

# Notes to the financial statements

## 1 Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single-segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against financial and operational key performance indicators which align with its three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner. The board reviews revenue, operating profit and gearing, along with operational drivers at a consolidated level (see pages 50 to 81). 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.

## 2 Revenue

The group's revenue predominantly arises from the provision of services within the United Kingdom, with less than 1 per cent of external revenue and non-current assets being overseas.

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

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

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

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

## 3 Directors and employees

### Directors' remuneration

	2021 £m	2020 £m
Fees to non-executive directors	0.8	0.8
Salaries	1.2	1.4
Benefits	0.2	0.3
Bonus	0.7	0.7
Share-based payment charge	1.7	1.0
	<b>4.6</b>	<b>4.2</b>

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the Directors' remuneration report on pages 167 to 189.

### Remuneration of key management personnel

	2021 £m	2020 £m
Salaries and short-term employee benefits	6.3	6.4
Share-based payment charge	3.0	1.3
	<b>9.3</b>	<b>7.7</b>

Key management personnel comprises all directors and certain senior managers who are members of the executive team.

### 3 Directors and employees continued

Employee benefits expense (including directors)

Group	2021 £m	2020 £m
Wages and salaries	240.4	229.6
Employee-related taxes and levies	25.2	23.8
Severance	1.3	7.2
Post-employment benefits:		
Defined benefit pension expense (see note 18)	8.5	12.3
Defined contribution pension expense (see note 18)	23.4	22.5
	<b>298.8</b>	295.4
Charged to other areas including regulatory capital schemes	(137.0)	(134.0)
<b>Employee benefits expense</b>	<b>161.8</b>	161.4

Included within employee benefits expense were £1.9 million (2020: £11.8 million) of restructuring costs.

The total expense included within employee benefits expense in respect of equity-settled share-based payments was £3.6 million (2020: £1.5 million). The company operates several share option schemes, details of which are given on pages 167 to 189 in the Directors' remuneration report.

Average number of employees during the year (full-time equivalent including directors):

	2021 number	2020 number
Average number of employees during the year	5,354	5,302

#### Company

The company has no employees.

### 4 Operating profit

The following items have been charged/(credited) to the income statement in arriving at the group's operating profit:

	2021 £m	2020 £m
<b>Other operating costs</b>		
Hired and contracted services	96.3	96.6
Property rates	89.4	75.9
Power	83.6	78.9
Materials	82.2	75.1
Regulatory fees	28.0	28.3
Insurance	13.1	13.5
Loss on disposal of property, plant and equipment	10.7	13.9
Accrued innovation costs	6.2	–
Cost of properties disposed	2.6	0.4
Other expenses	19.8	20.8
	<b>431.9</b>	403.4
<b>Allowance for expected credit losses – trade and other receivables</b>		
Allowance for expected credit losses – trade and other receivables (see note 14)	28.7	41.8
	<b>28.7</b>	41.8
<b>Other income</b>		
Other income	(3.6)	(3.4)
	<b>(3.6)</b>	(3.4)
<b>Depreciation and amortisation expense</b>		
Depreciation of property, plant and equipment: owned assets (see note 10)	379.8	441.6
Amortisation of other intangible assets (see note 11)	42.5	41.2
	<b>422.3</b>	482.8

# Notes to the financial statements

## 4 Operating profit continued

Included within depreciation of property, plant and equipment was £2.3 million of accelerated depreciation resulting from the group's strategic bioresources review. This compares with accelerated depreciation of certain bioresources assets amounting to £82.3 million in the prior year, primarily relating to incineration assets at the group's Mersey Valley Sludge Processing Centre, known as Shell Green. The accelerated depreciation in both years reflects the outcomes of the strategic review, whereby the likelihood of the group deriving future economic benefit from these assets was considered remote in light of improvements in alternative lower-cost and more environmentally friendly processes. In addition to this, in the prior year, inventory spares held for use by these assets were written down to £nil.

Excluding the impact of this current and prior year accelerated depreciation, the group's depreciation and amortisation expense has increased by £19.5 million in the current year, principally reflecting the higher capital expenditure programme in AMP6 with a higher number of assets commissioned towards the end of the AMP. In the near term this depreciation and amortisation expense is expected to flatten out, reflecting the lower AMP7 capital programme.

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

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

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

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

During the year, the group obtained the following services from its auditor:

	2021 £'000	2020 £'000
<b>Audit services</b>		
Statutory audit – group and company	170	119
Statutory audit – subsidiaries	508	355
	<b>678</b>	<b>474</b>
<b>Non-audit services</b>		
Regulatory audit services provided by the statutory auditor	71	62
Other non-audit services	120	77
<b>Total audit and non-audit services</b>	<b>869</b>	<b>613</b>

## 5 Investment income

	2021 £m	2020 £m
Interest receivable on short-term bank deposits held at amortised cost	3.8	6.0
Interest receivable on loans to joint ventures held at amortised cost (see note A6)	3.7	4.0
Net pension interest income (see note 18)	17.5	14.0
	<b>25.0</b>	<b>24.0</b>

## 6 Finance expense

	2021 £m	2020 £m
<b>Interest payable</b>		
Interest payable on borrowings held at amortised cost <sup>(1)</sup>	181.7	231.7
	<b>181.7</b>	<b>231.7</b>
<b>Fair value losses/(gains) on debt and derivative instruments</b>		
Fair value hedge relationships:		
Borrowings <sup>(2)</sup>	(155.1)	87.1
Designated swaps <sup>(2)(3)</sup>	132.8	(68.6)
	<b>(22.3)</b>	<b>18.5</b>
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss <sup>(4)</sup>	(67.3)	57.8
Associated swaps	67.8	(49.8)
	<b>0.5</b>	<b>8.0</b>
Fixed interest rate swaps <sup>(5)</sup>	(36.0)	52.3
Net receipts on swaps and debt under fair value option	(17.6)	(15.3)
Inflation swaps <sup>(6)</sup>	3.4	13.4
Other	(2.5)	(0.6)
	<b>(52.7)</b>	<b>49.8</b>
<b>Net fair value (gains)/losses on debt and derivative instruments<sup>(6)</sup></b>	<b>(74.5)</b>	<b>76.3</b>
	<b>107.2</b>	<b>308.0</b>

### Notes:

- (1) Includes a £52.6 million (2020: £100.8 million) non-cash inflation expense repayable on maturity in relation to the group's index-linked debt and £1.8 million (2020: £1.6 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
- (2) Includes foreign exchange gains of £43.9 million (2020: £14.8 million losses). These losses/gains are largely offset by fair value gains/losses on derivatives.
- (3) Under the provisions of IFRS 9 'Financial Instruments', a £12.7 million loss (2020: £1.3 million gain) resulting from changes to the foreign currency basis spread are recognised in other comprehensive income rather than profit or loss as they relate to items designated in an accounting hedge relationship.
- (4) Under the provisions of IFRS 9 'Financial Instruments', a £43.3 million loss (2020: £34.2 million gain) due to the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.
- (5) These swap contracts are not designated within an IFRS 9 hedge relationship and are classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.
- (6) Includes £21.5 million income (2020: £16.0 million) due to net interest on derivatives and debt under fair value option and £1.3 million expense (2020: £0.5 million income) due to non-cash inflation changes on index-linked derivatives. Fair value movements excluding this income are deducted to reach underlying finance expense, which forms part of the group's alternative performance measures (APMs) as set out on pages 82 to 83.

Interest payable is stated net of £30.4 million (2020: £40.6 million) borrowing costs capitalised in the cost of qualifying assets, with £30.3 million (2020: £40.2 million) capitalised within property, plant and equipment and £0.1 million (2020: £0.4 million) capitalised within intangible assets during the year. This has been calculated by applying an average capitalisation rate of 2.3 per cent (2020: 3.2 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

In addition to the £107.2 million finance expense, the allowance for expected credit losses in relation to loans extended to the group's joint venture, Water Plus, has decreased by £3.7 million during the current year. This is primarily due to refinancing of facilities extended to Water Plus, which has resulted in a lower exposure to expected credit in the future (see note A6 for further details).

Underlying finance expense, which forms part of the group's APMs set out on pages 82 to 83, is calculated by adjusting net finance expense and investment income of £78.5 million (2020: £289.0 million) reported in the Income statement to exclude the £54.3 million of fair value gains (2020: £92.8 million fair value losses) on debt and derivative instruments included in the above table. In addition, underlying finance expense in the prior year excluded the impact of the £5.0 million allowance for expected credit losses on amounts owed by Water Plus, which was recognised in response to a significant increase in credit risk following the onset of the COVID-19 pandemic. The £3.7 million credit reducing the expected credit loss allowance in the current year has not been excluded from the calculation of underlying finance expense as it reflects reduced exposure to future credit losses arising as a result of the refinancing of facilities to Water Plus in the normal course of business.

# Notes to the financial statements

## 7 Tax

	2021 £m	2020 £m
<b>Current tax</b>		
UK corporation tax	79.8	51.1
Adjustments in respect of prior years	(0.6)	(12.2)
Total current tax charge for the year	79.2	38.9
<b>Deferred tax</b>		
Current year	20.2	16.4
Adjustments in respect of prior years	(1.8)	5.6
	18.4	22.0
Change in tax rate	-	135.5
Total deferred tax charge for the year	18.4	157.5
Total tax charge for the year	97.6	196.4

An increase in the headline rate of corporation tax to 25 per cent effective from 1 April 2023 was announced in the Chancellor's Budget on 3 March 2021. This change was substantively enacted on 24 May 2021 and will result in a future deferred tax charge, currently estimated at around £380 million. The deferred tax charge of £135.5 million in the prior year reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

The adjustments in respect of prior years relate to agreement of routine prior years' UK tax matters.

The table below reconciles the notional tax charge at the UK corporation tax rate to the total charge and total effective tax rate for the year:

	2021 £m	2021 %	2020 £m	2020 %
Profit before tax	551.0		303.2	
Tax at the UK corporation tax rate	104.7	19.0	57.6	19.0
Adjustments in respect of prior years	(2.4)	(0.4)	(6.6)	(2.2)
Change in tax rate	-	-	135.5	44.7
Net (income)/expense not taxable	(4.7)	(0.9)	9.9	3.2
Total tax charge and effective tax rate for the year	97.6	17.7	196.4	64.7

The movement from net expense not taxable in the year ended 31 March 2020 to net income not taxable in the year ended 31 March 2021 is mainly due to the disposal of the investment in AS Tallinna Vesi (Tallinn Water) and a decrease in losses from our joint venture interest in Water Plus.

The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year:

	2021 £m	2020 £m
Profit before tax	551.0	303.2
Profit before tax multiplied by the standard rate of UK corporation tax of 19%	104.7	57.6
Relief for capital allowances in place of depreciation	(78.6)	(82.1)
Disallowance of depreciation charged in the accounts	70.0	81.6
Financial transactions timing differences	(7.8)	11.7
Pension timing differences	-	(22.5)
Relief for capitalised interest	(5.8)	(7.7)
Other timing differences	2.0	2.6
Adjustments to tax charge in respect of prior years	(0.6)	(12.2)
Joint venture net losses	1.8	7.2
Profit on disposal of joint venture	(7.0)	-
(Income not taxable)/expenses not deductible for tax purposes	(1.8)	0.5
Depreciation charged on non-qualifying assets	2.3	2.2
Current tax charge for the year	79.2	38.9

The group's current tax charge is typically lower than the UK headline rate of 19 per cent, primarily due to a range of adjustments which are simply timing differences between recognition of the income or expense in the accounts and in the related tax computations submitted to HMRC. These include deductions in relation to capital spend, pension timing differences, unrealised profits or losses in relation to financing and related treasury derivatives and capitalised interest.

## 7 Tax continued

For the current year, the tax charge was reduced due to the profit on the disposal of the joint venture interest in the Estonian water company, AS Tallinna Vesi, being non taxable.

The current year net timing differences in relation to capital spend, i.e. capital allowances less depreciation, was more than the prior year mainly due to the atypical bioresources asset write-down in the prior year.

The year-on-year movement in financial transactions timing differences is sensitive to fair value movements on treasury derivatives and can, therefore, fluctuate significantly from year to year.

The current year pension timing differences were lower than the prior year mainly due to the company making accelerated deficit repair contributions of £103.0 million in the prior year.

The current year adjustments to tax charge in respect of prior years of £0.6 million were lower in the current year mainly due to the agreement of various capital allowance matters covering multiple years in the prior year.

The decrease in joint venture losses is due to a reduction in our share of the losses in relation to Water Plus.

	2021 £m	2020 £m
<b>Tax on items taken directly to equity</b>		
<b>Current tax</b>		
Relating to other pension movements	(3.3)	–
<b>Deferred tax</b> (see note 19)		
On remeasurement (losses)/gains on defined benefit pension schemes	(26.0)	150.0
Relating to other pension movements	3.3	–
Adjustments in respect of prior years on net fair value gains	–	2.4
On net fair value (losses)/gains on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	(8.8)	6.7
<b>Total tax charge on items taken directly to equity</b>	<b>(34.8)</b>	<b>159.1</b>

The current tax amount of £3.3 million relating to other pension movements is the contributions in excess of the amounts in the profit and loss account which has to be allocated against the actuarial loss.

The tax adjustments taken to equity primarily relate to remeasurement movements on the group's defined benefit pension schemes. In the prior year, this included the adjustment arising from a change in the rate at which the deferred tax liabilities are measured, from 17 per cent to 35 per cent. This change in rate reflected a revised judgement as to the most likely method by which the defined benefit pension surplus would be realised. Whereas prior to the year ended 31 March 2020 it was assumed that the surplus could be realised through a reduction in future contributions, from the year ended 31 March 2020 onwards management considers that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

## 8 Earnings per share

	2021 £m	2020 £m
Profit after tax attributable to equity holders of the company – continuing operations	453.4	106.8
	2021 pence	2020 pence
<b>Earnings per share</b>		
Basic	66.5	15.7
Diluted	66.3	15.6

Basic earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 681.9 million being the weighted average number of shares in issue during the year (2020: 681.9 million). Diluted earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 683.5 million, being the weighted average number of shares in issue during the year, including dilutive shares (2020: 683.6 million).

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings Per Share'. Potential dilutive ordinary shares comprise outstanding share options awarded to directors and certain employees (see note 3).

