Our performance in 2020/21

Financial performance

Our performance at a glance

We have delivered against our financial key performance indicators this year, reflecting a year of robust financial performance.

Robust financial performance backed by a strong balance sheet

- Underlying profit after tax[1] of £383 million down 21 per cent, in line with expectation.
- Customer debtor position and household cash collection remain strong.
- Strong balance sheet; A3 stable credit rating with Moody's.
- Pension schemes fully funded on a low-dependency basis.
- AMP7 dividend policy of growth in line with CPIH inflation.

Financial key performance indicators

Underlying operating profit[1]

£602m

Year	Value
2020/21	£602m
2019/20	£732m
2018/19	£685m
2017/18	£645m
2016/17	£623m

Definition

The underlying operating profit measure excludes from the reported operating profit any significant non-recurring items. The group determines adjusted items in the calculation of its underlying operating profit measure by reference to a framework that considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of recurrence, and its volatility, which is either outside of the control of management and/ or not representative of the current year performance. A reconciliation is shown on pages 82 to 83.

Link to remuneration, bonus/LTP

Bonus – direct, LTP – indirect

Status

Close to achieving expectation/ target but more work to be done

Performance

Underlying operating profit of £602 million was down £130 million, largely reflecting lower revenue in the first year of the new price control and higher infrastructure renewals expenditure (IRE), as a result of ongoing work to optimise performance.

Underlying earnings per share[1]

56.2p

Year	Value
2020/21	56.2p
2019/20	71.3p
2018/19	59.8p
2017/18	49.0p
2016/17	48.9p

Definition

This measure deducts underlying net finance expense, underlying share of joint venture losses and underlying taxation from underlying operating profit to calculate underlying profit after tax and divides this by the average number of shares in issue during the year. Underlying net finance expense makes adjustments to the reported net finance expense, including stripping out fair value movements. Underlying taxation strips out deferred tax (including any tax credits or debits arising from changes in the tax rate from reported taxation) or any exceptional tax. Reconciliations to the underlying measures above are shown on pages 82 to 83.

Link to remuneration, bonus/LTP

LTP – indirect

Status

Met expectation/target

Performance

Underlying earnings per share was down 15.5 pence at 56.2 pence due to the decrease in underlying operating profit partly offset by a lower underlying net finance expense due to lower RPI inflation on our index-linked debt.

Dividend per share

43.24p

Year	Value
2020/21	43.24p
2019/20	42.60p
2018/19	41.28p
2017/18	39.73p
2016/17	38.87p

Definition

This measure divides total dividends declared by the average number of shares in issue during the year.

Link to remuneration, bonus/LTP

LTP – indirect

Status

Met expectation/target

Performance

The board has proposed an increase in the dividend of 1.5 per cent taking the total dividend for the year to 43.24 pence per share, in line with our AMP7 policy of targeting growth in line with CPIH inflation.

(1) Underlying measures are defined in the tables on pages 82 to 83 and reflect a change in approach to alternative performance measures (APMs) with prior year numbers re-presented for comparability

(2) March 2021 gearing based on new definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments, with prior year numbers re-presented for comparability

Notes:
Note 1: For both our operational and financial KPIs, where we have declared external targets we assess our performance against the most recent public targets. Where there are no externally declared targets we assess our performance against our internal budget; however, our internal budget is not disclosed.
Note 2: In some instances the remuneration committee has used metrics with similar names but calculation methodologies which they consider more appropriate for executive remuneration, as set out in the remuneration report on pages 160 to 189.

Gearing: net debt to RCV[2]

62%

Year	Gearing
2020/21	62%
2019/20	61%
2018/19	61%
2017/18	61%
2016/17	61%

Definition
Group net debt divided by United Utilities Water Limited's (UUW) shadow (adjusted for actual spend) regulatory capital value (RCV).

Target
Maintain gearing with a range of 55 per cent to 65 per cent.

