 31 March 2018 and confirmed the existing schedule of contributions which aimed to eliminate the funding deficit by December 2021 for the United Utilities Pension Scheme (UUPS) and by September 2024 for the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS). In April 2019, the group has prepaid at a discount the agreed deficit recovery contributions, resulting in a one off contribution of around £100 million, and has therefore eliminated any deficit on a scheme specific funding basis. As this took place subsequent to the year end, it has had no impact on the financial statements for the year ended 31 March 2019.

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

Underlying profit

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group’s financial performance as reported under International Financial Reporting Standards (IFRSs) as adopted by the European Union in the group’s consolidated income statement, which can be found on page 27. As such, they represent non-GAAP measures.

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

Adjusted item	Rationale
Flooding incidents	Two significant flooding incidents in the year ended 31 March 2016 caused extensive damage to localised parts of our infrastructure, resulting in significant levels of remedial operating expenditure and a large claim under the group's insurance cover. Management's view is that these were significant and infrequent events and, as such, were not part of the normal course of business.
Non-household retail market reform	The group has incurred significant costs since the year ended 31 March 2015 relating to the non-household retail market opening to competition in April 2017. This represents a one-off event and as such, is not considered part of the normal course of business.
Dry weather event	An extreme period of hot and dry weather during the summer of 2018 led to significant strain being placed on our water resources and network and as a result our reservoir levels ran extremely low. Activities were carried out to safeguard supplies, generating significant costs which would not have been incurred under normal conditions. Given the infrequent nature of periods of dry weather of this severity, this event is not considered part of the normal course of business.
GMP equalisation	The group has recognised an additional past service cost in respect of its defined benefit pension schemes. This reflects a change in benefits following a legal ruling during the year relating to the equalisation of Guaranteed Minimum Pension (GMP) benefits between males and females. This one-off adjustment, which is not representative of costs incurred in the normal course of business, is a direct consequence of the ruling and is not expected to reoccur in future years.
Restructuring costs	The group has incurred restructuring costs in the past in relation to a number of discrete events which can cause volatility in the reported results. Management adjusts internally for these costs to provide an underlying view of performance which it views as being more representative of the normal course of business and more comparable period to period.
Net fair value gains on debt and derivative instruments	Fair value movements on debt and derivatives can be both very significant and volatile from one period to the next. These movements are determined by macro economic factors which are outside the control of management and these instruments are purely held for funding and hedging purposes (not for trading purposes). Taking these factors into account, management believes it is useful to adjust for this to provide a more representative view of performance.
Interest on derivatives and debt under fair value option	Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.
Net pension interest income	This item can be very volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position. Management believes it is useful to adjust for this to provide a more representative view of performance.
Capitalised borrowing costs	Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. Management believes it is appropriate to adjust for these significant costs to provide a representative cost of borrowings and current year performance which is better aligned to the return on capital it earns through revenue.
Agreement of prior years' tax matters	The agreement of prior years' tax matters can be significant, volatile and often related to final settlement of numerous prior year periods. Management adjusts for this to provide a more representative view of the tax charge/credit in relation to current year performance.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Operating profit

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Reported operating profit	**634.9**	**636.4**
Flooding Incidents (net of expected insurance proceeds)	-	1.7
Non-household retail market reform	-	1.0
Dry weather event	36.1	-
GMP equalisation	6.6	-
Restructuring costs	7.2	6.0
Underlying operating profit	**684.8**	**645.1**

Net finance expense

	£m	£m
Finance expense	(222.5)	(218.6)
Investment income	17.1	12.0
Reported net finance expense	**(205.4)**	**(206.6)**
Adjustments:		
Net fair value gains on debt and derivative instruments	(9.5)	(47.3)
Interest on derivatives and debt under fair value option	30.6	23.5
Net pension interest income	(9.5)	(7.1)
Adjustment for capitalised borrowing costs	(37.4)	(39.7)
Underlying net finance expense	**(231.2)**	**(277.2)**

Profit before tax

	£m	£m
Share of profits of joint ventures	**6.7**	**2.3**
Reported profit before tax	**436.2**	**432.1**
Adjustments:		
Flooding incidents	-	1.7
Non-household retail market reform	-	1.0
Dry weather event	36.1	-
GMP equalisation	6.6	-
Restructuring costs	7.2	6.0
Net fair value gains on debt and derivative instruments	(9.5)	(47.3)
Interest on swaps and debt under fair value option	30.6	23.5
Net pension interest income	(9.5)	(7.1)
Capitalised borrowing costs	(37.4)	(39.7)
Underlying profit before tax	**460.3**	**370.2**

Profit after tax

	£m	£m
Underlying profit before tax	460.3	370.2
Reported tax charge	(72.8)	(77.5)
Agreement of prior years' UK tax matters	(4.2)	0.4
Tax in respect of adjustments to underlying profit before tax	(4.6)	11.8
Underlying profit after tax	**378.7**	**304.9**

Earnings per share

	£m	£m
Reported profit after tax (a)	363.4	354.6
Underlying profit after tax (b)	378.7	304.9
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Reported earnings per share, in pence (a/c)	53.3p	52.0p
Underlying earnings per share, in pence (b/c)	55.5p	44.7p
Dividend per share	41.28p	39.73p

Underlying operating profit reconciliation

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

Continuing operations
Underlying operating profit

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Group underlying operating profit	**684.8**	**645.1**
Underlying operating profit not relating to UUW	(11.3)	(2.3)
UUW statutory underlying operating profit (unaudited)	**673.5**	**642.8**
Revenue recognition	0.7	(2.8)
Capitalised borrowing costs	5.3	4.1
Reclassification of regulatory other income (not included in UUW operating profit)	(18.5)	(29.1)
Other differences (including non-appointed business)	(1.8)	(3.9)
UUW regulatory underlying operating profit (unaudited)	**659.2**	**611.1**

Return on Regulated Equity (RoRE)

UUW's RoRE, presented on a real return basis, for both the year ended 31 March 2019 and the cumulative position for the first four years of AMP6 are as below:

	Year ended 31 March 2019	AMP 6 to date
Base return	5.5%	5.6%
Totex performance	(1.2)%	(0.4)%
Retail performance	(0.2)%	(0.1)%
ODI performance	0.5%	0.2%
SIM performance	0.4%	0.1%
Financing performance	3.1%	2.0%
RoRE[1,2]	**8.2%**	**7.4%**

[1] Calculated in accordance with RAG 4.08, published in March 2019.
[2] Total RoRE for the year ended 31 March 2019 differs to the sum of the lines above due to roundings.

PRINCIPAL RISKS AND UNCERTAINTIES

In delivering our group-wide activity we are faced with a range of risks which can threaten the quality of the services we provide, introduce delays and ultimately increase cost and damage the reputation of the group. We anticipate and mitigate these risks through an embedded risk management framework which includes:

- A consistent and reliable enterprise-wide risk management process;
- A governance and reporting structure which enables the board to oversee and direct the control of risk;
- Definition of risk appetite by the board with an overarching general risk appetite supplemented where appropriate by specific risk appetites for certain risks;
- An ISO 31000:2018 aligned assessment and mitigation process; and
- Policies, practical guidance and training programmes to enable our people to identify, quantify and manage risk effectively.