The weighted average number of shares can be reconciled to the weighted average number of shares, including dilutive shares, as follows:

	2021 million	2020 million
Average number of ordinary shares – basic	681.9	681.9
<b>Effect of potential dilutive ordinary share options</b>	<b>1.6</b>	<b>1.7</b>
Average number of ordinary shares – diluted	<b>683.5</b>	<b>683.6</b>

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## 9 Dividends

	2021 £m	2020 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
<b>Ordinary shares</b>		
Final dividend for the year ended 31 March 2020 at 28.40 pence per share (2019: 27.52 pence)	193.6	187.7
Interim dividend for the year ended 31 March 2021 at 14.41 pence per share (2020: 14.20 pence)	98.3	96.8
	<b>291.9</b>	<b>284.5</b>
Proposed final dividend for the year ended 31 March 2021 at 28.83 pence per share (2020: 28.40 pence)	196.6	193.7

The proposed final dividends for the years ended 31 March 2021 and 31 March 2020 were subject to approval by equity holders of United Utilities Group PLC as at the reporting dates, and hence have not been included as liabilities in the consolidated financial statements at 31 March 2021 and 31 March 2020.

## 10 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2021 £m	2020 £m
Property, plant and equipment – owned	11,739.7	11,453.6
Right of use assets – leased	59.3	57.3
<b>Net book value</b>	<b>11,799.0</b>	<b>11,510.9</b>

Property, plant and equipment – owned

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
<b>Cost</b>						
At 1 April 2019	359.7	5,490.4	7,422.1	538.2	1,625.4	15,435.8
Additions	1.8	140.5	157.1	9.7	445.4	754.5
Transfers	6.0	131.1	358.8	24.1	(520.0)	–
Disposals	(13.6)	(31.5)	(251.2)	(13.0)	–	(309.3)
<b>At 31 March 2020</b>	<b>353.9</b>	<b>5,730.5</b>	<b>7,686.8</b>	<b>559.0</b>	<b>1,550.8</b>	<b>15,881.0</b>
Additions	1.7	100.8	136.7	8.4	430.3	677.9
Transfers	9.7	66.5	418.3	(3.9)	(492.6)	(2.0)
Disposals	(1.6)	–	(167.1)	(47.6)	–	(216.3)
<b>At 31 March 2021</b>	<b>363.7</b>	<b>5,897.8</b>	<b>8,074.7</b>	<b>515.9</b>	<b>1,488.5</b>	<b>16,340.6</b>
<b>Accumulated depreciation</b>						
At 1 April 2019	126.9	421.3	3,333.9	400.3	–	4,282.4
Charge for the year	8.8	44.4	353.4	33.0	–	439.6
Disposals	(13.5)	(31.2)	(237.1)	(12.8)	–	(294.6)
<b>At 31 March 2020</b>	<b>122.2</b>	<b>434.5</b>	<b>3,450.2</b>	<b>420.5</b>	<b>–</b>	<b>4,427.4</b>
Charge for the year	8.2	42.6	299.1	28.8	–	378.7
Transfers	–	–	–	(1.0)	–	(1.0)
Disposals	(1.5)	–	(155.7)	(47.0)	–	(204.2)
<b>At 31 March 2021</b>	<b>128.9</b>	<b>477.1</b>	<b>3,593.6</b>	<b>401.3</b>	<b>–</b>	<b>4,600.9</b>
Net book value at 31 March 2020	231.7	5,296.0	4,236.6	138.5	1,550.8	11,453.6
<b>Net book value at 31 March 2021</b>	<b>234.8</b>	<b>5,420.7</b>	<b>4,481.1</b>	<b>114.6</b>	<b>1,488.5</b>	<b>11,739.7</b>

During the year, there was a transfer of £2.0 million cost and associated £1.0 million accumulated depreciation from property, plant and equipment to intangible assets following a data cleanse exercise in respect of the fixed assets register.

## 10 Property, plant and equipment continued

Right of use assets – leased

Group	Land and buildings £m	Operational assets £m	Fixtures, fittings tools and equipment £m	Total £m
<b>Cost</b>				
At 1 April 2019				
Opening balance adjustment on adoption of IFRS 16 <sup>(1)</sup>	48.6	5.8	–	54.4
Additions	4.2	0.8	–	5.0
Disposals	–	(0.1)	–	(0.1)
<b>At 31 March 2020</b>	<b>52.8</b>	<b>6.5</b>	<b>–</b>	<b>59.3</b>
Additions	2.4	1.5	0.2	4.1
Disposals	(0.1)	(0.2)	–	(0.3)
<b>At 31 March 2021</b>	<b>55.1</b>	<b>7.8</b>	<b>0.2</b>	<b>63.1</b>
<b>Accumulated depreciation</b>				
At 1 April 2019	–	–	–	–
Charge for the year	1.0	1.0	–	2.0
Disposals	–	–	–	–
<b>At 31 March 2020</b>	<b>1.0</b>	<b>1.0</b>	<b>–</b>	<b>2.0</b>
Charge for the year	1.2	0.9	–	2.1
Disposals	(0.1)	(0.2)	–	(0.3)
<b>At 31 March 2021</b>	<b>2.1</b>	<b>1.7</b>	<b>–</b>	<b>3.8</b>
Net book value at 31 March 2020	51.8	5.5	–	57.3
<b>Net book value at 31 March 2021</b>	<b>53.0</b>	<b>6.1</b>	<b>0.2</b>	<b>59.3</b>

Note:

- (1) Following a review of underlying assets during the year, the opening balance adjustment on adoption of IFRS 16 at 1 April 2019 has been re-presented such that £1.4 million of right of use assets relating to vehicles have been included in operational assets whereas they were previously included in fixtures, fittings, tools and equipment. After taking account of additions, disposals and depreciation, the effect of this is that cost and net book value of operational assets is £1.7 million and £0.8 million higher at 31 March 2020 compared with the presentation in the prior year financial statements, and the cost and net book value of fixtures, fittings, tools and equipment at 31 March 2020 are lower by the same amount.

To carry out its activities, the group enters into leases of assets from time to time, typically in relation to items such as land, buildings and vehicles. Due to the nature of the group's operations, many of the group's leases have extremely long terms, ranging from one year to 999 years. The group does not typically lease assets on a short-term basis or enter into leases for low value asset and therefore no material costs were incurred during the year, either individually or in aggregate, in relation to lease contracts with a duration of less than 12 months or for low-value assets.

At 31 March 2021, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £335.8 million (2020: £432.6 million). In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by regulators and to provide for future growth.

### Company

The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2021 or 31 March 2020.



# Notes to the financial statements

## 11 Intangible assets

Group	Total £m
<b>Cost</b>	
At 1 April 2019	436.5
Additions	27.6
Disposals	(22.7)
At 31 March 2020	<b>441.4</b>
Additions	<b>32.7</b>
Disposals	<b>(51.0)</b>
Transfers	<b>2.0</b>
<b>At 31 March 2021</b>	<b>425.1</b>
<b>Accumulated amortisation</b>	
At 1 April 2019	233.8
Charge for the year	41.2
Disposals	(22.6)
At 31 March 2020	<b>252.4</b>
Charge for the year	<b>41.5</b>
Disposals	<b>(50.9)</b>
Transfers	<b>1.0</b>
<b>At 31 March 2021</b>	<b>244.0</b>
Net book value at 31 March 2020	<b>189.0</b>
<b>Net book value at 31 March 2021</b>	<b>181.1</b>

The group's intangible assets relate mainly to computer software.

During the year, there was a transfer of £2.0 million cost and associated £1.0 million accumulated depreciation from property, plant and equipment to intangible assets following a data cleanse exercise in respect of the fixed assets register.

At 31 March 2021, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £0.9 million (2020: £2.6 million).

### Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2021 or 31 March 2020.

## 12 Joint ventures and other investments

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

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

## 12 Joint ventures and other investments continued

The group's total share of Water Plus losses for the year was £8.9 million (2020: £51.5 million share of losses), all of which has been recognised in the income statement together with £5.3 million of previously unrecognised share of losses (2020: £46.2 million recognised in the income statement, £5.3 million not recognised). The £14.2 million total share of losses recognised in the income statement during the year has been allocated against the fully drawn £32.5 million revolving credit facility extended to Water Plus by United Utilities PLC, which is presented within amounts owed by related parties included within trade and other receivables (see note 14). This facility forms part of the group's long-term interest in the Water Plus joint venture given that at 31 March 2021 there was a clear expectation that it would be converted into additional equity share capital, with this transaction subsequently executed on 23 April 2021.

In the year ended 31 March 2020, the £46.2 million recognised share of losses comprised £36.7 million which was allocated to the group's equity investment, and £9.5 million which was allocated to the zero coupon shareholder loan notes extended to Water Plus as this forms part of the group's long-term interest in the joint venture. The share of losses recognised against each component of the group's net investment in Water Plus reduced each of them to £nil at 31 March 2020.

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

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

Details of transactions between the group and its joint ventures and other investments are disclosed in note A6.

### Company

At 31 March 2021, the company's investments related solely to its investments in United Utilities PLC, which was recorded at a cost of £6,326.8 million (2020: £6,326.8 million).

## 13 Inventories

Group	2021 £m	2020 £m
Properties held for resale	2.5	4.5
Other inventories	15.8	12.1
	<b>18.3</b>	16.6

### Company

The company had no inventories at 31 March 2021 or 31 March 2020.

## 14 Trade and other receivables

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	63.5	81.2	–	–
Amounts owed by subsidiary undertakings	–	–	91.9	81.3
Amounts owed by related parties (see note A6)	113.8	147.9	–	–
Other debtors and prepayments	34.3	39.1	–	–
Accrued income	104.3	74.7	–	–
	<b>315.9</b>	342.9	<b>91.9</b>	81.3

At 31 March 2021, the group had £86.7 million (2020: £97.0 million) of trade and other receivables classified as non-current, all of which was owed by related parties (2020: £95.0 million).

The carrying amounts of trade and other receivables approximates to their fair value at 31 March 2021 and 31 March 2020.

## Notes to the financial statements

### 14 Trade and other receivables continued

Trade receivables do not carry interest and are stated net of allowances for bad and doubtful receivables, an analysis of which is as follows:

Group	2021 £m	2020 £m
At the start of the year	71.4	56.5
Amounts charged to operating expenses (see note 4)	28.7	41.8
Trade receivables written off	(20.2)	(28.0)
Amounts charged to deferred income	0.5	1.1
<b>At the end of the year</b>	<b>80.4</b>	<b>71.4</b>

Amounts charged to deferred income relate to amounts invoiced for which revenue has not yet been recognised in the income statement.

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for expected credit losses which are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers past events, current conditions and forecasts of future conditions. In the year ended 31 March 2020, an allowance for expected credit losses of £18.1 million was recognised in relation to trade and other receivables, reflecting the direct impact of COVID-19 estimated at the onset of the pandemic. In the year ended 31 March 2021, a further charge of around £5 million was recognised due to increased risk associated with cash collection as government support schemes are withdrawn.

At 31 March 2021 and 31 March 2020, the group had no trade receivables that were past due and not individually impaired.

The following table provides information regarding the ageing of net trade receivables that were past due and individually impaired:

At 31 March 2021	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Gross trade receivables	61.9	35.3	44.4	141.7
Allowance for expected credit losses	(19.9)	(16.5)	(43.9)	(80.4)
<b>Net trade receivables</b>	<b>42.0</b>	<b>18.8</b>	<b>0.5</b>	<b>61.3</b>

At 31 March 2020	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Gross trade receivables	72.8	31.6	43.4	146.9
Allowance for expected credit losses	(19.3)	(15.7)	(36.4)	(71.4)
<b>Net trade receivables</b>	<b>53.5</b>	<b>15.9</b>	<b>7.0</b>	<b>76.4</b>

At 31 March 2021, the group had £2.2 million (2020: £4.8 million) of trade receivables that were not past due.

The majority of accrued income balances represent contract assets arising from timing differences between the billing cycle and the usage of water by customers. They therefore typically reverse in subsequent months, with all amounts held in relation to these contract assets at the beginning of the reporting period having subsequently reversed into the income statement during the year. At 31 March 2021 and 31 March 2020, the group had no accrued income that was past due. In instances where the collection of consideration is not considered probable at the point services are delivered, no accrued income balance is recognised, as the criteria to recognise revenue in accordance with IFRS 15 has not been met.

#### Company

At 31 March 2021 and 31 March 2020, the company had no trade receivables that were past due.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2021 and 31 March 2020.

## 15 Cash and cash equivalents

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash at bank and in hand	88.9	33.0	-	-
Short-term bank deposits	655.2	495.1	-	-
<b>Cash and short-term deposits</b>	<b>744.1</b>	<b>528.1</b>	<b>-</b>	<b>-</b>
Book overdrafts (included in borrowings, see note 16)	(10.5)	(14.9)	-	(0.8)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>733.6</b>	<b>513.2</b>	<b>-</b>	<b>(0.8)</b>

Cash and short-term deposits include cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less. The carrying amounts of cash and cash equivalents approximate their fair value.

Book overdrafts, which result from normal cash management practices, represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

## 16 Borrowings

Group	2021 £m	2020 £m
<b>Non-current liabilities</b>		
Bonds	6,029.9	5,648.5
Bank and other term borrowings	1,710.4	1,814.9
Lease liabilities	56.7	54.7
	<b>7,797.0</b>	<b>7,518.1</b>
<b>Current liabilities</b>		
Bonds	388.5	-
Bank and other term borrowings	252.5	827.2
Book overdrafts (see note 15)	10.5	14.9
Lease liabilities	3.3	2.9
	<b>654.8</b>	<b>845.0</b>
	<b>8,451.8</b>	<b>8,363.1</b>

Amounts owed to subsidiary undertakings relate to an intercompany loan from United Utilities PLC to the company, which bears interest calculated with reference to LIBOR plus a credit margin, and is repayable with twelve months' notice upon written request by a director of either party, with the repayment date not falling less than 366 days after the date of the request.

For further details of the principal economic terms and conditions of outstanding borrowings see note A3.