Status
Met expectation/target

Performance
Our gearing at 62 per cent is marginally higher this year but remains within our target range of 55 per cent to 65 per cent, supporting a solid investment grade credit rating.

Total shareholder return

+7%

Year	Total shareholder return
2020/21	+7%
2019/20	+17%
2018/19	+20%
2017/18	-25%
2016/17	+19%

Definition
This measure calculates the return to shareholders based on the movement in share price plus dividends over each financial year.

Link to remuneration, bonus/LTP
LTP – direct

Status
Met expectation/target

Performance
Our total shareholder return was 7 per cent over the year to 31 March 2021.

Low dependency pension scheme

£nil

deficit repair contributions

This is a new measure for the 2020–25 period hence no prior years' comparators. From 2021/22 onwards comparators will be provided.

Definition
Fully-funded defined benefit pension schemes on a low -dependency basis.

Status
Met expectation/target

Performance
Our pension scheme has minimal reliance on the company in order to meet all of its liabilities – in other words, we have achieved low dependency as defined in The Pensions Regulator's defined benefit funding consultation published in March 2020. We have no further deficit repair contributions to make, a position we do not expect to change given our approach to hedging market risk.

KPI STATUS KEY

Met expectation/target | Close to meeting expectation/target | Behind expectation/target | Baseline year

Our performance in 2020/21

Financial performance

Revenue

Year	Revenue
2020/21	1,808.0
2019/20	1,859.3
2018/19	1,818.5
2017/18	1,735.8
2016/17	1,704.0

Underlying operating profit[1]

Year	Underlying operating profit
2020/21	602.1
2019/20	732.1
2018/19	684.8
2017/18	645.1
2016/17	622.9

Reported operating profit

Year	Reported operating profit
2020/21	602.1
2019/20	630.3
2018/19	634.9
2017/18	636.4
2016/17	605.5

RCV gearing[2]

62%

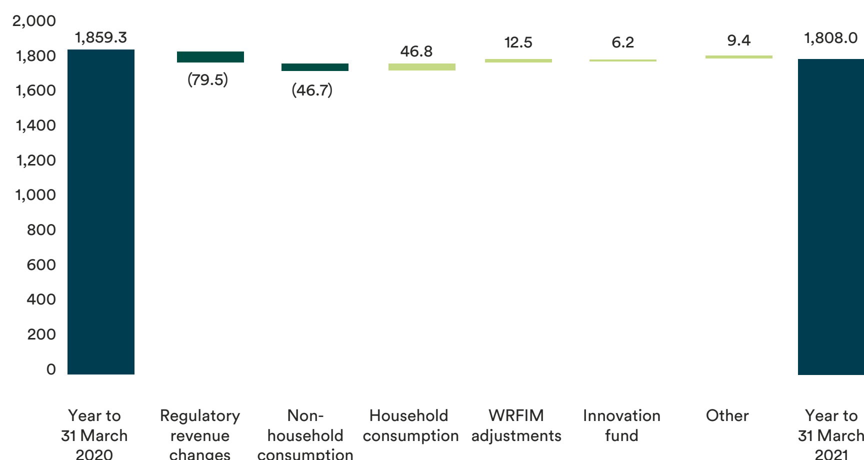
Total dividend per ordinary share (pence)

43.24

(1) We have changed our approach to alternative performance measures (APMs) during the year, with prior year numbers restated for comparability. A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

(2) Regulatory capital value (RCV) gearing calculated as group net debt/United Utilities Water Limited shadow RCV (out-turn prices).