Our risk identification and management activities are continuous and ongoing, with each functional area responsible for assessing, articulating and controlling relevant risks.

This includes horizon scanning of the internal and external business environment, to identify and review new and emerging risks that could lead to a future impact or emerging circumstances of existing risk that could affect the exposure in the short to medium term.

Risk events are assessed in their current state for the likelihood of occurrence based on the level of threat and the vulnerability of controls, together with the financial and reputational impacts should the identified events materialise. Where we are not satisfied that the current state is consistent with our general risk appetite, or where it could present an unacceptable risk in relation to a specific risk appetite, we determine an appropriate risk exposure as a target state and develop further mitigating controls to deliver this position within an appropriate time frame.

In order to maintain adequate oversight of risk, there are various steering groups and governance forums that focus on individual risks which then escalate and share progress to the group audit and risk board either directly or via the wholesale risk and resilience board.

A complete oversight of our enterprise wide profile is presented every six months to the group board to highlight the nature and extent of the current risk exposure with focus on the most significant risks relative to the group's principal risks.

Our approach is in accordance with the UK Corporate Governance Code and incorporates reporting to the group board for every full and half year statutory accounting period. This enables the board to:

- Determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives;
- Oversee the management of those risks and provide challenge to executive management where appropriate;
- Express an informed opinion on the long-term viability of the company; and
- Monitor risk management and internal control systems and review their effectiveness.

Reports to the board highlight major risks based on the highest impact business risks across the group and wholesale operational risks. These comprise the 10 highest scoring risks assessed on the basis of likelihood and financial impact for each of the two categories. In addition, the report covers risks which were scored highly for the severity of their impacts in their current state (net of control effectiveness) but remote on likelihood. The board report also highlights risks where there could be significant reputational impact or which relate to significant new or emerging risks or issues, but which are not encompassed within the other reported categories.

Key developments

Ofwat's Initial Assessment of Plans (IAP) following the price review submission recognised our leading approach to risk and resilience. Our approach is a combination of top down assessment, where we consider the impacts on strategic delivery, and bottom up where we consider localised operational performance, asset health and operational hazards. We have an established approach for the two elements, but continue to drive improved maturity through various initiatives which focus on improved appreciation of related data and information to understand our long-term risk profile, to support decision making and to deliver a cost-effective and proportionate risk management response which drives resilience.

These initiatives include:

- Continuation of our focus on cross-business consideration of strategic and tactical risks, for example an in-depth cyber risk assessment that took place throughout the year and Brexit contingency planning as covered below;
- Improvement of our maturity in relation to risk appetite – we have commenced reporting against a general risk appetite boundary and, where appropriate, specific risk appetite boundaries enabling more targeted discussions over the last year (an approach we intend to continue to develop and embed);
- Development of the assessment and reporting of the full distribution of impacts, including possible maximum and minimum outcomes as well as more likely occurrences. This supports our focus on long-term resilience and tests our response and recovery plans and expectations;
- Ongoing development of our wholesale risk and asset planning process to prioritise investment and operational management through the identification of risks and issues and monitoring of strategic performance requirements; and
- An assurance-based strategy within the engineering and programme management team introducing programme and portfolio risk responsibilities and improving capability by focusing on reliable risk information, ownership and learning from risk events.

Profile features

Our risk profile, which currently consists of around 100 event-based risks, is enterprise wide, covering risk across the entire group and considering both internal and external drivers. By their nature, these risks will include many combinations of high to low likelihood and high to low impact.

Political and regulatory risk and uncertainty feature prominently within the profile, notably with the outcome of PR19 being delivered this calendar year. The possibility of 'renationalisation' is a key area of uncertainty as is the opening up to competition of wholesale operations (including the current focus on possible competition in bioresources and water abstraction) and the potential for competition covering domestic retail activities.

Our operations continue to be substantially UK-based, but the potential impacts of Brexit remain under review and have been reported to the group board. In common with other UK companies, a significant issue is the uncertainty surrounding the effects of any Brexit deal that the UK Government may ultimately deliver. Our review has considered the availability of European funding, the availability of critical goods (including chemicals and spare parts) through our supply chain, the price of goods and services due to tariff changes, exchange rate changes and potential inflationary shifts outside current predicted parameters, the effect to the labour resource of both the company and our delivery partners and our ability to collect cash were there to be an economic downturn. For each of these consequences, the impact assessment considers a range of possible impact scenarios and we have developed a contingency plan (in collaboration with Water UK) which has involved discussing the implications of Brexit with our key suppliers and capital delivery partners, as well as considering mitigation measures such as stockpiling and using alternative suppliers, a large proportion of which is already built into our multi-party frameworks.

Following the launch of non-household retail competition in April 2017, we have continued to monitor our operations in the market to review compliance risks and to ensure that we continue to operate in a manner that complements and promotes the 'level playing field'.

From an operational risk perspective, the dominance of the penalty element of Ofwat's outcome delivery incentive mechanism and the continuing effects of changes to the Environmental Sentencing Guidelines continue to be key features of evolving exposure. Reputationally, our core operations/service provision (notably water service) and health, safety and environmental risks have the highest focus for monitoring and reviewing control effectiveness based on the potential impact should the risk event occur.

We continue to adapt to and plan for climate change and its significant and permanent impacts on the water cycle, our operations and the broader operating environment. This includes consideration of the long-term viability of water and wastewater services such as water abstraction, drinking water supply and treatment capability, drainage and sewer capacity, wastewater treatment and its discharge efficiency and effectiveness. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) support and reinforce the need to consider climate related risks and uncertainties. These continue to be factored into risk management and the likely effects of future changes are a critical consideration in our long and medium-term risk, operational and financial planning. Our water service and wastewater service risks also reflect current key risks including the potential for extreme weather and climate change.

Principal risks

The ten principal risks (combinations of relevant event-based risks) described in more detail below illustrate where value can be lost or gained and could have a material impact on the group's business model, future performance, solvency or liquidity. For each principal risk the nature and the extent of exposure is recorded and mitigating controls identified. Also described are key risks worthy of note, together with current issues and areas of uncertainty. These reflect changing/emerging circumstances which could affect the risk exposure of future activities and are therefore considered as part of the ongoing mitigation.

1. Political and regulatory risks - Potential change in the political and regulatory environment and/or frameworks.

Principal/significant impacts could include:

- Potential for increased costs of administration, reduction in income, margin and greater uncertainty of returns;
- Potential that reduced confidence among equity investors and difficult debt market conditions lead to funding pressures in the context of raising finance and refinancing debt on an ongoing basis; and
- In the event of renationalisation the business could be acquired below fair value.