Company	2021 £m	2020 £m
<b>Non-current liabilities</b>		
Amounts owed to subsidiary undertakings	1,780.6	1,752.0
	<b>1,780.6</b>	<b>1,752.0</b>
<b>Current liabilities</b>		
Book overdrafts (see note 15)	-	0.8
	-	0.8
	<b>1,780.6</b>	<b>1,752.8</b>

Borrowings are unsecured and are measured at amortised cost. The carrying amounts of borrowings approximate their fair value.

# Notes to the financial statements

## 17 Leases

The maturity profile of lease liabilities recognised at the balance sheet date is:

	2021 £m	2020 £m
Less than 1 year	3.3	2.9
1 to 5 years	10.5	8.9
5 to 10 years	7.8	9.7
10 to 25 years	25.5	25.2
25 to 50 years	41.0	40.5
50 to 100 years	81.0	80.1
100 to 500 years	107.6	106.9
Longer than 500 years	3.2	3.2
<b>Total undiscounted cash payments</b>	<b>279.9</b>	<b>277.4</b>
Effect of discounting	(219.9)	(219.9)
<b>Present value of cash payments</b>	<b>60.0</b>	<b>57.5</b>

During the year ending 31 March 2021, £1.8 million (2020: £1.6 million) of interest expense on lease liabilities was recognised; representing the unwinding of the discounting applied to future lease payments (see note 6).

The total cash outflow for leases for the year ending 31 March 2021 was £3.5 million; of this, £1.8 million was payment of interest and £1.7 million payment of principal.

Payment of interest forms part of cash flows from operating activities and payment of principal is included within repayment of borrowings, which forms part of cash flows from financing activities in the group's statement of cash flows.

## 18 Retirement benefit surplus

### Defined benefit schemes

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

Group	2021 £m	2020 £m
Current service cost	4.9	6.1
Curtailments/settlements	0.6	4.6
Administrative expenses	3.0	1.6
<b>Pension expense charged to operating profit</b>	<b>8.5</b>	<b>12.3</b>
Net pension interest income credited to investment income (see note 5)	(17.5)	(14.0)
<b>Net pension income credited to the income statement before tax</b>	<b>(9.0)</b>	<b>(1.7)</b>

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £7.9 million (2020: £7.7 million) comprising current service costs and administrative expenses. Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £31.3 million (2020: £30.2 million) comprise the defined benefit costs described above of £7.9 million (2020: £7.7 million) and defined contribution pension costs of £23.4 million (2020: £22.5 million) (see note 3).

Included within curtailments/settlements is £0.5 million (2020: £nil) relating to the equalisation of GMP benefits (see note A5 for further details).

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

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

Included in the contributions paid of £8.6 million (2020: £113.9 million) were deficit repair contributions of £nil (2020: £103.0 million), enhancements to benefits provided on redundancy of £0.9 million (2020: £1.9 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.7 million (2020: £1.4 million), and administration expenses of £0.4 million (2020: £0.4 million). Following the 2018 actuarial valuation, contributions in relation to current service cost remained broadly stable at £6.6 million (2020: £7.2 million).

Remeasurement gains and losses are recognised directly in the statement of comprehensive income.

## 18 Retirement benefit surplus continued

Group	2021 £m	2020 £m
The return on plan assets, excluding amounts included in interest	241.0	(131.6)
Actuarial (losses)/gains arising from changes in financial assumptions	(429.7)	257.3
Actuarial gains/(losses) arising from changes in demographic assumptions	80.6	(7.2)
Actuarial gains arising from experience	25.4	36.1
<b>Remeasurement (losses)/gains on defined benefit pension schemes</b>	<b>(82.7)</b>	<b>154.6</b>

For more information in relation to the group's defined benefit pension schemes, including changes in financial and demographic assumptions, see note A5.

### Defined contribution schemes

During the year, the group made £23.4 million (2020: £22.5 million) of contributions to defined contribution schemes which are included in employee benefits expense (see note 3).

### Company

The company did not participate in any of the group's pension schemes during the years ended 31 March 2021 and 31 March 2020.

## 19 Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the group, and the movements thereon, during the current and prior year:

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2019	1,076.7	82.2	(12.9)	1,146.0
Charged/(credited) to the income statement (see note 7)	13.2	22.0	(13.2)	22.0
Change in tax rate	127.5	9.7	(1.7)	135.5
Charged to equity (see note 7)	–	150.0	9.1	159.1
At 31 March 2020	<b>1,217.4</b>	<b>263.9</b>	<b>(18.7)</b>	<b>1,462.6</b>
Charges to the income statement (see note 7)	9.2	–	9.2	18.4
Credited to equity (see note 7)	–	(22.7)	(8.8)	(31.5)
<b>At 31 March 2021</b>	<b>1,226.6</b>	<b>241.2</b>	<b>(18.3)</b>	<b>1,449.5</b>

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The deferred tax charge in the prior year of £135.5 million reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

The accelerated tax depreciation represents the difference between capital allowances and accounting depreciation on the group's property, plant and equipment. Capital allowances are tax reliefs provided in law and spread the tax relief due over a pre-determined standard number of years. This contrasts with the accounting treatment, where the expenditure is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially. Due to the group's continued significant annual capital expenditure, the deductions for capital allowances are expected to exceed depreciation for the medium term and continue to impact future corporation tax payments.

Given the fully funded nature of the group's defined benefit pension schemes, the retirement benefit obligations primarily relate to deferred taxation on the pensions schemes surplus position. This amount is significantly impacted by financial market conditions and long-term inflation expectations and therefore it is difficult to forecast future movements. However, these movements have no impact on medium-term future corporation tax payments as they only impact year-on-year deferred tax movement.

Deferred tax on retirement benefit obligations can arise where there are year-on-year differences between the contributions paid and the associated amounts charged to the profit and loss account. However, given the fully funded nature of our pension schemes, any such deferred tax movements, together with the associated impact on future corporation tax payments, are not expected to be significant for the medium term.

The other short-term temporary differences are mainly in relation to the year-on-year movement in financial transactions which are sensitive to fair value movement on treasury derivatives and can therefore fluctuate significantly from year to year. However, these movements have no impact on future corporation tax payments as they only impact the year-on-year deferred tax movement.

### Company

The company had no deferred tax assets or liabilities at 31 March 2021 or 31 March 2020.

# Notes to the financial statements

## 20 Provisions

Group	Severance	Other	Total
	£m	£m	£m
At 1 April 2019	2.8	14.0	16.8
Charged/(credited) to the income statement	7.2	(0.6)	6.6
Utilised in the year	(5.1)	(1.9)	(7.0)
At 31 March 2020	<b>4.9</b>	<b>11.5</b>	<b>16.4</b>
Charged/(credited) to the income statement	<b>1.3</b>	<b>(0.9)</b>	<b>0.4</b>
Utilised in the year	<b>(4.6)</b>	<b>(1.1)</b>	<b>(5.7)</b>
<b>At 31 March 2021</b>	<b>1.6</b>	<b>9.5</b>	<b>11.1</b>

The group had no provisions classed as non-current at 31 March 2021 or 31 March 2020.

The severance provision as at 31 March 2021 and 31 March 2020 relates to severance costs as a result of group reorganisation.

Other provisions principally relate to contractual, legal and environmental claims against the group and represent management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant legal claims.

### Company

The company had no provisions at 31 March 2021 or 31 March 2020.

## 21 Trade and other payables

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
<b>Non-current</b>				
Deferred grants and contributions	<b>780.4</b>	736.8	–	–
Other creditors	<b>17.9</b>	24.4	–	–
	<b>798.3</b>	761.2	–	–
	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
<b>Current</b>				
Trade payables	<b>33.3</b>	36.7	–	–
Amounts owed to subsidiary undertakings	–	–	<b>7.6</b>	12.1
Amounts owed to related parties	<b>2.4</b>	4.8	–	–
Other tax and social security	<b>5.9</b>	5.8	–	–
Deferred grants and contributions	<b>15.4</b>	14.5	–	–
Accruals and other creditors	<b>221.1</b>	227.9	<b>3.2</b>	2.1
Deferred income	<b>44.6</b>	44.7	–	–
	<b>322.7</b>	334.4	<b>10.8</b>	14.2

The average credit period taken for trade purchases is 13 days (2020: 15 days).

The carrying amounts of trade and other payables approximates to their fair value at 31 March 2021 and 31 March 2020.

The majority of deferred income balances represent contract liabilities arising from timing differences between customer payments, the billing cycle, and the usage of water by customers. They therefore typically reverse in subsequent months, with all amounts held in relation to these contract liabilities at the beginning of the reporting period having subsequently reversed into the income statement during the year.

### Deferred grants and contributions

Group	2021	2020
	£m	£m
At the start of the year	<b>751.3</b>	684.5
Amounts capitalised during the year	<b>5.0</b>	35.1
Transfers of assets from customers	<b>55.0</b>	47.0
Credited to the income statement – revenue	<b>(14.6)</b>	(13.8)
Credited to the income statement – other operating expenses	<b>(0.4)</b>	(0.4)
Credited to allowance for bad and doubtful receivables	<b>(0.5)</b>	(1.1)
<b>At the end of the year</b>	<b>795.8</b>	751.3

## 22 Other reserves

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

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

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

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

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

### Company

The company's other reserves at 31 March 2021, 31 March 2020 and 1 April 2019, were comprised entirely of a £1,033.3 million capital redemption reserve that arose as a result of a return of capital to shareholders following the acquisition of United Utilities PLC by the company in the year ended 31 March 2009.



# Notes to the financial statements

## 23 Share capital

Group and company	2021 million	2021 £m	2020 million	2020 £m
<b>Issued, called up and fully paid</b>				
Ordinary shares of 5.0 pence each	681.9	34.1	681.9	34.1
Deferred shares of 170.0 pence each	274.0	465.7	274.0	465.7
	<b>955.9</b>	<b>499.8</b>	955.9	499.8

Details of the voting rights of each category of shares can be found within the directors' report on pages 192 to 193.

The 170.0 pence deferred shares were created to facilitate a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009 (see company statement of changes in equity on page 211), and represent the amount of a special dividend paid on B shares at that time. The deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding up.

## 24 Contingent liabilities

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

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

The company has not entered into performance guarantees as at 31 March 2021 or 31 March 2020.

## 25 Events after the reporting period

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

In April 2021, the group's board of directors approved a plan to market the group's renewable energy business, United Utilities Renewable Energy Limited, for sale. This process is expected to commence during June 2021 and will involve the sale of assets – primarily property, plant and equipment – with a carrying value of £65.5 million in the group's consolidated statement of financial position at 31 March 2021.

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

# Notes to the financial statements – appendices

## A1 Consolidated statement of cash flows – further analysis

### Cash generated from operations

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Profit before tax	551.0	303.2	273.9	251.6
Adjustment for investment income and finance expense (see notes 5, 6 and A6)	78.5	289.0	–	32.9
Adjustment for share of profits of joint ventures (see note 12)	9.3	38.1	–	–
Adjustment for profit on disposal of joint ventures	(36.7)	–	–	–
Operating profit	602.1	630.3	–	284.5
Adjustments for:				
Depreciation of property, plant and equipment (see note 10)	379.8	441.6	24.2	–
Amortisation of intangible assets (see note 11)	42.5	41.2	–	–
Loss on disposal of property, plant and equipment (see note 4)	10.7	13.9	–	–
Amortisation of deferred grants and contributions (see note 21)	(15.0)	(13.8)	–	–
Equity-settled share-based payments charge (see note 3)	3.6	1.5	–	–
Changes in working capital:				
Increase in inventories (see note 13)	(1.7)	(1.7)	–	–
Decrease in trade and other receivables	18.1	4.6	3.0	2.7
Increase/(decrease) in trade and other payables	2.5	(10.1)	1.1	(0.2)
Decrease in provisions (see note 20)	(5.3)	(0.4)	–	–
Pension contributions paid less pension expense charged to operating profit	(0.1)	(101.6)	–	–
Cash generated from operations	1,037.2	1,005.5	302.2	287.0

The group has received property, plant and equipment of £55.0 million (2020: £47.0 million) in exchange for the provision of future goods and services (see notes 21 and A7).

### Reconciliation of fixed asset purchases to fixed asset additions

	2021 £m	2020 £m
<b>Owned property, plant and equipment<sup>(1)</sup></b>		
<b>Purchase of property, plant and equipment in statement of cash flows</b>	<b>610.4</b>	652.8
Non-cash additions:		
Transfers of assets from customers (see note 21)	55.0	47.0
IAS 23 capitalised borrowing costs (see note 6)	30.3	40.2
Net book value transfers to intangible assets	1.0	–
Timing differences on cash paid <sup>(2)</sup>	(18.8)	14.5
<b>Property, plant and equipment additions</b>	<b>677.9</b>	754.5

#### Notes:

- (1) This reconciliation relates to property, plant and equipment owned by the group and therefore excludes right-of-use assets recognised in accordance with IFRS 16 'Leases', for which cash flows relating to the associated lease liabilities are included within repayment of borrowings and interest paid in the statement of cash flows.
- (2) Timing differences arise and reverse when additions are recognised in the statement of financial position in a different period to when cash payments for capital expenditure are made. Capital accruals recognised in relation to these timing differences are included in 'Accruals and other creditors' within trade and other payables (note 21).

	2021 £m	2020 £m
<b>Intangible assets</b>		
<b>Purchase of intangible assets in statement of cash flows</b>	<b>33.6</b>	27.2
IAS 23 capitalised borrowing costs – non-cash additions (see note 6)	0.1	0.4
Net book value transfers from property, plant and equipment	(1.0)	–
<b>Intangible asset additions</b>	<b>32.7</b>	27.6

For the year ended 31 March 2021, the group has enhanced its disclosures relating to the statement of cash flows in respect of relevant accounting policies, judgements taken, and how items can be reconciled to other areas of the financial statements. Please see note A7 for further details.

# Notes to the financial statements – appendices

## A2 Net debt

Net debt comprises borrowings, net of cash and short-term deposits and derivatives. As such, movements in net debt during the year are impacted by changes in liabilities from financing activities as detailed in the tables below. The tables below should be read in conjunction with the consolidated statement of cash flows.