Revenue

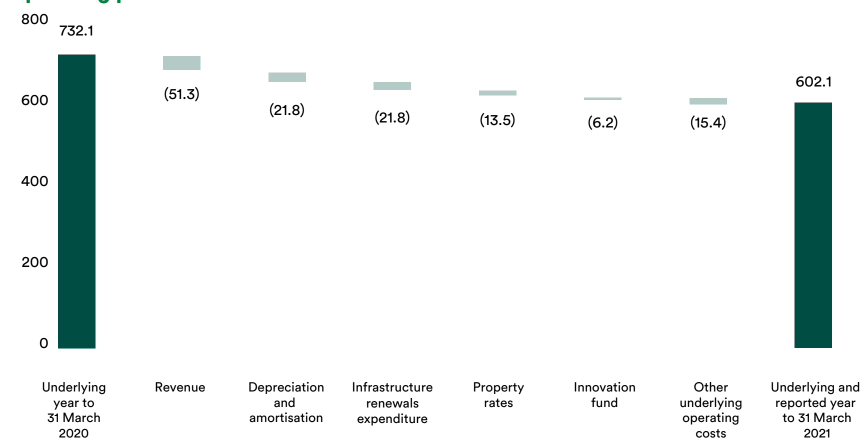


Revenue was down £51 million, at £1,808 million, largely reflecting the £80 million reduction from the new pricing regime in this, the first year of AMP7, incorporating a 5.5 per cent real reduction in typical household bills and a 1.5 per cent CPIH-linked increase.

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

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

Operating profit



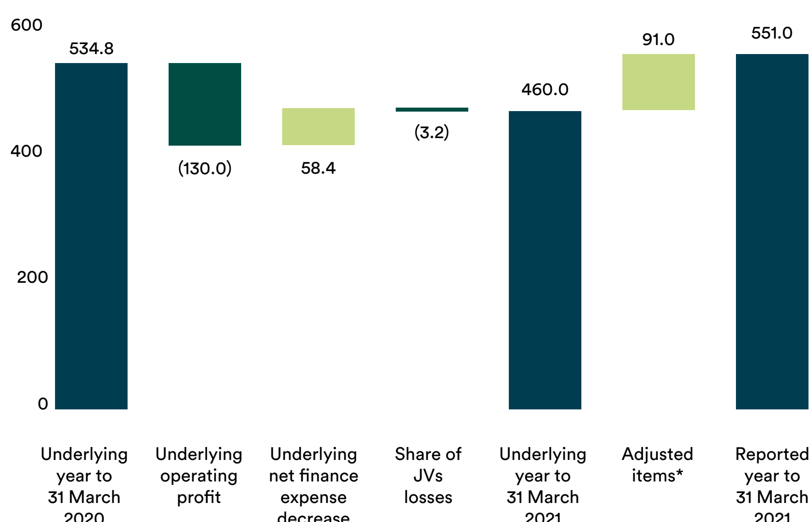
* Adjusted items are set out on pages 82 and 83

Underlying operating profit[1] at £602 million was £130 million lower than last year. This principally reflects the £51 million reduction in revenue, and also a £22 million increase in IRE as a result of ongoing work to optimise the performance of our network. Depreciation is £22 million higher, principally reflecting the higher capex programme in AMP6 with a high number of assets commissioned towards the end of the AMP. In the near term we would expect depreciation to flatten out, reflecting the lower AMP7 capex programme. Property rates are £14 million higher this year, largely reflecting a rates refund received last year. We have accrued £6 million of costs in 2020/21 in relation to the Innovation in Water Challenge Scheme mentioned above, along with £13 million of extra COVID-19 related costs (including a £5 million increase in the underlying bad debt charge), which have been absorbed within our cost base and which have not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £28 million lower than last year, reflecting the decrease in underlying operating profit partially offset by a decrease in adjusted items. As a result of the changes we have made to alternative performance measures, we will no longer, as a matter of course, adjust for restructuring costs to derive underlying operating profit and therefore we do not have any adjusted items in the year to 31 March 2021, with prior year numbers re-presented for comparative purposes. Adjusted items totalling £102 million were made in the full year to 31 March 2020, comprising £83 million of accelerated depreciation of bioresources assets that had been taken out of use and £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 82 to 83 and more detail can be found in our announcement of results for the year to 31 March 2020.

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

Profit before tax



* Adjusted items are set out on pages 82 and 83

Underlying profit before tax[1] was £460 million, £75 million lower than last year. This reflects the £130 million reduction in underlying operating profit, and an increase in the share of underlying losses of joint ventures of £3 million, partly offset by a £58 million decrease in underlying net finance expense.