To manage and mitigate this risk we regularly engage in relevant government and regulatory consultations which may affect policy and regulation in our industry as well as consulting with the opposition. We also consult our customers to better understand their requirements and proactively consider opportunities and threats associated with any potential change, exploiting opportunities and mitigating risks where appropriate. We keep customers and the public informed. We also provide information to the government, regulators, customers and the public as appropriate to help them to make informed decisions.

Current key risks, issues and uncertainties include: potential renationalisation of the water sector; further market reform including upstream competition in water resources and bioresources, as well as additional markets in future, and the potential for the introduction of domestic competition; final determination of PR19 and associated tougher regulatory targets; and Brexit and potential changes to the regulatory regime.

2. Conduct and compliance risk - The failure to meet all legal and regulatory obligations and responsibilities.

Principal/significant impacts could include detrimental impact to customers and other stakeholders through inappropriate culture, behaviour or decisions and the potential to receive penalties of up to ten per cent of relevant turnover and ultimately revocation of our licence or the appointment of a special administrator.

Corporate social responsibility features prominently within the group. To manage and mitigate this risk we work in collaboration with landowners, environmental organisations, community groups and other stakeholders to deliver enhanced environmental outcomes and engage with the community and support agencies regarding vulnerable customers and ensure diversity and equality of employees and an ethical supply chain.

Legislative and regulatory developments are continually monitored as is the governance framework utilised by the group. Risk-based training of employees is undertaken and we participate in consultations to influence legislative and regulatory developments. Allowance for any material additional compliance costs in the regulated business is sought as part of the price determination process. The group also robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible.

Current key risks, issues and uncertainties include: the effects of Brexit on legislation/laws, enforcement and the regulatory regime; competition law requirements in relation to the non-household retail market and other competitive markets; current material litigation; continuing high fines for environmental offences; and data management and governance (GDPR).

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

Principal/significant impacts could include:

- The potential for public health issues associated with poor water quality; and
- The potential for supply interruptions that could affect large populations within the region for long durations.

We manage and mitigate this risk through core business processes, including centralised planning and control, quality assurance procedures, risk assessments and rigorous sampling/testing regimes. Optimisation of operational and maintenance tasks together with targeted capital interventions help to ensure services to customers are maintained.

Our 25-year Water Resources Management Plan defines our strategy to achieve a long-term, best-value and sustainable plan for water supplies in the North West including consideration of multiple different climate change scenarios including a 2 degree (Celsius) global warming scenario (assessing systems resilience).

We continue to develop innovative solutions and invest in resilience to further support the delivery of water and wastewater services in the long term.

Current key risks, issues and uncertainties include: population growth; extreme weather, climate change and drought; expected change to the abstraction licensing regime; drinking water safety and security; critical asset failure; and Brexit, in particular the effects of a no-deal scenario on the chemicals supply chain.

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

Principal/significant impacts could include the potential for sewer flooding or serious pollution to air, soil or water leading to harm or disruption to the public, businesses and the environment (wildlife, fish and natural habitats) resulting in fines and reputational damage.

We manage and mitigate this risk through core business processes, including centralised planning and control, quality assurance procedures, risk assessments, rigorous sampling/testing regimes and close management of discharge consent requirements. Optimisation of operational and maintenance tasks together with targeted capital interventions help to ensure services to customers are maintained.

Current key risks, issues and uncertainties include: the effects of extreme weather on overloading the sewer network; pollution incidents; population growth; increased regulatory scrutiny and penalties; higher fine levels for environmental offences; climate change; and Brexit, in particular the effects of a no-deal scenario on the chemicals supply chain.

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

Principal/significant impacts could include the potential for significant losses, regulatory penalties and long-term reputational damage associated with poor customer satisfaction and the potential for a significant increase in the bad debt charge, reducing profitability.

Management and mitigation of this risk includes, for domestic retail, a wide range of initiatives and activities focused on improving customer satisfaction, including proactive incident communication, complaints handling and use of appropriate tariffs. Bad debt risk is managed through the adoption of best practice collection techniques, segmentation of customers based on their credit risk profile and the use of data sharing to better understand customers' circumstances to determine the most appropriate collection and support activities. Our wholesale business maintains processes, systems, data and organisational capacity and capability to deal fairly with market participants and the central market operator in the Business Retail market in order to generate and collect revenue. Similarly strong governance applies to non United Utilities Water operations and businesses.

Current key risks, issues and uncertainties include: socio-economic deprivation in the North West; economic downturn (due to welfare reform, Brexit or other factor) and the effect on domestic bad debt; competition in the water and wastewater market and competitor positioning; non-household retail competition and the ability to treat other participants equally; and the challenges associated with being involved in a joint venture water retail business operating in a competitive environment.

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

Principal/significant impacts could include:

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

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

Current key risks, issues and uncertainties include: inflation/deflation; financial market conditions, interest rates and funding costs due to economic uncertainty (e.g. Brexit); and paying an appropriate amount of tax.

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

Principal/significant impacts could include the potential failure to meet our obligations and customer outcomes resulting in an impact at future price reviews, negative reputational impact with customers and regulators.

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

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

Current key risks, issues and uncertainties include: new partnership structure and arrangement in AMP 7; direct procurement for customers (DPC); technical quality and innovation; and Brexit and increased uncertainty of availability of materials sourced from Europe.

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

Principal/significant impacts could include:

- The potential inability to recruit, retain or deploy knowledge and/or expertise; and
- The potential inability to respond and recover due to ineffective non resilient business activity.

Management and mitigation of this risk includes developing our people with the right skills and knowledge, combined with delivering effective technology to support the business meeting its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, faster and more cost-effective operations.

Current key risks, issues and uncertainties include: delivering required employee engagement; personal development, talent management and succession planning; and optimising technology and innovation.

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

Principal/significant impacts could include:

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

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

Current key risks, issues and uncertainties include: cybercrime; terrorism; fraud; and ownership of Critical National Infrastructure and National Infrastructure.

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

Principal/significant impacts could include:

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

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

Current key risks, issues and uncertainties include: impounding reservoirs containing significant volumes of water; other critical asset failure; multiple hazards including process safety, use or accidental release of chemicals, excavation, tunnelling and construction work; and fluvial and coastal flooding associated with climate change.

Emerging risks and issues

We monitor the internal and external business environment, to identify and review new and emerging risks to our strategy or operations and emerging circumstances of existing risk that could affect our risk exposure in the short to medium term. If new and emerging risks or circumstances are too far into the future or we lack sufficient detail to make a reliable quantification, they are summarised as a watching brief and reported to the corporate responsibility committee and to the board in the six-monthly reporting cycle.

Some new and emerging risks of note are listed below, with emerging circumstances of existing risk included within the list of current key risks, issues and uncertainties in the principal risks.