	Borrowings			Derivatives			Cash and cash equivalents	Adjustments in calculating net debt <sup>(2)</sup>	Net debt
	Bonds	Bank and other term borrowings	Lease liabilities	in a fair value hedge	at fair value through profit or loss	Total liabilities from financing activities			
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 31 March 2020	(5,648.5)	(2,642.1)	(57.6)	395.7	80.1	(7,872.4)	513.2	131.7	(7,227.5)
<b>Non-cash movements:</b>									
Inflation uplift on index-linked debt	(32.4)	(20.2)	–	–	–	(52.6)	–	–	(52.6)
Fair value movements	123.8	11.3	–	(140.6)	(39.6)	(45.1)	–	(33.3)	(78.4)
Foreign exchange	38.7	5.2	–	–	–	43.9	–	–	43.9
Other	0.7	–	(5.9)	–	–	(5.2)	–	–	(5.2)
<b>Cash flows used in financing activities:</b>									
Receipts in respect of borrowing and derivatives <sup>(1)</sup>	(900.7)	(6.1)	–	(2.9)	–	(909.7)	909.7	–	–
Payments in respect of borrowings and derivatives <sup>(1)</sup>	–	689.0	1.7	10.8	–	701.5	(701.5)	–	–
Dividends paid	–	–	–	–	–	–	(291.9)	–	(291.9)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(4.0)	–	(4.0)
Other	–	–	–	–	–	–	(2.0)	–	(2.0)
<b>Changes arising from financing activities</b>	<b>(769.9)</b>	<b>679.2</b>	<b>(4.2)</b>	<b>(132.7)</b>	<b>(39.6)</b>	<b>(267.2)</b>	<b>(89.7)</b>	<b>(33.3)</b>	<b>(390.2)</b>
Cash flows used in investing activities	–	–	–	–	–	–	(549.3)	–	(549.3)
Cash flows generated from operating activities	–	–	1.8	–	–	1.8	859.4	–	861.3
<b>At 31 March 2021</b>	<b>(6,418.4)</b>	<b>(1,962.9)</b>	<b>(60.0)</b>	<b>263.0</b>	<b>40.5</b>	<b>(8,137.8)</b>	<b>733.6</b>	<b>98.4</b>	<b>(7,305.8)</b>

### Notes:

- Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.
- The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in fair value hedge relationships) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

During the period, the group has revised its definition of net debt in order to exclude the impact of derivatives that are not hedging specific debt instruments and therefore give a fairer reflection of the net debt amount the group is contractually obliged to repay. This updated approach is now consistent with that taken by credit rating agencies, and better reflects the underlying regulatory economics. Under this revised definition net debt comprises borrowings, net of cash and short-term deposits and derivatives, but excluding the fair value of group's fixed interest rate swaps, electricity derivatives, and inflation swaps (apart from the principal accretion element). Previously net debt has been defined as borrowings, net of cash and short-term deposits and derivatives.

Fair value movements on borrowings and their associated swaps that are included in net debt are not materially opposite in value for the year ended 31 March 2021. The effects of COVID-19 on financial market volatility in the period has impacted the credit spread recognised on the group's fair-value option debt, and material basis spread adjustments have been recorded on the group's cross-currency swaps. Both of these items have been recorded in other comprehensive income. In addition, material credit spread adjustments have been recorded with respect to the group's derivatives in fair value hedge relationships, which has been recorded in the consolidated income statement in the period.

## A2 Net debt continued

	Borrowings			Derivatives		Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjustments in calculating net debt <sup>(2)</sup> £m	Net debt £m
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m				
At 31 March 2019	(5,256.5)	(2,544.6)	–	327.1	82.6	(7,391.4)	324.6	76.4	(6,990.4)
Adjustment on initial application of IFRS 16	–	–	(54.4)	–	–	(54.4)	–	–	(54.4)
At 1 April 2019	(5,256.5)	(2,544.6)	(54.4)	327.1	82.6	(7,445.8)	324.6	76.4	(7,044.8)
<b>Non-cash movements:</b>									
Inflation uplift on index-linked debt	(58.2)	(42.6)	–	–	–	(100.8)	–	–	(100.8)
Fair value movements	(93.4)	(2.0)	–	57.8	(4.7)	(42.3)	–	55.3	13.0
Foreign exchange	(9.5)	(5.3)	–	–	–	(14.8)	–	–	(14.8)
Other	(1.5)	–	(6.5)	–	–	(8.0)	–	–	(8.0)
<b>Cash flows used in financing activities:</b>									
Receipts in respect of borrowing and derivatives <sup>(1)</sup>	(651.1)	(157.1)	–	–	–	(808.2)	808.2	–	–
Payments in respect of borrowings and derivatives <sup>(1)</sup>	421.7	109.5	1.7	10.8	2.2	545.9	(545.9)	–	–
Dividends paid	–	–	–	–	–	–	(284.5)	–	(284.5)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(2.8)	–	(2.8)
Other	–	–	–	–	–	–	(2.8)	–	(2.8)
<b>Changes arising from financing activities</b>	<b>(392.0)</b>	<b>(97.5)</b>	<b>(4.8)</b>	<b>68.6</b>	<b>(2.5)</b>	<b>(428.2)</b>	<b>(27.8)</b>	<b>55.3</b>	<b>(400.7)</b>
Cash flows used in investing activities	–	–	–	–	–	–	(593.9)	–	(593.9)
Cash flows generated from operating activities	–	–	1.6	–	–	1.6	810.3	–	811.9
At 31 March 2020	(5,648.5)	(2,642.1)	(57.6)	395.7	80.1	(7,872.4)	513.2	131.7	(7,227.5)

## Notes:

- (1) Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.
- (2) The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in fair value hedge relationships) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

## Notes to the financial statements – appendices

### A3 Borrowings

#### Terms and debt repayment schedule

The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

	Currency	Year of final repayment	Fair value	Carrying value	Fair value	Carrying value
			2021	2021	2020	2020
			£m	£m	£m	£m
<b>Borrowings in fair value hedge relationships</b>			<b>2,913.6</b>	<b>2,895.5</b>	2,440.0	2,590.5
5.75% 375m bond	GBP	2022	394.6	388.6	405.1	399.4
2.0% 450m bond	GBP	2025	470.6	465.3	451.8	468.5
2.867% 320m bond	HKD	2026	31.7	32.0	33.4	35.9
2.92% 739m bond	HKD	2026	73.2	74.1	77.2	83.4
1.129% 52m bond	EUR	2027	46.9	46.6	44.2	48.6
2.37% 830m bond	HKD	2027	79.6	81.9	82.7	93.3
5.625% 300m bond	GBP	2027	388.0	380.4	380.6	398.7
5.02% JPY 10bn dual currency loan	JPY/USD	2029	87.2	90.2	94.5	106.8
0.875% 300m bond	GBP	2029	284.8	295.8	–	–
2.058% 30m bond	EUR	2030	28.9	28.6	26.8	30.2
2.625% 425m bond	GBP	2031	460.8	440.5	366.4	380.5
1.641% 30m bond	EUR	2031	28.0	27.4	25.7	28.9
2.9% 600m bond	HKD	2031	60.4	56.4	62.2	67.2
1.474% 35m bond	USD	2031	23.5	22.7	–	–
1.707% 28m bond	EUR	2032	26.1	27.0	23.8	28.7
1.653% 26m bond	EUR	2032	24.0	24.7	21.9	26.2
1.70% 30m bond	EUR	2033	27.8	29.0	25.3	30.8
2.0% 100m bond	GBP	2033	103.8	98.4	51.4	53.3
5.0% 200m bond	GBP	2035	273.7	285.9	267.0	310.1
<b>Borrowings designated at fair value through profit or loss</b>			<b>373.6</b>	<b>373.6</b>	397.5	397.5
6.875% 400m bond	USD	2028	373.6	373.6	397.5	397.5
<b>Borrowings measured at amortised cost</b>			<b>6,568.1</b>	<b>5,182.7</b>	5,996.0	5,375.1
1.61%+RPI 50m EIB IL loan	GBP	2020	–	–	68.1	67.0
1.73%+RPI 50m EIB IL loan	GBP	2020	–	–	68.1	66.9
1.84%+RPI 50m EIB IL loan	GBP	2020	–	–	68.1	66.9
1.90%+RPI 50m EIB IL loan	GBP	2020	–	–	68.1	66.8
1.93%+RPI 50m EIB IL loan	GBP	2020	–	–	68.0	66.7
1.88%+RPI 50m EIB IL loan	GBP	2020	–	–	67.9	66.6
2.10%+RPI 50m EIB IL loan	GBP	2020	–	–	67.9	66.5
2.46%+RPI 50m EIB IL loan	GBP	2020	–	–	68.2	66.6
Short-term bank borrowings – fixed	GBP	2021	150.7	150.7	192.2	192.2
0.80%+LIBOR 100m loan	GBP	2022	101.1	100.0	99.7	100.0
0.47%+RPI 100m IL loan	GBP	2023	125.2	119.7	121.2	118.1
0.49%+RPI 100m IL loan	GBP	2025	126.6	115.2	118.9	113.6
0.013%+RPI 25m IL bond	GBP	2025	30.7	28.7	29.1	28.3
0.1275%+RPI 100m IL loan	GBP	2026	125.0	113.6	116.2	112.1
0.01%+RPI 20m IL bond	GBP	2028	25.0	23.7	23.1	23.6
1.23%+RPI 50m EIB (amortising) IL loan	GBP	2029	40.5	36.8	43.6	40.8
0.288%+CPI 100m IL loan	GBP	2029	113.9	102.1	110.3	101.3
1.29%+RPI 50m EIB (amortising) IL loan	GBP	2029	42.9	38.8	45.9	42.8
1.12%+RPI 50m EIB (amortising) IL loan	GBP	2029	42.4	38.5	45.3	42.5
1.10%+RPI 50m EIB (amortising) IL loan	GBP	2029	42.3	38.5	45.2	42.4
0.75%+RPI 50m EIB (amortising) IL loan	GBP	2029	43.6	39.8	46.1	43.7
0.76%+RPI 50m EIB (amortising) IL loan	GBP	2030	43.6	39.7	46.0	43.5
1.15%+RPI 50m EIB (amortising) IL loan	GBP	2030	44.1	39.6	46.6	43.4
1.11%+RPI 50m EIB (amortising) IL loan	GBP	2030	44.2	39.7	46.7	43.5
0.178%+RPI 35m IL bond	GBP	2030	46.1	40.2	42.2	39.6
0.245%+CPI 20m IL bond	GBP	2031	24.0	21.5	20.7	21.4
0.01%+RPI 38m bond	GBP	2031	48.6	44.5	43.8	44.2

## A3 Borrowings continued

	Currency	Year of final repayment	Fair value	Carrying value	Fair value	Carrying value
			2021	2021	2020	2020
			£m	£m	£m	£m
<b>Borrowings measured at amortised cost (continued)</b>						
3.375%+RPI 50m IL bond	GBP	2032	140.2	83.1	105.1	81.7
0.709%+LIBOR 100m EIB (amortising) loan	GBP	2032	68.7	68.8	71.3	75.0
0.691%+LIBOR 150m EIB (amortising) loan	GBP	2032	107.6	107.8	110.4	117.2
0.573%+LIBOR 100m EIB (amortising) loan	GBP	2033	74.2	75.0	75.5	81.3
0.511%+LIBOR 150m EIB (amortising) loan	GBP	2033	115.7	117.2	117.7	126.6
2.0% 250m bond	GBP	2033	259.4	245.7	257.0	245.7
0.01%+RPI 100m EIB (amortising) IL loan	GBP	2033	100.3	92.2	100.1	98.0
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.3	69.1	75.0	73.4
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.3	71.4	75.0	75.6
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	75.3	71.4	75.0	75.6
1.9799%+RPI 100m IL bond	GBP	2035	243.9	155.2	204.0	152.7
0.873%+LIBOR 100m EIB (amortising) loan	GBP	2035	91.6	90.6	91.3	96.9
0.840%+LIBOR 75m EIB (amortising) loan	GBP	2035	71.2	70.3	69.3	75.0
0.01%+RPI 26.5m IL bond	GBP	2036	35.7	33.0	30.3	32.8
0.379%+CPI 20m IL bond	GBP	2036	25.6	21.5	20.1	21.3
0.01%+RPI 29m IL bond	GBP	2036	38.9	34.2	32.4	33.9
0.093%+CPI 60m IL bond	GBP	2037	73.7	64.1	57.3	63.6
1.66%+RPI 35m IL bond	GBP	2037	67.1	49.6	60.5	49.0
1.75% 250m bond	GBP	2038	239.0	248.1	232.1	248.0
2.40%+RPI 70m IL bond	GBP	2039	148.3	96.8	129.6	95.5
1.7829%+RPI 100m IL bond	GBP	2040	241.3	153.5	193.5	151.1
0.01%+CPI 125m IL bond	GBP	2040	144.5	145.6	–	–
1.3258%+RPI 50m IL bond	GBP	2041	117.8	76.6	100.7	75.4
1.5802%+RPI 100m IL bond	GBP	2042	205.1	153.1	147.3	150.6
1.875% 300m bond	GBP	2042	287.7	295.3	–	–
1.5366%+RPI 20m IL bond	GBP	2043	49.6	30.6	37.9	30.1
1.397%+RPI 50m IL bond	GBP	2046	113.6	76.5	94.2	75.3
0.359%+CPI 32m IL bond	GBP	2048	41.0	33.8	28.2	33.5
1.7937%+RPI 50m IL bond	GBP	2049	122.4	76.2	97.1	75.0
Commission for New Towns (amortising) loan – fixed	GBP	2053	52.6	26.2	50.7	26.8
1.847%+RPI 100m IL bond	GBP	2056	255.0	149.8	194.6	147.7
1.815%+RPI 100m IL bond	GBP	2056	251.9	149.1	188.8	147.1
1.662%+RPI 100m IL bond	GBP	2056	241.6	148.8	186.1	146.8
1.5865%+RPI 50m IL bond	GBP	2056	122.0	74.4	92.8	73.4
1.591%+RPI 25m IL bond	GBP	2056	60.5	37.1	46.3	36.6
1.556%+RPI 50m IL bond	GBP	2056	121.6	74.0	92.4	73.0
1.435%+RPI 50m IL bond	GBP	2056	119.4	73.7	90.0	72.7
1.3805%+RPI 35m IL bond	GBP	2056	82.4	51.6	62.3	50.9
1.585%+RPI 100m IL bond	GBP	2057	311.2	143.2	284.1	141.3
0.387%+CPI 33m IL bond	GBP	2057	44.4	34.5	26.7	34.2
1.702%+RPI 50m IL bond	GBP	2057	124.5	72.2	93.6	71.3
Book overdrafts (see note 15)	GBP	2021	10.5	10.5	14.9	14.9
Lease obligations	GBP	various	60.0	60.0	57.6	57.6
			<b>9,855.3</b>	<b>8,451.8</b>	8,833.5	8,363.1

IL Index-linked debt – this debt is adjusted for movements in the Consumer or Retail Prices Indices with reference to a base CPI or RPI established at trade date.