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 82 to 83. Reported profit before tax increased by £248 million to £551 million, reflecting the £28 million reduction in reported operating profit and the £3m increase in the share of underlying losses of joint ventures, more than offset by a £210 million reduction in reported net finance expense (including fair value movements), a £37 million profit on the disposal of our Tallinn joint venture and the impact in the prior year of our £32 million share of Water Plus losses arising as a result of COVID-19.

Net finance expense

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

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

Joint ventures

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

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

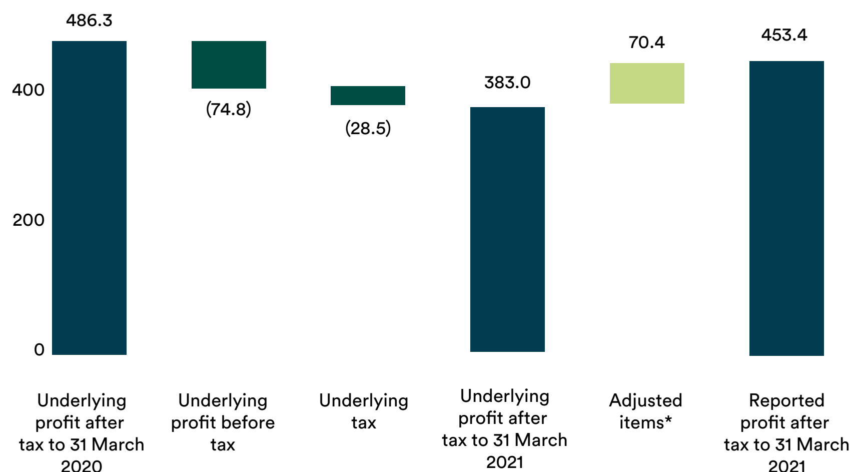
For the year to 31 March 2020, we recognised £51 million losses in the income statement relating to our joint venture Water Plus, comprising £14 million of our share of Water Plus' underlying losses and our £32 million share of Water Plus losses arising as a result of COVID-19, as well as a £5 million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

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

Our performance in 2020/21

Financial performance

Profit after tax and earnings per share



* Adjusted items are set out on pages 82 and 83

Underlying profit after tax(1) of £383 million was £103 million lower than last year, and underlying earnings per share decreased from 71.3 pence to 56.2 pence, principally reflecting the £75 million reduction in underlying profit before tax and a £28 million higher underlying tax charge largely due to the pension deficit repair payment we made last year.

Reported profit after tax increased by £347 million to £453 million, and reported basic earnings per share increased from 15.7 pence to 66.5 pence, principally reflecting the £248 million increase in the reported profit before tax and a £99 million decrease in the reported tax charge primarily as a result of a £136 million deferred tax adjustment for the change in tax rate reflecting the Government's reversal of the planned reduction in the rate of corporation tax recognised in the prior year.

Tax

The group continues to be fully committed to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs and we were delighted to have retained the Fair Tax Mark independent certification for a second year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its 5,000 strong workforce. The total payments for 2020/21 were around £258 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges, as well as corporation tax.

In 2020/21, we paid corporation tax of £75 million, which represents an effective cash tax rate on underlying profits of 16 per cent, which is 3 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment and also, in the prior year, pension payments – these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

We have expressed the effective cash tax rate in terms of underlying profits as this measure excludes fair value movements on debt and derivative instruments and thereby enables a medium-term cash tax rate forecast. We expect the average cash tax rate on underlying profits to remain below the headline rate of tax for the medium term.

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

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

For 2020/21, the group recognised a deferred tax charge of £18 million, compared with £158 million for 2019/20. Of the deferred tax charge for 2019/20, £136 million related to the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020. Excluding the above change in tax rate related deferred tax adjustment in the prior year and the current year non-taxable profit on the disposal of the joint venture investment in AS Tallinna Vesi, the total effective tax rate was around 19 per cent for both the current year and the prior year. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to be in line with the headline rate of corporation tax for the medium term.