- **Climate change** - While not new as a risk/issue, climate change is an ever emerging risk in terms of understanding the extent of extreme weather and the return frequency of such events. As an organisation responsible for essential services and infrastructure, we are required under the Climate Change Act 2008 to prepare for a changing climate and understand and consider how we intend to manage material risks to which climate change contributes including:
    - More frequent and/or higher magnitude drought events in summer;
    - Higher rainfall in winter; and
    - More occurrences of heavy rainfall.
- **Water scarcity -** The Environment Agency has warned of water supply shortages in England by 2050. In particular, London’s demand is expected to exceed supply in the next decade due to relatively low rainfall, growing population and drier summers. United Utilities has been proactive in the opportunity for the strategic transfer of water from the North West to the South East of England, incorporating an option in the 2019 Water Resources Management Plan (WRMP) for onward transfer in the 2030s. While this is an opportunity, it also brings a number of service, commercial and reputational risks which we will continue to consider, monitor and manage.
- **Plastics -** There is currently considerable attention on single-use plastics and microplastic pollution. The water industry has a role to play in understanding how this material gets into the water environment and this may present potential operational and reputational risks. We will continue to keep a watching brief on the situation and are involved in research projects to better understand any risks to human health or the environment regarding this, and will continue to monitor developments carefully.
- **Biosolids -** Biosolids to agriculture is currently recognised by the government as the best practicable environmental option, but other jurisdictions adopt different approaches to biosolids disposal creating a potential risk that this could extend to the UK in the long term. We do not currently expect any change in this regard but will continue to keep a watching brief on the situation noting that several research projects are underway to understand these risks and identify solutions.

Material litigation

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

LEI 2138002IEYQAOC88ZJ59
Classification – Full Year Results

Consolidated income statement

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Revenue	**1,818.5**	1,735.8
Employee benefit expense (note 4)	**(169.6)**	(153.5)
Other operating costs (note 5)	**(449.3)**	(423.4)
Other income	**3.6**	3.8
Depreciation and amortisation expense	**(393.2)**	(376.8)
Infrastructure renewals expenditure	**(175.1)**	(149.5)
Total operating expenses	**(1,183.6)**	(1,099.4)
Operating profit	**634.9**	636.4
Investment income (note 6)	**17.1**	12.0
Finance expense (note 7)	**(222.5)**	(218.6)
Investment income and finance expense	**(205.4)**	(206.6)
Share of profits of joint ventures (note 11)	**6.7**	2.3
Profit before tax	**436.2**	432.1
Current tax charge	**(38.8)**	(18.7)
Deferred tax charge	**(34.0)**	(58.8)
Tax (note 8)	**(72.8)**	(77.5)
Profit after tax	**363.4**	354.6

All of the results shown above relate to continuing operations.

Earnings per share (note 9)		
Basic	**53.3p**	52.0p
Diluted	**53.2p**	51.9p
Dividend per ordinary share (note 10)	**41.28p**	39.73p

Consolidated statement of comprehensive income

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Profit after tax	**363.4**	354.6
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedge effectiveness*	**0.4**	-
Tax on items taken directly to equity (note 8)	**(0.1)**	-
Foreign exchange adjustments	**(0.8)**	0.2
Other comprehensive income that may be reclassified to profit or loss	**(0.5)**	0.2
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on defined benefit pension schemes (note 13)	**73.0**	50.2
Change in credit assumptions for debt reported at fair value through profit or loss	**6.6**	-
Cost of hedging – cross currency basis spread adjustment*	**(2.2)**	-
Tax on items taken directly to equity (note 8)	**(13.1)**	(8.5)
Other comprehensive income that will not be reclassified to profit or loss	**64.3**	41.7
Total comprehensive income	**427.2**	396.5

* On adoption of IFRS 9, the group has recognised the cost of hedging reserve and the cash flow hedging reserve as new components of equity. Further details of movement in these reserves is included in note 18.

Consolidated statement of financial position

	31 March 2019 £m	31 March 2018 £m
ASSETS		
Non-current assets		
Property, plant and equipment	**11,153.4**	10,790.5
Intangible assets	**202.7**	197.7
Interests in joint ventures (note 11)	**79.0**	75.2
Investments (note 12)	**11.5**	7.1
Trade and other receivables	**148.1**	141.1
Retirement benefit surplus (note 13)	**483.9**	344.2
Derivative financial instruments	**387.8**	297.8
	12,466.4	11,853.6
Current assets		
Inventories	**14.9**	16.8
Trade and other receivables	**249.5**	260.9
Current tax asset	**16.4**	24.5
Cash and short-term deposits	**339.3**	510.0
Derivative financial instruments	**101.3**	337.7
	721.4	1,149.9
Total assets	**13,187.8**	13,003.5
LIABILITIES		
Non-current liabilities		
Trade and other payables	**(697.3)**	(642.7)
Borrowings (note 14)	**(7,115.6)**	(7,072.8)
Deferred tax liabilities	**(1,146.0)**	(1,098.8)
Derivative financial instruments	**(66.1)**	(96.8)
	(9,025.0)	(8,911.1)
Current liabilities		
Trade and other payables	**(321.2)**	(275.7)
Borrowings (note 14)	**(700.2)**	(839.5)
Provisions	**(16.8)**	(22.1)
Derivative financial instruments	**(13.8)**	(4.2)
	(1,052.0)	(1,141.5)
Total liabilities	**(10,077.0)**	(10,052.6)
Total net assets	**3,110.8**	2,950.9
EQUITY		
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.9
Other reserves (note 18)	**338.3**	327.9
Retained earnings	**2,269.8**	2,120.3
Shareholders' equity	**3,110.8**	2,950.9

Consolidated statement of changes in equity

Year ended 31 March 2019

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

Year ended 31 March 2018

	Share capital £m	Share premium account £m	*Other reserves £m	Retained earnings £m	Total £m
At 1 April 2017	499.8	2.9	327.7	1,991.2	2,821.6
Profit after tax	-	-	-	354.6	354.6
Other comprehensive income/(expense)					
Remeasurement gains on defined benefit pension schemes (note 13)	-	-	-	50.2	50.2
Tax on items taken directly to equity (note 8)	-	-	-	(8.5)	(8.5)
Foreign exchange adjustments	-	-	0.2	-	0.2
Total comprehensive income	-	-	0.2	396.3	396.5
Dividends (note 10)	-	-	-	(267.0)	(267.0)
Equity-settled share-based payments	-	-	-	3.2	3.2
Exercise of share options - purchase of shares	-	-	-	(3.4)	(3.4)
At 31 March 2018	**499.8**	**2.9**	**327.9**	**2,120.3**	**2,950.9**

*Other reserves comprise the group's cumulative exchange reserve, merger reserve, cost of hedging reserve, and cash flow hedging reserve. The cost of hedging and cash flow hedging reserves were included as separate components of equity for the first time in the year ended 31 March 2019 as a result of the group's adoption of IFRS 9 'Financial Instruments' (see note 1).

Further detail of movements in these reserves is included in note 18.