CPI The UK general index of consumer prices (for all items) as published by the Office for National Statistics (May 2015 = 100).

RPI The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987 = 100).

EIB Borrowings that are held with the European Investment Bank.

Borrowings in the above table are unsecured. Funding raised in foreign currencies is swapped to sterling to match funding costs to income and assets. During the year, the group issued £75 million fixed rate notes as a fungible increase to £350 million fixed rate notes issued in prior years, due February 2031 with a coupon of 2.625 per cent. The group issued £50 million fixed rate notes as a fungible increase to £300 million fixed rate notes issued in the prior year, due July 2033 with a coupon of 2 per cent.

# Notes to the financial statements – appendices

## A4 Financial risk management

### Risk management

The board is responsible for treasury strategy and governance, which is reviewed on an annual basis.

The treasury committee, a subcommittee of the board, has responsibility for setting and monitoring the group's adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. As well as managing our exposure to these risks, these policies help the group maintain compliance with relevant financial covenants, which are in place primarily in relation to borrowings from the European Investment Bank (EIB) and include interest cover and gearing metrics. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group's compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group's treasury function does not act as a profit centre and does not undertake any speculative trading activity.

### Liquidity risk

The group looks to manage its liquidity risk by maintaining liquidity within a board-approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2021, the group had £1,444.1 million (2020: £1,208.1 million) of available liquidity, which comprised £744.1 million (2020: £528.1 million) of cash and short-term deposits and £700.0 million (2020: £680.0 million) of undrawn committed borrowing facilities.

The group had available committed borrowing facilities as follows:

Group	2021 £m	2020 £m
Expiring within one year	100.0	50.0
Expiring after one year but in less than two years	100.0	100.0
Expiring after more than two years	600.0	650.0
Total borrowing facilities	800.0	800.0
Facilities drawn <sup>(1)</sup>	(100.0)	(120.0)
Undrawn borrowing facilities	700.0	680.0

Note:

(1) Facilities expiring after more than two years.

These facilities are arranged on a bilateral rather than a syndicated basis, which spreads the maturities more evenly over a longer time period, thereby reducing the refinancing risk by providing several renewal points rather than a large single refinancing point.

### Company

The company did not have any committed facilities available at 31 March 2021 or 31 March 2020.

### Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's financial liabilities on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross. This table does not include the impact of lease liabilities for which the maturity profile has been disclosed in note 17.

Group	Total <sup>(1)</sup> £m	Adjust- ment <sup>(2)</sup> £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
<b>At 31 March 2021</b>								
Bonds	11,368.2		528.1	132.6	133.6	584.7	255.6	9,733.6
Bank and other term borrowings	2,274.8		280.4	348.7	122.4	254.3	257.3	1,011.7
Adjustment to carrying value <sup>(2)</sup>	(5,251.2)	(5,251.2)						
Borrowings	8,391.8	(5,251.2)	808.5	481.3	256.0	839.0	512.9	10,745.3
Derivatives:								
Payable	1,001.2		133.4	43.1	38.0	36.0	129.2	621.5
Receivable	(1,499.7)		(186.0)	(125.6)	(92.0)	(99.7)	(202.3)	(794.1)
Adjustment to carrying value <sup>(2)</sup>	188.5	188.5						
Derivatives – net assets	(310.0)	188.5	(52.6)	(82.5)	(54.0)	(63.7)	(73.1)	(172.6)



#### A4 Financial risk management continued

Group	Total <sup>(1)</sup>	Adjust- ment <sup>(2)</sup>	1 year or less	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years
At 31 March 2020	£m	£m	£m	£m	£m	£m	£m	£m
Bonds	10,685.2		144.3	520.4	124.9	126.0	577.2	9,192.4
Bank and other term borrowings	2,894.9		884.9	122.0	352.1	122.7	255.8	1,157.4
Adjustment to carrying value <sup>(2)</sup>	(5,274.6)	(5,274.6)						
Borrowings	8,305.5	(5,274.6)	1,029.2	642.4	477.0	248.7	833.0	10,349.8
Derivatives:								
Payable	952.7		67.4	45.7	41.8	38.2	35.4	724.2
Receivable	(1,508.6)		(105.7)	(90.2)	(116.9)	(82.6)	(165.3)	(947.9)
Adjustment to carrying value <sup>(2)</sup>	82.3	82.3						
Derivatives – net assets	(473.6)	82.3	(38.3)	(44.5)	(75.1)	(44.4)	(129.9)	(223.7)

##### Notes:

- (1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 3 per cent and CPI will be 2 per cent over the life of each instrument.
- (2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £60.0 million (2020: £57.6 million) of lease liabilities.

##### Company

The company has total borrowings of £nil (2020: £0.8 million), which are payable within one year, and £1,780.6 million (2020: £1,752.0 million), which are payable within one to two years.

##### Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative instruments). While the opening of the non-household retail market to competition from 1 April 2017 has impacted on the profile of the group's concentration of credit risk, as discussed further below, the group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables from household customers are limited due to the customer base being comprised of a large number of unrelated households. However, collection can be challenging as the Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises, including domestic dwellings.

Following the non-household retail market opening to competition, credit risk in this area is now concentrated in a small number of retailers to whom the group provides wholesale water and wastewater services. Retailers are licensed and monitored by Ofwat and as part of the regulations they must demonstrate that they have adequate resources available to supply services. The credit terms for the group's retail customers are set out in market codes.

In reaction to the impact of the COVID-19 pandemic, changes were made to the payment terms set out within the market codes. These changes provided the option for extended credit terms for retailers. However, this has now ended and all outstanding payments have been made. As at 31 March 2021, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £27.2 million (2020: £52.7 million). During the year, sales to Water Plus in relation to wholesale services were £362.9 million (2020: £438.3 million). Details of transactions with Water Plus can be found in note A6

Under the group's revenue recognition policy, revenue is only recognised when collection of the resulting receivable is reasonably assured. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 14).

The group manages its credit risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement of cash flows. In addition, potential derivative exposure limits are established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit.

Credit limits are refreshed annually and reviewed in the event of any credit rating action. Additionally, a control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.



## Notes to the financial statements – appendices

### A4 Financial risk management continued

At 31 March 2021 and 31 March 2020, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash and short-term deposits (see note 15)	744.1	528.1	–	–
Trade and other receivables (see note 14)*	315.9	342.9	91.9	81.3
Investments (see note 12)	0.1	0.1	–	–
Derivative financial instruments	424.7	617.9	–	–
	<b>1,484.8</b>	1,489.0	<b>91.9</b>	81.3

\* Included within trade and other receivables is £86.7 million of amounts owed by joint ventures in respect of borrowings, further details of which are disclosed in note A6.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2021, the group held £50.7 million (2020: £72.2 million) as collateral in relation to derivative financial instruments (included within short-term bank borrowings – fixed in note A3).

#### Market risk

The group's exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, to manage the exposure to these risks.

#### Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV.

For the 2020–2025 regulatory period, from 1 April 2020 the group's RCV is 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

The group's inflation hedging policy aims to have around half of the group's net debt in index-linked form (where it is economic to do so), by issuing index-linked debt and/or swapping a portion of nominal debt. This is currently weighted towards RPI-linked form, with circa 75 per cent of the hedge linked to RPI and circa 25 per cent linked to CPI and/or CPIH (from circa 87 per cent RPI-linked and circa 13 per cent CPI-linked as at 31 March 2020).

The group believes this is an appropriate inflation hedging policy, taking into account a balanced assessment of the following factors: economic hedge of United Utilities Water Limited's (UUW) RCV and revenues; cash flow timing mismatch between allowed cost of debt and the group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

As a result of the evaluation of the above factors, the group continues to identify opportunities to maintain around 50 per cent of the group's net debt being hedged for inflation, which can be evidenced by the increase in the CPI/CPIH-linked hedge proportion over the past few years. Inflation risk is reported monthly to the treasury committee in the operational compliance report.

The carrying value of index-linked debt held by the group, including the carrying value of the nominal debt swapped to CPI, was £4,093.3 million at 31 March 2021 (2020: £4,082.2 million).

#### Sensitivity analysis

The following table details the sensitivity of profit before tax to changes in the RPI and CPI on the group's index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended. In addition, it excludes the impact of inflation on revenues and other income statement costs as well as the hedging aspect of the group's regulatory assets and post-retirement obligations.

	2021 £m	2020 £m
<b>Increase/(decrease) in profit before tax and equity</b>		
1% increase in RPI/CPI	(35.4)	(39.6)
1% decrease in RPI/CPI	35.4	39.6

The sensitivity analysis assumes a 1 per cent change in RPI and CPI having a corresponding 1 per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI and CPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is calculated on either a three- or eight-month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI or CPI change either three or eight months earlier.

#### Company

The company had no material exposure to inflation risk at 31 March 2021 or 31 March 2020.

## A4 Financial risk management continued

### Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group currently earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV (see inflation risk section for changes being introduced by Ofwat to inflation indexation from 2020).

From 1 April 2020 for the regulatory period to 2025, Ofwat has continued to set a fixed real cost of debt in relation to embedded debt (80 per cent of net debt), but has introduced a debt indexation mechanism in relation to new debt (20 per cent of net debt), where the allowed rate on new debt will vary in line with specific debt indices. The debt indexation mechanism will be settled as an end of regulatory period adjustment.

Therefore, sterling index-linked debt is left unswapped at inception, in accordance with our inflation hedging policy goal to maintain around half of the group's net debt in index-linked form. Conventional nominal debt is hedged as set out below.

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to 10 years in advance on a reducing balance basis. As such, at the start of each regulatory period, a proportion of the projected nominal net debt representing new debt for that regulatory period, will remain floating until it is fixed via the above 10-year reducing balance basis, which should approximate Ofwat's new debt indexation mechanism.

This interest rate hedging policy dovetails with our inflation hedging policy should we need to swap a portion of nominal debt to real rate form to maintain our desired mix of nominal and index-linked debt.

The group seeks to manage its risk by maintaining its interest rate exposure within a board-approved range. Interest rate risk is reported to the treasury committee through the operational compliance report.

### Sensitivity analysis

The following table details the sensitivity of the group's profit before tax and equity to changes in interest rates. The sensitivity analysis has been based on the amount of net debt and the interest rate hedge positions in place at the reporting date and, as such, is not indicative of the years then ended.

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
<b>Increase/(decrease) in profit before tax and equity</b>				
1% increase in interest rate	130.7	122.7	(17.8)	(17.5)
1% decrease in interest rate	(134.7)	(131.0)	17.8	17.5

The sensitivity analysis assumes that both fair value hedges and borrowings designated at fair value through profit or loss are effectively hedged and it excludes the impact on post-retirement obligations. The exposure largely relates to fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates. Those swaps are not included in hedge relationships.

### Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	375.0	–	450.0	1,325.0
Average contracted fixed interest rate %	1.98	–	1.36	2.00

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest elements of the swaps disclosed.

Further detail on the fair value hedging relationships is provided below:

Risk exposure	Nominal amount of the hedging instruments £m	Carrying amount of the hedging instruments £m	Accumulated fair value (gains)/losses on hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2021 <sup>(1)</sup>		Hedge ineffectiveness recognised in the income statement £m	Nominal amount of hedging instruments directly impacted by IBOR reform £m
				Hedged items £m	Hedging instruments £m		
Interest rate risk on borrowings	2,150.0	215.9	198.6	(88.9)	90.9	2.0	1,675.0

Note:

(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

## Notes to the financial statements – appendices

### A4 Financial risk management continued

#### Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies. To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross-currency swaps and these are often designated within a fair value accounting hedge. The group seeks to manage its risk by maintaining currency exposure within board-approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report. The group and company have no material net exposure to movements in currency rates.

#### Hedge accounting

Details regarding the cross-currency interest rate swaps designated as hedging instruments to manage currency and interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	–	99.9	369.7
Average contracted fixed interest rate %	–	–	2.71	2.29

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest rate elements of the swap disclosed.

Further detail on the fair value hedging relationships is provided below:

Risk exposure	Nominal amount of the hedging instruments £m	Carrying amount of the hedging instruments £m	Accumulated fair value (gains)/losses on hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2021 <sup>(1)</sup>		Hedge ineffectiveness recognised in the income statement £m	Nominal amount of hedging instruments directly impacted by IBOR reform £m
				Hedged items £m	Hedging instruments £m		
Foreign currency and interest rate risk on borrowings	469.6	59.9	66.6	(66.2)	66.5	0.3	442.8

Note:

(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness excludes interest accruals and credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

#### Interest rate benchmark reform

Globally, financial regulators are requiring that market participants cease using certain financial market benchmark reference rates (i.e. interbank offered rates, IBORs), and transition to the use of alternative nearly risk-free rate (RFR) such as the Sterling Overnight Index Average (SONIA).

Whilst uncertainty around the mechanism to replace IBOR, the timing of the replacement and the method and timing for the calculation of a spread adjustment remained, amendments were included within IFRS 9 'Financial Instruments', providing temporary exceptions from applying specific hedge accounting requirements in cases where hedging relationships are directly impacted by the IBOR reform. These reliefs are applied until the uncertainty surrounding the IBOR reform has ended or the hedging relationship has been discontinued.

At the point of IBOR transition, further amendments are included within IFRS 9 to allow for specific changes to hedge documentation to be made without the requirement to discontinue the hedging relationship, as well as including a practical expedient when financial liabilities and assets are modified to calculate cash flows based on the alternative interest rate, provided the modification has been done on an economically equivalent basis. Given the reliefs provided as part of the phase 2 amendments, the anticipation is that on transition, the risk of significant movements to the income or balance sheet as a result of the transition is low.