In 2020/21, there are £31 million of tax adjustments taken to equity, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

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

Dividend per share

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

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

Cash flow

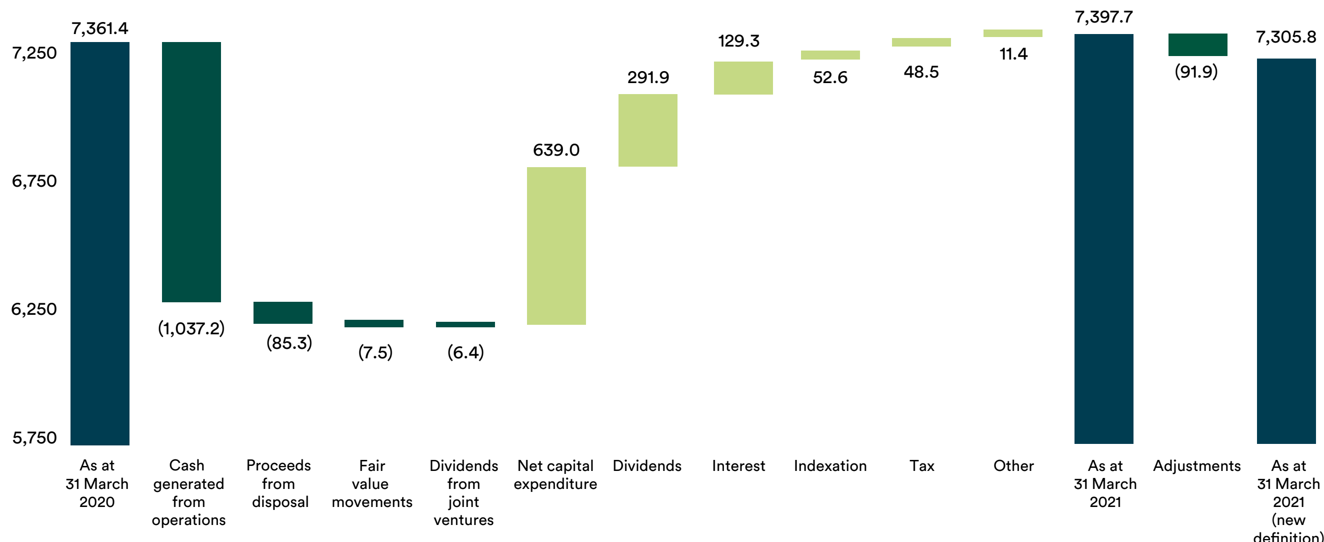
Net cash generated from continuing operating activities for the year to 31 March 2021 was £859 million, broadly consistent with £810 million last year. The group's net capital expenditure was £639 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure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

Pensions

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

Financing

Summary of net debt movement



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

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

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

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

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend) regulatory capital value, was 62 per cent at 31 March 2021. This is marginally higher than the 61 per cent as at 31 March 2020 but remains within our target range of 55 to 65 per cent.

Cost of debt

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

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

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

Credit ratings

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

Debt financing

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

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

Our performance in 2020/21

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

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

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

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

Interest rate management

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

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2021, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 26 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of -0.2 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