Consolidated statement of cash flows

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Operating activities		
Cash generated from operations (note 16)	**995.5**	989.8
Interest paid	**(143.0)**	(144.6)
Interest received and similar income	**7.3**	5.9
Tax paid	**(27.5)**	(35.5)
Net cash generated from operating activities	**832.3**	815.6
Investing activities		
Purchase of property, plant and equipment	**(622.3)**	(698.6)
Purchase of intangible assets	**(39.9)**	(36.1)
Proceeds from sale of property, plant and equipment	**2.1**	1.1
Grants and contributions received	**35.2**	23.7
Loans to joint ventures	**(6.0)**	(26.5)
Proceeds from disposal of business	**-**	8.9
Dividends received from joint ventures	**2.2**	3.3
Proceeds from investments	**1.0**	1.0
Net cash used in investing activities	**(627.7)**	(723.2)
Financing activities		
Proceeds from borrowings	**568.4**	801.0
Repayment of borrowings	**(668.6)**	(345.9)
Dividends paid to equity holders of the company (note 10)	**(274.4)**	(267.0)
Exercise of share options – purchase of shares	**(2.8)**	(3.4)
Net cash (used in)/generated from financing activities	**(377.4)**	184.7
Net (decrease)/increase in cash and cash equivalents	**(172.8)**	277.1
Cash and cash equivalents at beginning of the year	**497.4**	220.3
Cash and cash equivalents at end of the year	**324.6**	497.4

NOTES

1. Basis of preparation and accounting policies

The condensed consolidated financial statements for the year ended 31 March 2019 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 2019, for which the auditors have given an unqualified opinion.

The comparative figures for the year ended 31 March 2018 do not comprise the group's statutory accounts for that financial year. Those accounts have been reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). They have been prepared on the going concern basis under the historical cost convention, except for the revaluation of financial instruments, accounting for the transfer of assets from customers and the revaluation of infrastructure assets to fair value on transition to IFRS.

The accounting policies, presentation and methods of computation are consistent with those applied in the audited financial statement of United Utilities Group PLC for the year ended 31 March 2018 with the exception of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. Adoption of these standards is broadly in line with expectations set out in the March 2018 group financial statements, and has resulted in no material impact to the financial statements.

Impact of newly adopted standards

IFRS 9 'Financial Instruments'

The group adopted IFRS 9 on 1 April 2018, applying the standard retrospectively in accordance with the standard's transition requirements. Comparative periods have not been restated, with any differences arising from retrospective application being recognised as an adjustment to retained earnings at the beginning of the period. This has resulted in retained earnings at the adoption date decreasing by £12.7 million with a corresponding credit of £13.8 million to the cost of hedging reserve, which is a separate component of equity newly recognised under IFRS 9, offset by a corresponding debit of £1.1 million to the cumulative exchange reserve.

During the period fair value foreign exchange gains of £0.5 million have been recognised in the income statement which would have been recognised in the cumulative exchange reserve under previous accounting policies. This has resulted from the classification of an investment previously accounted for as an available for sale financial asset under IAS 39 *'Financial Instruments: Recognition and Measurement'* as a financial asset measured at fair value through profit or loss. As a result of this change in classification, a credit of £1.1 million in the cumulative exchange reserve, representing cumulative foreign exchange gains on the investment up to the adoption date, was reclassified to retained earnings as an opening balance sheet adjustment.

Under IFRS 9 there is no longer a requirement for cross currency basis spread adjustments to be incorporated in the test for the effectiveness of a hedge as was the case under IAS 39. If the foreign currency basis spread is separated from a financial instrument and excluded from the designation of that financial instrument as the hedging instrument, changes in fair value resulting from the foreign currency basis spread can be recognised in other comprehensive income accumulated in a separate component of equity, rather than being recognised in profit or loss, to the extent that it relates to the hedged item.

The group has adopted this accounting treatment under IFRS 9, resulting in the creation of a cost of hedging reserve with a brought forward balance of £13.8m at 1 April 2018. The portion of the change in fair value due to changes in the cross currency basis spread has been a £2.2m loss in the period, which has been recognised in other comprehensive income whereas previously it would have been incorporated within the fair value charge recognised in the income statement under IAS 39.

Where the group has chosen to measure borrowings at fair value through profit or loss, the portion of the change in fair value due to changes in the group's own credit risk, which has been a £6.6 million gain during the period, has been recognised in other comprehensive income rather than within profit or loss.

The group has reassessed the effectiveness of existing accounting hedges on adoption of IFRS 9 and the documentation that supports any designation. Financial instruments relating to interest rate hedging that had been designated in an accounting fair value hedge relationship under IAS 39 continue to be designated as such under IFRS 9, however the group has reassessed its position with regards to designating non-financial risks in hedge relationships and has determined that in order to give a more representative view of operating costs it is appropriate to designate certain existing and future electricity swaps as being in a cash flow hedge relationship. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements reflecting the effective part of the electricity swaps being recognised in other comprehensive income. At the maturity date the amounts paid/received will be recognised against expenses in the income statement, thus giving a more representative view of operating costs.

The impact of this change is that previously no income relating to these electricity swaps would have been recognised against corresponding operating expenses, with the full £4.2 million gain recognised as a fair value movement as part of finance expense. Under IFRS 9 the settlement of existing electricity swaps in the period has instead resulted in income of £3.8 million being recognised against operating expenses, with a fair value gain of £0.4 million relating to the effective element of the cash flow hedge being recognised in other comprehensive income together with a corresponding increase in the cash flow hedge reserve as the hedge was fully effective.

In addition to this, a deferred tax charge of £0.8 million has been recognised in other comprehensive income during the period in relation to the above.

IFRS 15 'Revenue from Contracts with Customers'

The group adopted IFRS 15 on 1 April 2018, applying the standard retrospectively with the cumulative effect of initial application recognised at the date of initial application as an adjustment to retained earnings. Prior period comparatives have therefore not been restated. The group has elected to use the practical expedient whereby any contracts that were completed in accordance with accounting standards as at 31 March 2018 need not be restated on an IFRS 15 basis. This transition approach has resulted in a £2.6 million increase in retained earnings and reduction in deferred income on the adoption date due to a change in the period over which revenue relating to connection activities is recognised. This has also given rise to a tax credit of £3.3 million relating to the adjustment, which has resulted in an increase in retained earnings on the adoption date. The tax credit is greater than the £2.6 million increase in retained earnings on adoption of IFRS 15 due to the different tax treatments of various connection activities that make up the adjustment.

The two main areas of the group's activities for which the adoption of IFRS 15 is relevant are (i) the provision of core water and wastewater services, and (ii) capital income streams relating to diversion work and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The adoption of IFRS 15 has had no impact on the timing or amount of revenue recognised in relation to core water and wastewater services, which are deemed to be distinct performance obligations 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.

The main impact of adoption for the group has been in respect of connection activities. Under IFRS 15 the performance obligation associated with the connection activities is deemed to be satisfied over the period of time that water and wastewater services are expected to be provided through the connection, which has been estimated as being around 60 years. These revenues are therefore deferred on the balance sheet and released to the income statement over this period. Further detail can be found in the group's annual report and financial statements for the year ended 31 March 2018. Had the new standard not been adopted in the current period, revenue would have been £3.5 million less based on the application of previous accounting policies rather than IFRS 15 due to a longer average amortisation period having previously been used.