The amount of financial instruments left to transition to alternative benchmarks can be found below. Non-derivative financial instruments are presented at their carrying value, with the derivatives at their nominal value to give the fairest representation of the magnitude of instruments left to transition to RFRs. All of the instruments left to transition reference LIBOR. In addition to the below, the group hold £700 million of undrawn committed facilities that reference LIBOR.

Type of financial instrument	Amount left to transition to RFR £m
Non-derivative financial liabilities (pay GBP LIBOR)	729.7
Derivative instruments (pay GBP LIBOR)*	2,343.9
Derivative instruments (receive GBP LIBOR)*	(2,482.3)
<b>Net position</b>	<b>591.3</b>

\* Future dated transition to RFR contractually agreed.

#### A4 Financial risk management continued

During the financial year, the group adhered to the ISDA 2020 IBOR fall-backs protocol, embedding fall-back provisions into the interest rate derivatives of compounded SONIA plus a spread, which will automatically replace the London Inter-bank Offered Rate (LIBOR) at a future index cessation effective date. On 5 March 2021, following an announcement from the FCA on the future cessation and loss of representativeness of the LIBOR benchmarks, ISDA advised that a LIBOR cessation trigger event had occurred under the protocol, the index cessation effective date for GBP LIBOR will therefore be 1 January 2022. All of the group's derivative counterparties have adhered to the protocol and so from 1 January 2022 all of the group's derivatives will automatically transition from LIBOR to RFRs. The group do not expect to renegotiate interest rate swaps to reference a RFR prior to this date.

Further detail on the risk management strategy can be found within the interest rate risk section of this note.

#### Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Our largest concentration of floating interest rate risk is with index-linked instruments. This has been classified as repricing in one year or less due to the refixing of the interest charge with changes in RPI and CPI.

Group	Total	1 year or less	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years
At 31 March 2021	£m	£m	£m	£m	£m	£m	£m
<b>Borrowings in fair value hedge relationships</b>							
Fixed rate instruments	2,895.5	388.6	–	–	465.3	106.1	1,935.5
Effect of swaps	–	2,506.9	–	–	(465.3)	(106.1)	(1,935.5)
	2,895.5	2,895.5	–	–	–	–	–
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	373.6	–	–	–	–	–	373.6
Effect of swaps	–	373.6	–	–	–	–	(373.6)
	373.6	373.6	–	–	–	–	–
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	1,026.0	51.2	1.0	1.1	0.9	3.7	968.1
Floating rate instruments	640.2	640.2	–	–	–	–	–
Index-linked instruments	3,516.5	3,516.5	–	–	–	–	–
	5,182.7	4,207.9	1.0	1.1	0.9	3.7	968.1
Effect of fixed interest rate swaps	–	(2,332.3)	164.5	575.0	350.0	200.0	1,042.8
<b>Total borrowings</b>	<b>8,451.8</b>	<b>5,144.7</b>	<b>165.5</b>	<b>576.1</b>	<b>350.9</b>	<b>203.7</b>	<b>2,010.9</b>
Cash and short-term deposits	(744.1)	(744.1)	–	–	–	–	–
<b>Net borrowings</b>	<b>7,707.7</b>	<b>4,400.6</b>	<b>165.5</b>	<b>576.1</b>	<b>350.9</b>	<b>203.7</b>	<b>2,010.9</b>

Group	Total	1 year or less	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years
At 31 March 2020	£m	£m	£m	£m	£m	£m	£m
<b>Borrowings in fair value hedge relationships</b>							
Fixed rate instruments	2,590.5	–	399.4	–	–	468.5	1,722.6
Effect of swaps	–	2,590.5	(399.4)	–	–	(468.5)	(1,722.6)
	2,590.5	2,590.5	–	–	–	–	–
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	397.5	–	–	–	–	–	397.5
Effect of swaps	–	397.5	–	–	–	–	(397.5)
	397.5	397.5	–	–	–	–	–
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	770.3	193.2	1.0	1.1	0.7	0.8	573.5
Floating rate instruments	686.9	686.9	–	–	–	–	–
Index-linked instruments	3,917.9	3,917.9	–	–	–	–	–
	5,375.1	4,798.0	1.0	1.1	0.7	0.8	573.5
Effect of fixed interest rate swaps	–	(2,382.3)	50.0	164.5	575.0	350.0	1,242.8
<b>Total borrowings</b>	<b>8,363.1</b>	<b>5,403.7</b>	<b>51.0</b>	<b>165.6</b>	<b>575.7</b>	<b>350.8</b>	<b>1,816.3</b>
Cash and short-term deposits	(528.1)	(528.1)	–	–	–	–	–
<b>Net borrowings</b>	<b>7,835.0</b>	<b>4,875.6</b>	<b>51.0</b>	<b>165.6</b>	<b>575.7</b>	<b>350.8</b>	<b>1,816.3</b>

## Notes to the financial statements – appendices

### A4 Financial risk management continued

Company	2021		2020	
	Total £m	1 year or less £m	Total £m	1 year or less £m
<b>Borrowings measured at amortised cost</b>				
Floating rate instruments	1,780.6	1,780.6	1,752.0	1,752.0
<b>Total borrowings</b>	<b>1,780.6</b>	<b>1,780.6</b>	<b>1,752.0</b>	<b>1,752.0</b>

#### Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner. The group has fixed the price on a proportion of its anticipated net electricity usage out to the end of the regulatory period from 2020 to 2025, partially through entering into electricity swap contracts.

#### Hedge accounting

Electricity swaps have been designated in cash flow hedge relationships. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements in the effective portion of the hedge being recognised in other comprehensive income.

Details of electricity swaps that have been designated in cash flow hedging relationships are summarised below:

Risk exposure	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument £m	Fair value (gains)/ losses used for calculating hedge ineffectiveness for the year ended 31 March 2021 <sup>(1)</sup> £m	Hedge ineffectiveness recognised in the income statement £m	Cash flow hedge reserve excluding effects of tax £m	Amount reclassified from the cash flow hedge reserve to the income statement £m
Electricity price risk	46.5	6.5	(9.3)	–	7.8	–

Note:

(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Due to the relative low value of the electricity swaps in comparison to that of the derivative portfolio, no maturity profile and fixed price breakdown has been disclosed.

#### Capital risk management

The group's objective when managing capital is to maintain efficient access to debt capital markets throughout the economic cycle. The board therefore believes that it is appropriate to maintain RCV gearing, measured as group consolidated net debt (including derivatives) to regulatory capital value (RCV) of UUW, within a target range of 55 per cent to 65 per cent. As at 31 March 2021, RCV gearing was within the range at 62 per cent (2020: 62 per cent).

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain long-term issuer credit ratings for UUW of at least A3 with Moody's Investors Service (Moody's) and BBB+ with S&P Global Ratings (S&P) and a senior unsecured debt rating for UUW of at least A- with Fitch Ratings (Fitch). Debt issued by UUW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by UUW and is therefore rated in line with UUW.

To maintain its targeted credit ratings, the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's, S&P and Fitch. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover, post maintenance interest cover (PMICR) and Funds from Operations (FFO) to debt) and threshold levels as updated and published from time to time by Moody's, S&P and Fitch. The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit ratings agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

#### A4 Financial risk management continued

##### Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets – fair value hedge	–	275.6	–	275.6
Derivative financial assets – held for trading <sup>(1)</sup>	–	142.6	–	142.6
Derivative financial assets – cash flow hedge	–	6.5	–	6.5
Investments	–	0.1	–	0.1
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – fair value hedge	–	(12.6)	–	(12.6)
Derivative financial liabilities – held for trading <sup>(1)</sup>	–	(102.1)	–	(102.1)
Derivative financial liabilities – cash flow hedge	–	–	–	–
Financial liabilities designated as fair value through profit or loss	–	(373.6)	–	(373.6)
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	(2,766.0)	(147.6)	–	(2,913.6)
Other financial liabilities at amortised cost	(2,321.6)	(4,246.5)	–	(6,568.1)
	(5,087.6)	(4,457.6)	–	(9,545.2)
<b>2020</b>				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets – fair value hedge	–	395.7	–	395.7
Derivative financial assets – held for trading <sup>(1)</sup>	–	222.0	–	222.0
Derivative financial assets – cash flow hedge	–	0.2	–	0.2
Investments	–	0.1	–	0.1
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – fair value hedge	–	–	–	–
Derivative financial liabilities – held for trading <sup>(1)</sup>	–	(141.9)	–	(141.9)
Derivative financial liabilities – cash flow hedge	–	(2.4)	–	(2.4)
Financial liabilities designated as fair value through profit or loss	–	(397.5)	–	(397.5)
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	(1,981.5)	(458.5)	–	(2,440.0)
Other financial liabilities at amortised cost	(199.9)	(5,796.1)	–	(5,996.0)
	(2,181.4)	(6,178.4)	–	(8,359.8)

Note:

(1) These derivatives form economic hedges and, as such, management intends to hold these through to maturity. Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £141.5 million (2020: £221.9 million)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £5,087.6 million (2020: £2,181.4 million) of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data in line with prior years. The £2,906.2 million increase (2020: £816.4 million decrease) in level 1 fair value measurements is largely due to an increase in the number of observable quoted bond prices in active markets at 31 March 2021.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £23.9 million loss (2020: £23.6 million gain). Included within this was a £43.3 million loss (2020: £34.2 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £35.7 million profit (2020: £79.0 million profit). The carrying amount is £147.5 million (2020: £171.4 million) higher than the amount contracted to settle on maturity.

##### Company

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value or where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

# Notes to the financial statements – appendices

## A5 Retirement benefits

### Defined benefit schemes

The group participates in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. The assets of these schemes are held in trust funds independent of the group's finances.

The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

Since 1 April 2018, the majority of active members in the defined benefit sections of the UUPS have been part of a hybrid section comprising both defined benefit and defined contribution elements. Pension benefits relating to pensionable service before 1 April 2018 have not been affected by the transition to this hybrid section, which was introduced as a consequence of increases in future service costs to reduce the overall costs and risk to the group while balancing the interests of employees by maintaining an element of defined benefit pension provision.

The group operates a series of historic unfunded, unregistered retirement benefit schemes. The costs of these schemes are included in the total pension cost, on a basis consistent with IAS 19 'Employee Benefits' and the assumptions set out below.

Under the group's defined benefit pension schemes, employees are entitled to annual pensions on retirement. Benefits are payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

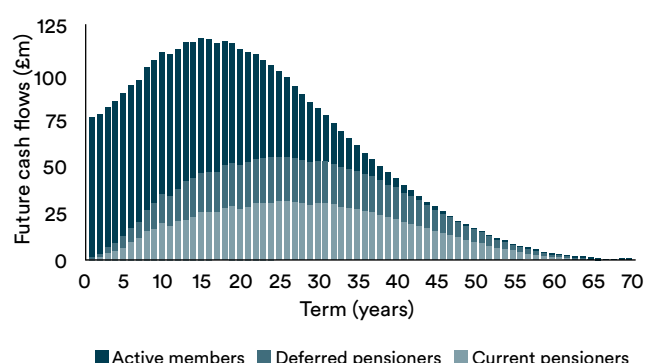
The defined benefit obligation includes benefits for current employees, former employees and current pensioners as analysed in the table below:

Group	2021 £m	2020 £m
Total value of current employees benefits	783.5	665.6
Deferred members benefits	574.4	521.9
Pensioner members benefits	1,937.8	1,870.1
<b>Total defined benefit obligation</b>	<b>3,295.7</b>	<b>3,057.6</b>

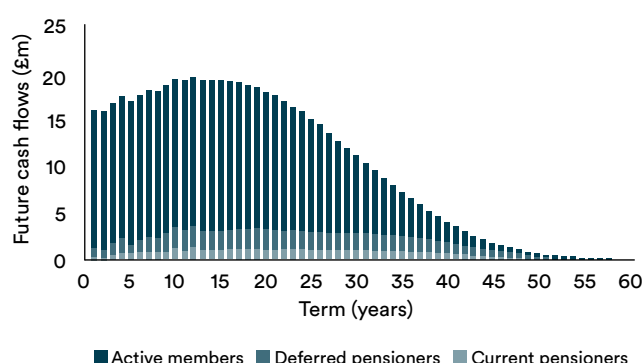
The duration of the combined schemes is around 17 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

The estimated profile of cash flows out of the schemes as retirement benefits are paid is as follows:

### UUPS



### ESPS



### Funding requirements

The latest finalised funding valuations of the schemes were carried out by independent qualified actuaries as at 31 March 2018, earlier than originally planned due to the aforementioned changes to the pension scheme, and determined that the schemes were both in a deficit position on a funding basis. The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19, with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Funding deficits vary significantly from company to company, but neither the deficits, the assumptions on which they are based, the associated sensitivities, nor the risk exposures are disclosed by many companies and, therefore, meaningful cross-company comparisons are not possible. Conversely, scheme liabilities are valued on a consistent basis between companies under IAS 19 and are subject to assumptions and sensitivities that are required to be disclosed. Consequently, the relative economic positions of companies are comparable only on an IAS 19 basis, subject to normalisation of assumptions used between companies.



## A5 Retirement benefits continued

A retirement benefit surplus was recognised as an asset at both 31 March 2021 and 31 March 2020 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the full settlement of the plans' liabilities in a single event, such as a scheme wind-up.

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The group had plans in place with the schemes' trustees to address the funding deficits by 31 December 2021 for the UUPS and 30 September 2024 for the ESPS, through a series of deficit recovery contributions. This timescale has been accelerated, with accelerated deficit repair contributions of £97.6 million and £5.4 million made to the UUPS and ESPS respectively in April 2019. 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 deficit repair contributions payable, due from the company, to £nil. Accordingly, no deficit repair contributions were required during the year ended 31 March 2021.

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

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets, such as corporate bonds and gilts, supplemented by swap and gilt long-term hedges of interest and inflation rates, which perform in line with the liabilities so as to hedge against changes in interest and inflation rates.

Following further evolution in the group's investment and risk management strategies during the year ended 31 March 2020, both UUPS and ESPS are fully hedged for inflation exposure through external market swaps and gilts. Further details of the derivatives used in reducing investment risk are disclosed in the 'Further reporting analysis' section of this appendix.