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

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

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

Liquidity

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

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

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

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

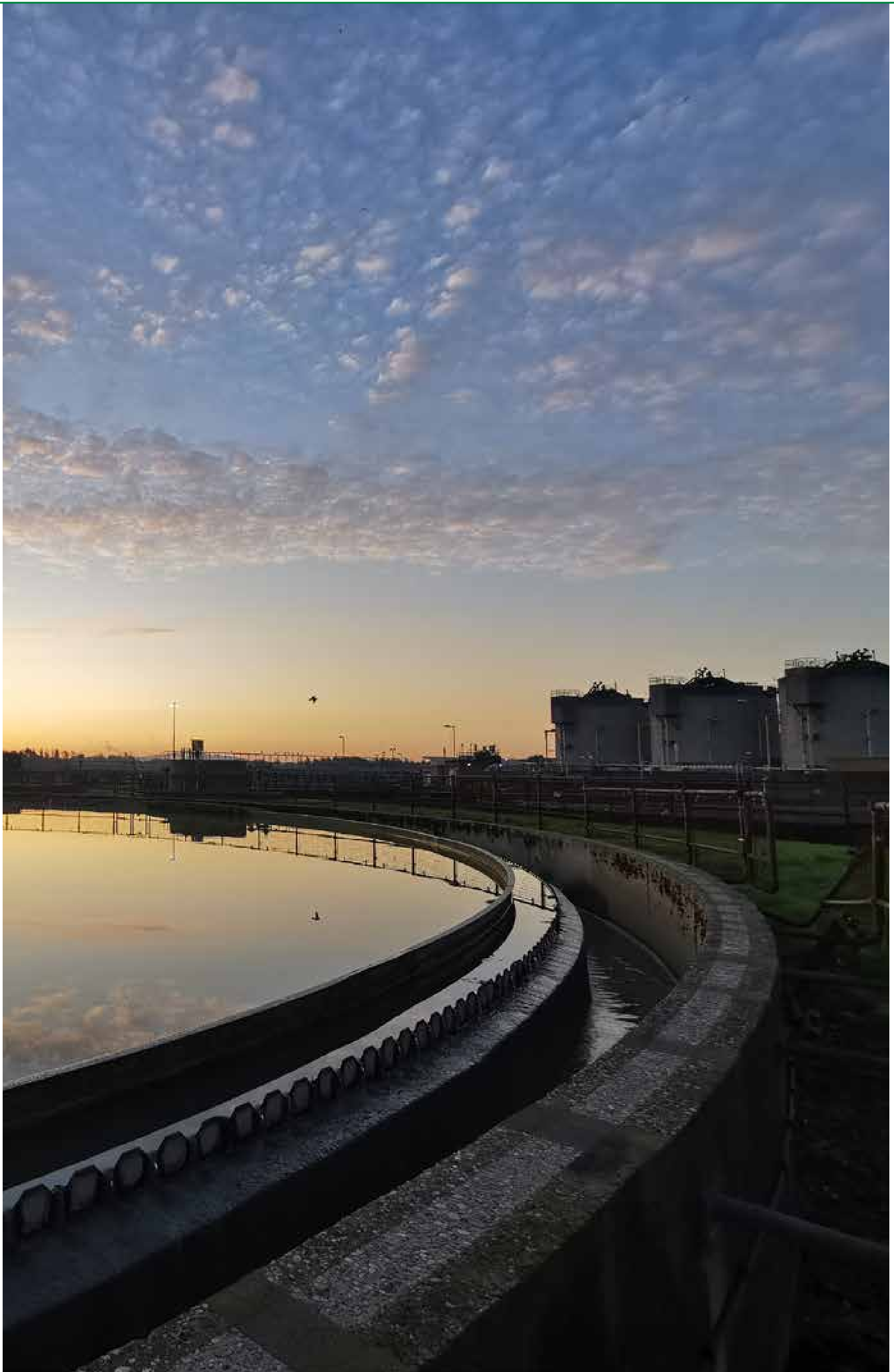
Outlook

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

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

2021/22 full-year guidance

- Revenue is expected to be marginally lower in 2021/22, reflecting the November 2020 CPIH of 0.6 per cent offset by the regulatory revenue reduction of 2.0 per cent.
- Underlying operating costs are expected to be marginally higher year-on-year, reflecting small inflationary increases coming through core costs while IRE is expected to increase, reflecting the additional investment in DNM.
- Underlying finance expense is expected to be higher year-on-year as higher inflation impacts our index-linked debt.
- Capex in 2021/22 is expected to be in the range of £625 million to £675 million, reflecting the ongoing acceleration of our AMP7 programme and around £50 million of additional capex (of the £300 million extension to our AMP7 totex plans).
- Targeting a net customer ODI reward of around £20 million, consistent with targeting a cumulative net AMP7 reward of around £150 million.