New and revised standards not yet effective

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019, and has therefore been adopted on 1 April 2019. Under the provisions of the standard, most leases, including the majority of those previously classified as operating leases, will be brought onto the statement of financial position as both a right-of-use asset and a largely offsetting lease liability. The right-of-use asset and lease liability will both be based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 *'Property, Plant and Equipment'* and the liability increased for the accretion of interest and reduced by lease payments.

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

Operating leases accounted for in accordance with IAS 17 *'Leases'* in the current year have been reviewed and classified as leases under IFRS 16 where appropriate ahead of the adoption date. In addition, a review has been performed to identify any other leases as defined by IFRS 16 that have not previously been captured by the operating lease disclosures under IAS 17. Future lease payments associated with leases falling within the scope of IFRS 16 will be discounted using the group's incremental cost of borrowing. Based on this incremental cost of borrowing at 1 April 2019, the right-of-use asset and offsetting lease liability brought onto the statement of financial position on the adoption date was £54.8 million. Leases will remain under review during the first period in which the standard has been adopted.

2. Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against financial and operational key performance indicators which align with our three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner. The board reviews revenue, operating profit, and gearing, along with operational drivers, at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

3. Revenue

	31 March 2019 £m	**31 March 2018 £m**
Wholesale water charges	**767.4**	719.2
Wholesale wastewater charges	**905.8**	875.6
Residential retail charges	**86.7**	91.2
Other	**58.6**	49.8
	1,818.5	1,735.8

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 removing and treating 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.

3. Revenue (continued)

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

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

4. Employee benefits expense

Included within employee benefits expense were £7.1 million (31 March 2018: £6.0 million) of restructuring costs, £6.6 million of costs associated with the equalisation of Guaranteed Minimum Pension (GMP) benefits (31 March 2018: £nil – see note 13) and £1.4 million (31 March 2018: £nil) of costs incurred in relation to the group's response to the severe dry weather event experienced during the year.

5. Other operating costs

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Hired and contracted services	**112.2**	97.7
Property rates	**94.7**	90.5
Materials	**77.8**	67.3
Power	**72.8**	70.4
Regulatory fees	**32.5**	29.7
Charge for bad and doubtful receivables	**26.5**	20.8
Cost of properties disposed	**4.7**	9.8
Loss on disposal of property, plant and equipment	**3.9**	6.8
Operating leases payable	**4.1**	4.2
Settlement of commercial claims	**(9.9)**	-
Compensation from insurers	**-**	(3.6)
Other expenses	**30.0**	29.8
	449.3	423.4

During the current year, as a result of the group's response to a severe dry weather event, there were £36.1 million of expenses incurred, comprising £24.2 million of other operating costs, £10.5 million of infrastructure renewals expenditure, and £1.4 million of employee costs (see note 4).

During the prior year, as a result of two significant flooding incidents caused by Storms Desmond and Eva in December 2015, there were £5.3 million of expenses incurred, comprising £2.9 million of operating costs and £2.4 million of infrastructure renewals expenditure. Insurance compensation of £3.6 million relating to the flooding incidents was recognised as part of a final settlement of the insurance claim. In addition, in the prior year there were £1.0 million of market reform restructuring costs incurred in preparing the business for open competition in the non-household retail market.

Total other operating costs are stated net of £0.2 million (31 March 2018: £1.4 million) of costs recharged to Water Plus at nil margin under transitional service agreements.

6. Investment income

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest receivable	**7.6**	4.9
Net pension interest income (note 13)	**9.5**	7.1
	17.1	12.0

7. Finance expense

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Interest payable	**232.0**	265.9
Net fair value gains on debt and derivative instruments	**(9.5)**	(47.3)
	222.5	218.6

Interest payable is stated net of £37.4 million (31 March 2018: £39.7 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. Interest payable includes a £98.3 million (31 March 2018: £137.8 million), non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt.

Net fair value gains on debt and derivative instruments includes £30.6 million income (31 March 2018: £23.5 million) due to net interest on derivatives and debt under fair value option.

8. Tax

During the year ended 31 March 2019 there was a current tax credit of £2.8 million (31 March 2018: £6.7 million) and a deferred tax credit of £1.4 million (31 March 2018: £7.1 million charge) relating to agreed matters in relation to prior years.

After adjusting for the above tax credits, the total effective tax charge for the current and prior years was in line with the headline rate of corporation tax of 19 per cent. The split of the total tax charge between current and deferred tax relates to ongoing timing differences in relation to tax deductions on pension contributions, capital investment, and unrealised gains and losses on treasury derivatives.

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

9. Earnings per share

Basic and diluted earnings per share are calculated by dividing profit after tax by the weighted average number of shares in issue during the year. The weighted average number of shares in issue as at 31 March 2019 for the purpose of the basic earnings per share was 681.9 million (31 March 2018: 681.9 million) and for the diluted earnings per share was 683.4 million (31 March 2018: 683.1 million).

10. Dividends

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Dividends relating to the year comprise:		
Interim dividend	**93.8**	90.3
Final dividend	**187.7**	180.6
	281.5	270.9
Dividends deducted from shareholders' equity comprise:		
Interim dividend	**93.8**	90.3
Final dividend	**180.6**	176.7
	274.4	267.0

The proposed final dividends for the years ended 31 March 2019 and 31 March 2018 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 2019 and 31 March 2018 respectively.

The final dividend of 27.52 pence per ordinary share (2018: 26.49 pence per ordinary share) is expected to be paid on 1 August 2019 to shareholders on the register at the close of business on 21 June 2019. The ex-dividend date for the final dividend is 20 June 2019.

The interim dividend of 13.76 pence per ordinary share (2018: 13.24 pence per ordinary share) was paid on 1 February 2019 to shareholders on the register at the close of business on 21 December 2018.

11. Joint ventures

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
At the start of the year	**75.2**	75.2
Share of profits of joint ventures	**6.7**	2.3
Dividends received from joint ventures	**(2.2)**	(3.3)
Currency translation differences	**(0.7)**	1.0
At the end of the year	**79.0**	75.2

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

Tallinn Water has disclosed a contingent liability of EUR 28.6 million (31 March 2018: EUR 26.5 million) in its latest financial statements relating to possible third-party claims. If this contingent liability materialises in the future this would impact the group's share of profits of the joint venture and the joint venture's carrying value under the equity method of accounting.

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

12. Investments

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
At the start of the period	**7.1**	9.0
Change in fair value	**4.4**	-
Reduction in investment stake	**(1.0)**	(1.0)
Currency translation differences	**1.0**	(0.9)
At the end of the period	**11.5**	7.1

At 31 March 2019, the group's investments mainly comprised its investment in Muharraq Holding Company 1 Limited. These investments are held at fair value.