The group expects to make further contributions of £7.5 million in the year ending 31 March 2022, £6.4 million and £0.7 million in respect of current service contributions to UUPS and ESPS respectively, and £0.4 million in respect of expenses to the ESPS.

The schemes' funding plans are reviewed regularly, and the next funding valuation for UUPS and ESPS is due as at 31 March 2021. The valuation is expected to be finalised by 31 March 2022.

### Impact of scheme risk management on IAS 19 disclosures

Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and CPI and the current member mortality assumptions. These projected cash flows are then discounted by a high-quality corporate bond rate, which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. Both UUPS and ESPS fully hedge RPI inflation exposure along with underlying interest rates through external market swaps and gilts (including gilt repurchase instruments), the value of which is included in the schemes' assets (net of associated derivative liabilities).

Consequently, the reported statement of financial position under IAS 19 remains volatile due to changes in credit spread and changes in mortality, neither of which have been hedged at the current time. Changes in credit spread have not been hedged primarily due to difficulties in doing so over long durations, while changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term and relatively high hedging costs.

In contrast, the schemes' specific funding bases, which formed the basis for regular deficit repair contributions, are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied.

Pension benefits under the defined benefit element of the UUPS hybrid section, that became effective for pensionable service from 1 April 2018, are linked to CPI rather than RPI.

In the year ended 31 March 2021, the discount rate decreased by 0.25 per cent (2020: 0.1 per cent decrease), which includes a 0.85 per cent decrease in credit spreads and a 0.6 per cent increase in gilt yields over the year. The IAS 19 remeasurement loss of £82.7 million (2020: £154.6 million gain) reported in note 18 has largely resulted from a decrease in credit spreads during the year and an RPI inflation assumption increase of 0.55 per cent (2020: 0.65 per cent decrease). The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement loss recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

### Guaranteed Minimum Pensions (GMP) equalisation

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

For the year ended 31 March 2021, there has been a further £0.5 million (£0.3 million UUPS, £0.2 million ESPS) increase to the pension liability and past service costs in relation to GMP equalisation as a result of the six-year look-back period previously assumed for back payments no longer being applicable, as it has been concluded that there is no limit for back payments.



# Notes to the financial statements – appendices

## A5 Retirement benefits continued

### Reporting and assumptions

The results of the latest funding valuations at 31 March 2018 have been adjusted for IAS 19 to assess the position at 31 March 2021, by taking account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

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

### Financial assumptions

The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus of UUPS and ESPS are outlined below:

Group	2021 % p.a.	2020 % p.a.
Discount rate	2.05	2.30
Pension increases	3.35	2.80
Pensionable salary growth:		
ESPS	3.35	2.80
UUPS	2.45	1.60
Price inflation – RPI	3.35	2.80
Price inflation – CPI <sup>(1)</sup>	2.75	1.60

#### Note:

(1) The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.45 per cent pre-2030 and 3.25 per cent post-2030.

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

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

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

### Demographic assumptions

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

## A5 Retirement benefits continued

The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

Group	2021 years	2020 years
Retired member – male	26.0	26.6
Non-retired member – male	26.9	27.7
Retired member – female	28.4	28.9
Non-retired member – female	29.5	30.2

### Sensitivity of the key scheme assumptions

The measurement of the group's defined benefit surplus is sensitive to changes in key assumptions, which are described above. The sensitivity calculations presented below allow for the specified movement in the relevant key assumption, while all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted.

- **Asset volatility** – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- **Discount rate** – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £142.1/£151.9 million (2020: £132.8 million) decrease/increase in the schemes' liabilities at 31 March 2021, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities.
- **Price inflation** – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £144.3/£136.1 million (2020: £124.5 million) increase/decrease in the schemes' liabilities at 31 March 2021, as a significant proportion of the schemes' benefit obligations are linked to inflation. However, nearly all of the schemes' liabilities were hedged for RPI in the external market at 31 March 2021, meaning that this sensitivity is likely to be insignificant as a result. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation.
- **Mortality long-term improvement rate** – An increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £33.2 million decrease in the schemes' liabilities at 31 March 2021 (2020: £31.1 million decrease based on an increase in the mortality long-term improvement rate from 1.50 per cent to 1.75 per cent).
- **Life expectancy** – An increase/decrease in life expectancy of one year would have resulted in a £152.8 million (2020: £116.6 million) increase/decrease in the schemes' liabilities at 31 March 2021. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

### Further reporting analysis

At 31 March, the fair values of the schemes' assets recognised in the statement of financial position were as follows:

Group	Schemes' assets		Schemes' assets	
	%	2021 £m	%	2020 £m
Non-equity growth assets	10.2	406.6	9.3	356.4
Gilts <sup>(1)</sup>	34.5	1,374.5	36.4	1,388.7
Bonds	46.5	1,853.4	48.0	1,828.1
Other <sup>(1)</sup>	8.8	350.2	6.3	238.5
Total fair value of schemes' assets	100.0	3,984.7	100.0	3,811.7
Present value of defined benefit obligations		(3,295.7)		(3,057.6)
<b>Net retirement benefit surplus</b>		<b>689.0</b>		<b>754.1</b>

Note:

- (1) Following a review of the fair value of the schemes' assets and derivatives during the year, the fair value of the schemes' assets at 31 March 2020 have been re-presented such that £407.1 million fair value of derivatives have been included in gilts where they were previously included in other. The effect of this is that the fair value of the schemes' assets classified as gilts is £407.1 million lower at 31 March 2020 compared with that presented in the prior year financial statements, and the fair value of the schemes' assets classified as other is £407.1 million higher.

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £268.0 million that are categorised as 'level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2021. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year end reporting date.

The assets, in respect of UUPS, included in the table above, have been allocated to each asset class based on the return the assets are expected to achieve as UUPS has entered into a variety of derivative transactions to change the return characteristics of the physical assets held to reduce undesirable market and liability risks. As such, the breakdown shown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

## Notes to the financial statements – appendices

### A5 Retirement benefits continued

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts entered into, as described above. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage exposure relating to the derivative transactions and is expected to achieve a return in excess of SONIA (Sterling Overnight Index Average).

The fair values of derivatives included within each of the pension scheme asset categories are analysed as follows:

Group	Underlying assets £m	Fair value of derivatives £m	Combined £m
<b>At 31 March 2021</b>			
Non-equity growth assets	406.6	–	406.6
Gilts	2,784.3	(1,409.8)	1,374.5
Bonds	1,859.2	(5.8)	1,853.4
Other	376.2	(26.0)	350.2
<b>Total fair value of schemes' assets</b>	<b>5,426.3</b>	<b>(1,441.6)</b>	<b>3,984.7</b>
<b>At 31 March 2020</b>			
Non-equity growth assets	356.4	–	356.4
Gilts	1,795.8	(407.1)	1,388.7
Bonds	1,865.0	(36.9)	1,828.1
Other	330.0	(91.5)	238.5
<b>Total fair value of schemes' assets</b>	<b>4,347.2</b>	<b>(535.5)</b>	<b>3,811.7</b>

The derivative values in the table above represent the net market value of derivatives held within each of these asset categories as follows:

	UUPS £m	ESPS £m	2021 Total £m	UUPS £m	ESPS £m	2020 Total £m
<b>Gilts</b>						
Repurchase agreements	(1,403.6)	(6.2)	(1,409.8)	(405.9)	(1.2)	(407.1)
	(1,403.6)	(6.2)	(1,409.8)	(405.9)	(1.2)	(407.1)
<b>Bonds – hedging non-sterling exposure back to sterling</b>						
Currency forwards	(8.9)	–	(8.9)	(27.7)	–	(27.7)
Interest rate swaps	–	3.1	3.1	–	(9.2)	(9.2)
	(8.9)	3.1	(5.8)	(27.7)	(9.2)	(36.9)
<b>Other – managing liability risks targeting a high level of interest rate and inflation hedging</b>						
Asset swaps	(26.6)	–	(26.6)	(30.2)	–	(30.2)
Interest rate swaps	23.2	0.1	23.3	25.7	(0.4)	25.3
RPI inflation swaps	(18.0)	(3.5)	(21.5)	(75.0)	(10.6)	(85.6)
Total return swaps	–	(1.2)	(1.2)	–	(1.0)	(1.0)
	(21.4)	(4.6)	(26.0)	(79.5)	(12.0)	(91.5)
<b>Total fair value of derivatives</b>	<b>(1,433.9)</b>	<b>(7.7)</b>	<b>(1,441.6)</b>	<b>(513.1)</b>	<b>(22.4)</b>	<b>(535.5)</b>

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks. The schemes invest in a number of other pooled funds that make use of derivatives. No allowance is made in the figures above for any derivatives held within these other pooled funds, as they are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes' assets was £667.2 million (2020: £698.3 million).

The intention is that the schemes' assets provide a full economic hedge of interest rates and RPI inflation of the schemes' liabilities on a scheme funding basis. As the scheme funding basis is more prudent than the IAS 19 measurement basis for the defined benefit obligation, the schemes are more than 100 per cent hedged on an accounting basis.

## A5 Retirement benefits continued

Movements in the fair value of the schemes' assets were as follows:

Group	2021 £m	2020 £m
At the start of the year	3,811.7	3,909.1
Interest income on schemes' assets	86.0	94.3
The return/(loss) on plan assets, excluding amounts included in interest	241.0	(131.6)
Member contributions	2.4	2.6
Benefits paid	(162.0)	(175.0)
Administrative expenses	(3.0)	(1.6)
Company contributions	8.6	113.9
<b>At the end of the year</b>	<b>3,984.7</b>	<b>3,811.7</b>

The group's actual return on the schemes' assets was a gain of £327.0 million (2020: £37.3 million loss), largely as a result of the schemes' investment strategies hedging increases in the technical provisions due to change in financial conditions.

Movements in the present value of the defined benefit obligations are as follows:

Group	2021 £m	2020 £m
At the start of the year	(3,057.6)	(3,425.2)
Interest cost on schemes' obligations	(68.5)	(80.3)
Actuarial (losses)/gains arising from changes in financial assumptions	(429.7)	257.3
Actuarial gains/(losses) arising from changes in demographic assumptions	80.6	(7.2)
Actuarial gains arising from experience	25.4	36.1
Curtailments/settlements arising on reorganisation	(0.6)	(4.6)
Member contributions	(2.4)	(2.6)
Benefits paid	162.0	175.0
Current service cost	(4.9)	(6.1)
<b>At the end of the year</b>	<b>(3,295.7)</b>	<b>(3,057.6)</b>

## A6 Related party transactions

### Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

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

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

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

At 31 March 2021, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £113.8 million (2020: £147.9 million), comprising £27.1 million (2020: £52.9 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £86.7 million (2020: £95.0 million) relating to loans.

## Notes to the financial statements – appendices

### A6 Related party transactions continued

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

- £66.3 million (2020: £93.6 million) outstanding on a £100.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2023, bearing a floating interest rate of the Bank of England base rate plus a credit margin (2020: provided by United Utilities Water Limited and guaranteed by United Utilities PLC, with a maturity date of September 2021, bearing a floating interest rate of LIBOR plus a credit margin). This balance comprises £67.5 million outstanding net of a £1.2 million allowance for expected credit losses (2020: £98.0 million outstanding net of a £4.6 million allowance for expected credit losses);
- £18.3 million (2020: £nil) outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £32.5 million outstanding net of the group's £8.9 million share of Water Plus losses for the year ended 31 March 2021 and the group's £5.3 million previously unrecognised share of joint venture losses relating to the year ended 31 March 2020 (2020: £nil outstanding, with no share of joint venture losses or allowance for expected credit losses allocated against the facility). This facility forms part of the group's long-term interest in the Water Plus joint venture given that at 31 March 2021 there was a clear expectation that it would be replaced with additional equity share capital. This additional share capital was issued by Water Plus on 23 April 2021, with the group's subscription to £32.5 million of new equity shares and the simultaneous cancellation of the revolving credit facility taking place on this same date; and
- £0.7 million (2020: £nil) receivable being the £10.3 million (2020: £10.0 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million (2020: £0.5 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to the year ended 31 March 2020 as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2021 and 31 March 2020 of £12.5 million, comprising the £10.3 million (2020: £10.0 million) receivable measured at fair value, and £2.2 million (2020: £2.5 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

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

The £1.3 million (2020: £5.0 million) of allowances for expected credit losses in relation to loans extended to Water Plus (£1.2 million (2020: £4.5 million) and £0.1 million (£0.5 million) recognised against Water Plus's total revolving credit facilities and zero coupon loan notes respectively), is lower than the £5.0 million allowance for expected credit losses recognised at 31 March 2020. This £5.0 million allowance was recognised in the prior year as a result of the impacts of the COVID-19 pandemic that gave rise to a significant increase in credit risk. The £3.7 million release of this allowance during the year is primarily attributable to the group's exposure to expected credit losses in future periods reducing as a result of the £32.5 million revolving credit facility being cancelled and replaced with additional equity share capital in April 2021.

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £54.1 million (2020: £54.1 million), of which £32.1 million (2020: £32.1 million) related to guarantees to United Utilities Water Limited.

At 31 March 2021, amounts owed to related parties were £2.4 million (2020: £4.8 million). Included within this amount is £1.1 million (2020: £4.5 million) due to Water Plus for the surrender of consortium relief tax losses. The amounts outstanding are unsecured and will be settled in accordance with normal credit terms.

Details of transactions with key management are disclosed in note 3.

#### Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £291.9 million (2020: £284.5 million) and total net interest payable during the year was £24.2 million (2020: £32.9 million). Amounts outstanding at 31 March 2021 and 31 March 2020 between the parent company and subsidiary undertakings are disclosed in notes 14, 16 and 21.

At 31 March 2021 and 31 March 2020, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2021 and 31 March 2020.

## A7 Accounting policies

Of the accounting policies outlined below, those deemed to be the most significant for the group are those that align with the critical accounting judgements and key sources of estimation uncertainty set out on pages 215 to 217.

### Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using the equity method of accounting. The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the group. Amounts attributable to non-controlling interests are presented separately in equity and total comprehensive income where material.

### Subsidiaries

Subsidiaries are entities controlled by the group. Control is achieved where the group is exposed to, or has the rights to, variable returns from its involvement in an entity and has the ability to affect those returns through its power over the entity. In the parent company accounts, investments are held at cost less provision for impairment.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture results and assets and liabilities is incorporated using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to recognise the group's share of the profit or loss.