Our performance in 2020/21

Financial performance

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent APMs as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, in the group's consolidated income statement, which can be found on page 207. As such, they represent non-GAAP measures.

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

We have simplified our approach to APMs and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matters. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. The tables that follow present the prior year APMs both on a re-presented basis using the new definition of APMs and as presented as at 31 March 2020 for comparative purposes.

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

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

(1) These adjustments are no longer made in the year ended 31 March 2021 and going forward reflect our change in approach to APMs.
(2) For the year ended 31 March 2021, and going forward, this adjustment combines 'net fair value (gains)/losses on debt and derivative instruments' and 'interest on derivatives and debt under fair value option'.

Underlying profit

Operating profit	Year ended 31 March 2021 £m	Re-presented Year ended 31 March 2020 £m	As reported Year ended 31 March 2020 £m
Operating profit per published results	**602.1**	630.3	630.3
Bioresources asset write down	–	82.6	82.6
COVID-19 – expected credit loss on non-household receivables	–	1.4	1.4
COVID-19 – expected credit loss on household receivables	–	16.7	16.7
COVID-19 – operating expenses	–	1.1	1.1
Restructuring costs	–	–	11.8
Underlying operating profit	**602.1**	732.1	743.9
Net finance expense			
Finance expense	**(103.5)**	(313.0)	(313.0)
Investment income	**25.0**	24.0	24.0
Net finance expense per published results	**(78.5)**	(289.0)	(289.0)
COVID-19 – expected credit losses on loans to JVs	–	5.0	5.0
Net fair value (gains)/losses on debt and derivative instruments, excluding interest on swaps and debt under fair value option	**(54.3)**	92.8	–
Net fair value (gains)/losses on debt and derivative instruments	–	–	76.3
Interest on swaps and debt under fair value option	–	–	16.5
Net pension interest income	–	–	(14.0)
Adjustment for capitalised borrowing costs	–	–	(40.6)
Underlying net finance expense	**(132.8)**	(191.2)	(245.8)
Share of losses of joint ventures per published results	**(9.3)**	(38.1)	(38.1)
COVID-19 – Water Plus impairment losses and expected credit losses	–	32.0	32.0
Underlying share of losses of joint ventures	**(9.3)**	(6.1)	(6.1)
Profit on disposal of joint ventures per published results	**36.7**	–	–
Profit on disposal of AS Tallinna Vesi joint venture	**(36.7)**	–	–
Underlying profit on disposal of joint ventures	–	–	–
Profit before tax per published results	**551.0**	303.2	303.2
Adjustments in respect of operating profit	–	101.8	113.6
Adjustments in respect of net finance expense	**(54.3)**	97.8	43.2
Adjustments in respect of share of losses of joint ventures	–	32.0	32.0
Adjustments in respect of profit on disposal of joint ventures	**(36.7)**	–	–
Underlying profit before tax	**460.0**	534.8	492.0
Profit after tax per published results	**453.4**	106.8	106.8
Adjustments in respect of profit before tax	**(91.0)**	231.6	188.8
Deferred tax adjustment	**18.4**	157.5	157.5
Agreement of prior years' UK tax matters	–	–	(12.2)
Tax in respect of adjustments to underlying profit before tax	**2.2**	(9.6)	(11.3)
Underlying profit after tax	**383.0**	486.3	429.6

Earnings per share	£m	£m	£m
Profit after tax per published results (a)	**453.4**	106.8	106.8
Underlying profit after tax (b)	**383.0**	489.5	429.6
Weighted average number of shares in issue, in millions (c)	**681.9m**	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	**66.5**	15.7	15.7
Underlying earnings per share, in pence (b/c)	**56.2**	71.3	63.0
Dividend per share, in pence	**43.24p**	42.60p	42.60p

Average effective interest rate

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

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