13. Retirement benefit surplus

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

	Year ended 31 March 2019 %pa	Year ended 31 March 2018 %pa
Discount rate	**2.40**	2.60
Pensionable salary growth and pension increases	**3.45**	3.35
Price inflation - RPI	**3.45**	3.35
Price inflation - CPI	**2.05**	1.95

The discount rate is consistent with a high quality corporate bond rate with 2.40 per cent being equivalent to gilts + 90bps (31 March 2018: 2.60 per cent being equivalent to gilts + 100bps).

At both 31 March 2019 and 31 March 2018, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively, and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively (2018: 108 per cent for males and 102 per cent for females), reflecting actual mortality experience. At 31 March 2019, mortality in retirement is based on CMI 2018 (31 March 2018: CMI 2016) long-term improvement factors, with a long-term annual rate of improvement of 1.50 per cent (31 March 2018: 1.75 per cent).

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Current service cost	**6.2**	27.3
Curtailments/settlements	**9.0**	2.3
Administrative expenses	**2.8**	2.6
Pension expense charged to operating profit	**18.0**	32.2
Net pension interest credited to investment income (note 6)	**(9.5)**	(7.1)
Net pension expense charged before tax	**8.5**	25.1

13. Retirement benefit surplus (continued)

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

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
At the start of the year	**344.2**	247.5
Expense recognised in the income statement	**(8.5)**	(25.1)
Contributions paid	**75.2**	71.6
Remeasurement gains gross of tax	**73.0**	50.2
At the end of the year	**483.9**	344.2

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

	31 March 2019 £m	31 March 2018 £m
Present value of defined benefit obligations	**(3,425.2)**	(3,498.7)
Fair value of schemes' assets	**3,909.1**	3,842.9
Net retirement benefit surplus	**483.9**	344.2

The £73.0 million remeasurement gain has principally resulted from the favourable impact of updated membership data based on the 2018 funding valuation, changes in mortality assumptions, and growth asset gains, partially offset by the reduction in credit spreads and gilt yields during the year.

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 2018. During the period the investment and risk management strategy continued to evolve with both UUPS and ESPS now fully hedging inflation exposure through external market swaps and gilts. As a consequence the Inflation Funding Mechanism (IFM), which previously provided an element of inflation hedging directly with the company, has now ceased to apply.

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

As the 2018 valuation basis was consistent with a long-term target for self-sufficiency, the expectation is that there should be minimal ongoing reliance on the company by the pension schemes.

During the current year, the majority of active members in the defined benefit sections of the UUPS transitioned to a hybrid section comprising a capped defined benefit element and a top up defined contribution component. Pension benefits under the defined benefit element of the new UUPS hybrid section that became effective for pensionable service from 1 April 2018 are linked to CPI rather than RPI.

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

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

13. Retirement benefit surplus (continued)

Defined contribution schemes

During the year, the group made £23.0 million (31 March 2018: £12.1 million) of contributions to defined contribution schemes which are included in employee benefits expense.

14. Borrowings

New borrowings raised during the year ended 31 March 2019, all of which were issued under the Euro medium-term note programme were as follows:

- On 12 September 2018 and 21 January 2019 the group issued a further £50 million fixed rate notes and a further £100 million fixed rate notes respectively, in addition to the £300 million notes that had been issued on 14 February 2018. These notes are due February 2025.
- On 14 January 2019 the group issued HKD 320 million fixed interest rate notes due January 2026.
- On 5 February 2019 the group issued £250 million fixed rate notes due February 2031.

15. Fair values of financial instruments

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

	Fair value £m	31 March 2019 Carrying value £m	Fair value £m	31 March 2018 Carrying value £m
Financial assets at fair value through profit or loss				
Derivative financial assets - fair value hedge	329.4	329.4	455.7	455.7
Derivative financial assets - held for trading	158.5	158.5	179.8	179.8
Derivative financial assets - cash flow hedge(1)	1.2	1.2	-	-
Investments(2)	11.5	11.5	7.1	7.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities - fair value hedge	(2.3)	(2.3)	(24.2)	(24.2)
Derivative financial liabilities - held for trading	(75.9)	(75.9)	(76.8)	(76.8)
Derivative financial liabilities - cash flow hedge(1)	(1.7)	(1.7)	-	-
Financial liabilities designated as fair value through profit or loss	(373.9)	(373.9)	(347.7)	(347.7)
Financial instruments for which fair value does not approximate carrying value				
Financial liabilities in fair value hedge relationships	(2,749.3)	(2,765.8)	(2,905.9)	(2,895.3)
Other financial liabilities at amortised cost	(5,781.9)	(4,676.1)	(5,798.4)	(4,669.3)
	(8,484.4)	(7,395.1)	(8,510.4)	(7,370.7)

(1) On adoption of IFRS 9 *'Financial Instruments'*, electricity swaps, previously classified as held for trading under IAS 39 *'Financial Instruments: Recognition and Measurement'*, have been designated in cash flow hedge relationships.

(2) Prior to the adoption of IFRS 9 *'Financial Instruments'* on 1 April 2018 investments were classified as available for sale financial assets in accordance with IAS 39 *'Financial Instruments: Recognition and Measurement'*.

The group has calculated fair values using quoted prices where an active market exists, which has resulted in 'level 1' fair value liability measurements under the IFRS 13 *'Fair Value Measurement'* hierarchy of £2,316.9 million (31 March 2018: £2,192.4 million) for financial liabilities in fair value hedge relationships and £680.9 million (31 March 2018: £2,425.6 million) for other financial liabilities at amortised cost.

15. Fair values of financial instruments (continued)

The £1,620.2 million decrease (31 March 2018: £1,914.0 million increase) in 'level 1' fair value liability measurements is largely due to a decrease in the number of observable quoted bond prices in active markets at 31 March 2019. 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 2019.

The principal reason for the modest reduction in the difference between the fair value and carrying value of the group's borrowings compared with the position at 31 March 2018 is an increase in credit spreads during the period.

16. Cash generated from operations

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
Operating profit	**634.9**	636.4
Adjustments for:		
Depreciation of property, plant and equipment	**357.3**	348.4
Amortisation of intangible assets	**35.9**	28.4
Loss on disposal of property, plant and equipment	**3.9**	6.8
Amortisation of deferred grants and contributions	**(12.9)**	(6.4)
Equity-settled share-based payments charge	**4.0**	3.2
Other non-cash movements	**-**	(3.3)
Changes in working capital:		
Decrease in inventories	**1.9**	5.6
Decrease in trade and other receivables	**11.7**	27.5
Increase/(Decrease) in trade and other payables	**21.3**	(13.0)
Decrease in provisions	**(5.3)**	(4.4)
Pension contributions paid less pension expense charged to operating profit	**(57.2)**	(39.4)
Cash generated from operations	**995.5**	989.8

17. Net debt

	Year ended 31 March 2019 £m	Year ended 31 March 2018 £m
At the start of the year	**6,867.8**	6,578.7
Net capital expenditure	**624.9**	701.0
Dividends (note 9)	**274.4**	267.0
Interest	**135.7**	138.7
Inflation uplift on index-linked debt (note 6)	**98.3**	137.8
Tax	**27.5**	35.5
Loans to joint ventures	**6.0**	26.5
Other	**0.9**	(0.7)
Fair value movements	**27.3**	(26.9)
Cash generated from operations (note 14)	**(995.5)**	(989.8)
At the end of the year	**7,067.3**	6,867.8

17. Net debt (continued)

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

Fair value movements includes net fair value gains on debt and derivative instruments of £14.3 million (31 March 2018: £47.3 million net fair value gains) less net receipts on derivatives and debt designated at fair value of £40.6 million (31 March 2018: £20.4 million) and foreign exchange gains on investments measured at fair value through profit or loss of £1.0 million (31 March 2018: £nil).