On losing control of a subsidiary disposed of to a joint venture, the group recognises the gain or loss attributable to measuring the investment retained in the former subsidiary at its fair value at the date when control is lost.

### Revenue recognition

Revenue from the sale of water, wastewater and other services represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided, exclusive of value added tax and foreign sales tax. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end.

There are two main areas of the group's activities considered to result in revenue being recognised:

- the provision of core water and wastewater services, accounting for more than 97 per cent of the group's revenue; and
- capital income streams relating to diversions 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 core water and wastewater services, which are deemed to be distinct performance obligations under the contracts with customers, follow the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Revenue is generally recognised at the time of delivery, with consideration given as to whether collection of the full amount under the contract is considered probable. Should the group consider that the criteria for revenue recognition has not been met for a transaction, revenue recognition would be delayed until such time as collectability is reasonably assured.

Payments received in advance of revenue recognition are recorded as deferred income. This includes the revenue in respect of connection activities, itself a distinct performance obligation. The revenue in respect of these activities is released to the income statement over a period of 60 years, which is deemed to be the time over which the performance obligation for providing the connection is satisfied.

### Operating profit

Operating profit is stated after charging operational expenses but before investment income and finance expense.

### Borrowing costs and finance income

Except as noted below, all borrowing costs and finance income are recognised in the income statement on an accruals basis. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

### Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions. A current tax provision is only recognised when the group has a present obligation as a result of a past event and it is probable that the group will be required to settle that obligation to a taxing authority.

### Current tax

Current tax is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date.

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the tax is dealt with in equity.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



# Notes to the financial statements – appendices

## A7 Accounting policies continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at each reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is dealt with in equity.

### Property, plant and equipment

Property, plant and equipment (PPE) comprises water and wastewater infrastructure assets and overground assets.

The useful economic lives of these assets are primarily as follows:

- Water and wastewater infrastructure assets:
  - Impounding reservoirs 200 years;
  - Mains and raw water aqueducts 30 to 300 years;
  - Sewers and sludge pipelines 60 to 300 years;
  - Sea outfalls 77 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised.

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's view, that the carrying value of such assets may not be recoverable. An impairment review requires management to make uncertain estimates concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Costs associated with a major inspection or overhaul of an asset or group of assets are capitalised within property, plant and equipment and depreciated over the period of time expected to elapse between major inspections or overhauls.

### Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network, is treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost (or deemed cost for infrastructure assets held on transition to IFRS), less the estimated residual value, evenly over their useful economic lives.

### Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate

asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost, less their estimated residual value, evenly over their estimated useful economic lives, based on management's judgement and experience.

Depreciation methods, residual values and useful economic lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other operating costs.

### Transfer of assets from customers and developers

Where the group receives from a customer or developer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a credit of the same amount to deferred grants and contributions. The assets are depreciated over their useful economic lives and the deferred contributions released to revenue over the 60 years, which is the estimated period over which an average connection through which the group provides water and wastewater services is expected to be in place (or where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue). This accounting treatment has been applied to transfers of assets from customers received on or after 1 July 2009.

Assets transferred from customers or developers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

### Intangible assets

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful economic lives. The carrying amount is reduced by any provision for impairment where necessary. On a business combination, as well as recording separable intangible assets already recognised in the statement of financial position of the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are included in the acquisition statement of financial position at fair value.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria of IAS 38 'Intangible Assets'.

Intangible assets, which relate primarily to computer software, are generally amortised over a period of three to 10 years.

### Impairment of assets

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

## A7 Accounting policies continued

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses in respect of non-current assets are recognised in the income statement within operating costs.

Where an impairment loss subsequently reverses, the reversal is recognised in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

### Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### Financial instruments

Financial assets and financial liabilities are recognised and derecognised in the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

### Cash and short-term deposits

Cash and short-term deposits include cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash, have a maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value. In the consolidated statement of cash flows and related notes, cash and cash equivalents include cash and short-term deposits, net of book overdrafts.

### Financial investments

Investments (other than interests in subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments classified as financial assets measured at fair value through profit or loss (FVPL) in accordance with IFRS 9 'Financial Instruments' are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised in the net profit or loss for the period. The business model employed in respect of financial assets is that of a hold-to-collect model.

### Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, less any impairment for irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience of the receivables balance.

### Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

### Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

## Borrowings

The group's default treatment is that bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

The default treatment of measuring at amortised cost, while associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. To apply fair value hedge accounting, it must be demonstrated that there is an economic relationship between the borrowing instrument and the hedging derivative and that the designated hedge ratio is consistent with the group's risk management strategy.

### Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Under the provisions of IFRS 9 'Financial Instruments', changes in the group's own credit risk are recognised in other comprehensive income.

### Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received, and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

### Derivative financial instruments

The group's default treatment is that derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A4).

### Derivative financial instruments designated within a cash flow hedge relationship

Gains or losses resulting from the effective portion of the hedging instrument are recognised in other comprehensive income and in the cash flow hedge reserve with any remaining gains or losses recognised immediately in the income statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and cumulative change in fair value of the hedged item. At the maturity date, amounts paid/received are recognised against operating expenses in the income statement.



# Notes to the financial statements – appendices

## A7 Accounting policies continued

Upon discontinuation of a cash flow hedge, the amount accumulated in other comprehensive income remains in the cash flow hedge reserve if the hedged future cash flows are still expected to occur. Otherwise the amount is immediately reclassified to the income statement.

### Derivatives and borrowings – valuation

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

The valuation of debt designated in a fair value hedge relationship is calculated based on the risk being hedged as prescribed by IFRS 9 'Financial Instruments'. The group's policy is to hedge its exposure to changes in the applicable underlying interest rate and it is this portion of the cash flows that is included in the valuation model (excluding any applicable company credit risk spread).

The valuation of debt designated at fair value through the profit or loss incorporates an assumed credit risk spread in the applicable discount factor. Credit spreads are determined based on indicative pricing data.

### Inventories

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### Employee benefits

#### Retirement benefit obligations

The group operates two defined benefit pension schemes, which are independent of the group's finances, for its employees. Actuarial valuations to determine the funding of the schemes, along with future contribution rates, are carried out by the pension scheme actuary as directed by the trustees at intervals of not more than three years. In any intervening years, the trustees review the continuing appropriateness of the funding and contribution rates.

From a financial reporting perspective and in accordance with IAS 19 'Employee Benefits', defined benefit assets are measured at fair value while liabilities are measured at present value, using the projected unit credit method. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position. Where this difference results in a defined benefit surplus, this is recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', on the basis that the group has an unconditional right to a refund of any surplus that may exist following the full settlement of plan liabilities in a single event.

The pension cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary, which are used to estimate the present value of defined benefit obligations. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note A5.

The cost of providing pension benefits to employees relating to the current year's service (including curtailment gains and losses) is included within employee benefits expense, while the interest on the schemes' assets and liabilities is included within investment income and finance expense respectively. Remeasurement gains/losses on scheme assets and liabilities are presented in other comprehensive income.

In addition, the group operates a defined contribution pension section within the United Utilities Pension Scheme. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

### Share-based compensation arrangements

The group operates equity-settled, share-based compensation plans, issued to certain employees. The equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on estimates of the number of options that are expected to vest. Fair value is based on simulation models, according to the relevant measures of performance. The group has the option to settle some of these equity-settled share-based payments in cash. At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

### Foreign currency translation

#### Transactions and balances

Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that date. Gains and losses arising on retranslation are included in net profit or loss for the period.

Exchange differences arising on investments in equity instruments classified as fair value through other comprehensive income are included in the gains or losses arising from changes in fair value which are recognised directly in equity. To hedge its exposure to certain foreign exchange risks, the group enters into contracts for derivative instruments (see note A4).

### Group companies

On consolidation, the statements of financial position of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) are translated into sterling at exchange rates applicable at each reporting date. The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly, in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such statements of financial position at rates prevailing at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

## A7 Accounting policies continued

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of implementation of IFRS 3 'Business Combinations' (1 April 1999) as sterling-denominated assets and liabilities.

### Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated useful economic lives of the related assets.

### Leases

At inception of a contract the group assesses whether a contract is, or contains, a lease. Where a lease is present, a right-of-use asset and lease liability is recognised at the commencement date. The lease liability is measured at the present value of future lease payments due over the term of the lease, with the right-of-use asset recognised as property, plant and equipment at cost. This is generally equivalent to the initial measurement of the lease liability.

The group has elected to apply a practical expedient permitted by IFRS 16 whereby for the fixtures, fittings, tools and equipment asset class of leases the lease and non-lease components of the contracts are not separated, and instead are both accounted for as if they were a single lease component. Where non-lease components exist they are embedded within the lease payments, and the group deems that separation of such contracts into their constituent parts for this asset class would generally not be practicable nor have a material effect on the financial statements. IFRS 16 requires that where this practical expedient is applied, it is applied to the entire class of similar assets. The group has not applied this expedient to the remaining lease asset classes. Non-lease components include service charges, maintenance charges, and monitoring charges. For lease asset classes where the expedient has not been applied, non-lease components are excluded from the projection of future lease payments and are recorded separately within operating costs on a straight-line basis.

Lease payments are discounted using the group's incremental rate of borrowing if the interest rate implicit in the lease cannot be readily determined. For materially all of the group's leases, the group's incremental rate of borrowing is used. This rate is calculated using a number of inputs, being observable risk-free gilt rates, specific data based on bonds already in circulation for the relevant group company, as well as data from the wider utility sector. Further adjustments for payment profile and the term of the lease are made.

After the commencement date, the lease liability is increased for the accretion of interest (being the unwinding of the discounting applied to future lease payments) and reduced by lease payments made. In addition to this the carrying amount is updated to reflect any remeasurement or lease modifications. Remeasurements are typically required as a result of rent reviews or changes to the lease term. In these cases a corresponding adjustment to the right-of-use asset is made.

Depreciation of right-of-use assets is charged on a straight-line basis over the term of the lease. Lease payments are instead charged to the income statement on a straight-line basis over the period of the lease.

Where leases have a term of less than 12 months from the commencement date and do not have a purchase option, the group applies the short-term lease recognition exemption available under IFRS 16. The group applies the low value recognition exemption permitted by the standard to leases of assets with a value of less than £2,500. Payments for short-term and low value leases are instead charged to operating costs on a straight-line basis over the period of the lease.

### Statement of cash flows

#### Grants and contributions received

Grants and contributions received arise from transactions with customers, typically property developers, that result in the expansion of the group's water and wastewater network and therefore its fixed asset base. Given that these grants and contributions are used to fund expenditure that results in the enhancement of the group's network assets, the cash inflows are classified within investing activities in the period.

#### Interest payments and receipts

IFRS allows interest payments and interest receipts to be classified within operating activities or financing activities/investing activities. The group classifies interest payments and interest receipts within operating activities, with management viewing these in conjunction with other operating cash flows in assessing the ability of the group to maintain its operating capability.

#### Support costs

Costs of time and resources incurred by the group's support functions that is capitalised in the period (see page 216) is included in purchase of property, plant and equipment within investing activities. These cash flows represent expenditures that have been made for resources intended to generate future income and cash flows, and the group deem these to therefore meet the definition of an investing activity.

#### Cash flows on derivatives

The cash flows on derivatives as a result of the group's hedging activities are presented together with the cash flows relating to the underlying hedged item to provide a more faithful representation of the substance of the transaction.

#### Taxes paid

Taxes paid by the group are presented as cash flows from operating activities. The group deem it impracticable to identify the tax cash flows with respect to individual transactions, which may themselves be presented in investing activities or financing activities, and instead present total tax cash flows as operating activities.

#### Dividend receipts

Dividends received from joint ventures have been presented in investing activities, with these cash receipts deemed to represent a return on investments previously made by the group.

## Notes to the financial statements – appendices

### A8 Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings, joint ventures and associates are set out below. Unless otherwise specified, the registered address for each entity is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP, United Kingdom. For further details of joint ventures and associates please see note 12.

	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
<b>Subsidiary undertakings</b>			
<b>Great Britain</b>			
Halkyn District Mines Drainage Company Limited	Ordinary	99.9	Dormant
Lingley Mere Management Company Limited	Ordinary	87.0	Property management
North West Water International Limited	Ordinary	100.0	Non-trading (formerly holding company)
North West Water Limited	Ordinary	100.0	Dormant
United Utilities (Overseas Holdings) Limited	Ordinary	100.0	Holding company
United Utilities Energy Limited	Ordinary	100.0	Energy generation
United Utilities Healthcare Trustee Limited	Ordinary	100.0	Corporate trustee
United Utilities International Limited	Ordinary	100.0	Consulting services and project management
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities Property Services Limited	Ordinary	100.0	Property management
United Utilities Renewable Energy Limited	Ordinary	100.0	Renewable energy generation
United Utilities Total Solutions Limited	Ordinary	100.0	Non-trading
United Utilities Utility Solutions (Industrial) Limited	Ordinary	100.0	Holding company
United Utilities Water Finance PLC	Ordinary	100.0	Financing company
United Utilities Water Limited	Ordinary	100.0	Water and wastewater services
UU (ESPS) Pension Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services
<b>The Netherlands</b>			
United Utilities (Tallinn) BV <sup>(1)</sup>	Ordinary	100.0	Non-trading (formerly holding company)
<b>Joint ventures</b>			
All joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.			
<b>Great Britain</b>			
Lingley Mere Business Park Development Company Limited	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	Procurement portal
Water Plus Group Limited <sup>(2)</sup>	Ordinary	50.0	Holding company
Water Plus Limited <sup>(2)</sup>	Ordinary	50.0	Water and wastewater retail services
Water Plus Select Limited <sup>(2)</sup>	Ordinary	50.0	Water and wastewater retail services

\* Shares are held by subsidiary undertakings rather than directly by United Utilities PLC

Notes:

(1) Registered address: Herikerbergweg 88, 1101 CM Amsterdam, the Netherlands.

(2) Water Plus Limited and Water Plus Select Limited are wholly owned subsidiaries of Water Plus Group Limited. Registered address: Two Smithfield, Leonard Coates Way, Stoke-on-Trent, United Kingdom, ST1 4FD.