During the year the group received £31.7 million in settlement of certain cross-currency interest rate swap liabilities as part of an exercise to manage the mandatory breaks included within the swap contracts. The receipt is included within 'Proceeds from borrowings' in the statement of cash flows, and is reflected in fair value movements in the above reconciliation.

In the prior year the group paid £106.8 million in settlement of certain interest rate swap liabilities as part of an exercise to better align the existing hedging profile with the group's target hedge ratios and to manage swap counterparty positions to facilitate future treasury activity. The payment is included within 'Repayment of borrowings' in the statement of cash flows.

Notional net debt totals £6,995.9 million as at 31 March 2019 (31 March 2018: £6,830.2 million). Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and short-term deposits, taking: the face value issued of any nominal sterling debt; the inflation accreted principal of the group's index-linked debt; and the sterling principal amount of the cross-currency swaps relating to the group's foreign currency debt.

18. Other reserves

Other reserves of £338.3 million (31 March 2018: £327.9 million) comprise:

Cumulative exchange reserve relating to accumulated unrealised foreign exchange movements on investments held in foreign currencies. The balance at 31 March 2019 was a £3.7 million cumulative net foreign exchange loss (31 March 2018: £1.8 million cumulative net foreign exchange loss). The movement during the year includes a £1.1 million reduction in the cumulative exchange reserve as a result of a transfer of cumulative foreign exchange gains to retained earnings on adoption of IFRS 9.

Merger reserve of £329.7 million (31 March 2018: £329.7 million), which arose in the year ended 31 March 2009 on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition of United Utilities PLC by United Utilities Group PLC.

Cost of hedging reserve of £12.0 million (31 March 2018: £nil) recognised on adoption of IFRS 9 as a new component of equity. This reserve reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments. The balance at 31 March 2019 reflects a £13.8 million fair value gain recognised at the adoption date, a £2.2 million fair value loss during the year resulting from the basis spread adjustment, and a £0.4 million deferred tax credit.

Cash flow hedging reserve of £0.3 million (31 March 2018: £nil) recognised on adoption of IFRS 9 as a new component of equity. On adoption of IFRS 9, the group designated a number of swaps hedging non-financial risks in cash flow hedge relationships in order to give a more representative view of operating costs. The balance at 31 March 2019 reflects fair value movements of £0.4 million relating to the effective part of these swaps, and a £0.1 million deferred tax charge.

For further details on the impact of adopting IFRS 9 please see note 1.

19. Commitments and contingent liabilities

At 31 March 2019 there were commitments for future capital expenditure contracted but not provided for of £302.2 million (31 March 2018: £432.9 million).

Details of the group's contingent liabilities were disclosed in the audited financial statements of United Utilities Group PLC for the year ended 31 March 2018. There have been no significant developments relating to contingent liabilities in the year.

The group has determined that the possibility of any outflow in respect of performance guarantees issued is remote and, as such, no contingent liabilities in respect of these are disclosed (31 March 2018: none).

Tallinn Water, one of the group's joint ventures (see note 11), has disclosed a contingent liability of EUR 28.6 million (31 March 2018: EUR 26.5 million) in its latest financial statements relating to possible third-party claims. While this is not a contingent liability of the group due to the way in which joint ventures are accounted for under the equity method of accounting, if this contingent liability materialises in the future it would impact the group's share of profits of the joint venture and the joint venture's carrying value under the equity method of accounting in the period in which this occurs.

20. Related party transactions

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

	Year ended 31 March 2019 £m	**Year ended 31 March 2018 £m**
Sales of services	**455.8**	496.3
Charitable contributions advanced to related parties	**0.5**	-
Purchases of goods and services	**0.1**	0.7
Costs recharged at nil margin under transitional service agreements	**0.2**	1.4
Interest income and fees recognised on loans to related parties	**4.3**	3.4
Amounts owed by related parties	**182.9**	179.7
Amounts owed to related parties	**0.6**	1.4

Sales of services to related parties during the year mainly represent non-household wholesale charges to Water Plus Group Limited (Water Plus), a joint venture in which the group holds a 50 per cent stake alongside Severn Trent PLC, that were billed and accrued during the period. These transactions were on the group's normal trading terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

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

At 31 March 2019 amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £182.9 million (31 March 2018: £179.7 million), comprising £39.4 million (31 March 2018: £42.5 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £143.5 million (31 March 2018: £137.2 million) relating to loans.

20. Related party transactions (continued)

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

- £100.0 million outstanding on a £100.0 million revolving credit facility provided by United Utilities Water Limited, which is guaranteed by United Utilities PLC, with a maturity date of 30 September 2020, bearing a floating interest rate of LIBOR plus a credit margin;
- £9.6 million receivable being the 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. This is an interest-free shareholder loan with a total amount outstanding at 31 March 2019 of £12.5 million, comprising the £9.6 million receivable held at fair value, and £2.9 million recorded as an equity contribution to Water Plus recognised within interests in joint ventures; and
- £32.5 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2020, bearing a floating interest rate of LIBOR plus a credit margin.

A further £1.4 million of non-current receivables (31 March 2018: £1.4 million) was owed by other related parties at 31 March 2018.

No expense or allowance has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (31 March 2018: £nil).

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 £58.1 million, of which £35.1 million, related to guarantees to United Utilities Water Limited.

At 31 March 2019, amounts owed to joint ventures were £0.6 million (31 March 2018: £1.4 million). The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

21. Events after the reporting period

In addition to the accelerated deficit repair contributions paid to the group's defined benefit pension schemes as set out in note 13, after the reporting period the group increased its CPI-linked debt by executing a £100 million CPI-linked bank loan with a 10-year maturity, and entered into inflation swaps against three existing RPI-linked bonds with an aggregate notional value of £100.4 million, swapping cash flows from RPI- to CPI-linkage. None of these events have been included in the financial statements for the year ended 31 March 2019 as they represent non-adjusting events after the reporting period.

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 2019. Certain parts thereof are not included within this announcement.

Responsibilities Statement

We confirm that to the best of our knowledge:

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

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

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

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

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

………………………..	……………………….
Steve Mogford	Russ Houlden
22 May 2019	22 May 2019
Chief Executive Officer	Chief Financial Officer