Key performance indicators

Our financial KPIs include income statement, balance sheet, regulatory and investor return metrics to provide a snapshot of our performance for the year.

Underlying operating profit

See note 1.

Target
Not externally disclosed

Annual performance
£518 million
Reported operating profit: £480 million

Underlying operating profit has increased £77 million compared with last year, primarily driven by an increased revenue allowance partially offset by inflationary pressures on our core costs, with the largest increases seen on power and labour costs.

2022/23: £441 million

2021/22: £610 million

Status
Behind expectation/target

Link to remuneration[2]
Bonus

Gearing

Group net debt (plus loan receivable from our joint venture) divided by UUW's regulatory capital value.

Target
55–65%

Annual performance
59%

Gearing has risen marginally compared with 58 per cent last year, but at 59 per cent this remains comfortably within our target range.

2022/23: 58 per cent

2021/22: 59 per cent

Status
Met expectation/target

Link to remuneration[2]
n/a

Dividend per share (DPS)

Total dividends declared divided by the average number of shares in issue during the year.

Target
Annual growth in line with CPIH inflation to 2025

Annual performance
49.78 pence

The board has proposed a final dividend of 33.19 pence, which takes the total dividend to 49.78 pence per share for 2023/24. This is an increase of 9.4 per cent, in line with our policy of targeting an annual growth rate of CPIH inflation through to 2025.

2022/23: 45.51 pence

2021/22: 43.50 pence

Status
Met expectation/target

Link to remuneration[2]
n/a

Underlying earnings per share (EPS)

See note 1.

Target
Not externally disclosed

Annual performance
33.3 pence
Reported EPS: 18.6 pence

Underlying earnings per share is primarily driven by the movement in operating profit and a lower underlying finance expense. Reported EPS is lower due to £38 million exceptional costs in relation to the outlet pipe at Fleetwood, fair value gains, and the deferred tax adjustment.

2022/23: -1.3 pence

2021/22: 53.8 pence

Status
Behind expectation/target

Link to remuneration[2]
n/a

Return on regulated equity (RoRE)

Base allowed return plus or minus any out or underperformance.

Target
Not externally disclosed

Annual performance
8.5%

We have delivered another strong RoRE performance, more than doubling the 4 per cent base return with outperformance on financing, tax and customer ODIs, partially offset by the totex impact.

2022/23: 10.9 per cent

2021/22: 7.8 per cent

Status
Met expectation/target

Link to remuneration[2]
LTP
Also indirectly linked to the bonus, as RoRE is influenced by two bonusable measures: ODIs and C-MeX.

Total shareholder return (TSR)

Based on the movement in share price plus dividends over each financial year.

Target
Not externally disclosed

Annual performance
1.6%

TSR was 1.6 per cent in the year to 31 March 2024, which was behind the FTSE 100 return of 8.4 per cent, but significantly ahead of our listed water company peers.

2022/23: -1.5 per cent

2021/22: 27 per cent

Status
Close to meeting expectation/target

Link to remuneration[2]
n/a

(1) Underlying operating profit and underlying earnings per share are alternative performance measures that exclude adjusted items from their reported equivalents. Underlying operating profit excludes any significant non-recurring items. Underlying EPS 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 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) and any exceptional tax. A description of adjusted items, the framework by which these are assessed, and reconciliations between reported and underlying measures, can be found on pages 96 to 97.

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163.

Return on regulated equity (RoRE)

RoRE is a key measure relating to the regulated activities of United Utilities Water Limited. It measures the regulatory returns (after tax and interest) that companies have earned by reference to the notional regulated equity (which is calculated as 40 per cent of the regulatory capital value (RCV), while the other 60 per cent of the RCV is notional net debt).

RoRE comprises a base allowed return, in line with assumptions used by Ofwat in the final determination, plus or minus any out or under performance earned. It is reported on an annual and cumulative basis throughout each five-year asset management plan (AMP) period.

The three key areas through which we can earn a higher RoRE are:

- delivering efficiency savings versus our cost allowance (total expenditure (totex) outperformance);
- earning outperformance payments for service delivery against our performance commitments (customer outcome delivery incentive (ODI) rewards); and
- raising finance at a lower cost than the industry allowed cost of debt (financing outperformance).

The main areas that could detract from RoRE, therefore, are:

- overspending versus our total cost allowance (totex underperformance);
- incurring underperformance payments for failure to meet our performance commitments (customer ODI penalties); and
- incurring higher finance costs than the industry allowed cost of debt (financing underperformance).

RoRE is also impacted by the outturn tax position versus the allowance. Our efficient financing has given us a history of financing outperformance. We strive to deliver efficient costs, but our strategy for AMP7 has been to prioritise operating performance and ODI rewards over totex savings, as this drives better long-term value for all our stakeholders.

As well as being a key regulatory measure, RoRE is one of our financial KPIs and executive remuneration is linked to our RoRE performance through its inclusion in the Long Term Plan (LTP). Elements that contribute to RoRE performance (customer ODIs and C-MeX) are also part of the annual bonus for all employees.

AMP7 financial framework

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

Investment and regulated asset growth

We expect to deliver a number of capital programmes in AMP7 in addition to our base totex (total expenditure) programme. These include the £765 million additional investment programme announced in May 2022, the Accelerated Infrastructure Delivery Project spend and AMP8 transitional investment. Combined with the impact of inflation, our regulated assets are expected to grow at a compound annual growth rate of 4 to 5 per cent across the five years to March 2025.

RoRE

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

Balance sheet

The board has set a target gearing range for the AMP7 regulatory period of 55 to 65 per cent net debt to regulated capital value. As at 31 March 2024, our gearing is in the lower half of this range at 59 per cent.

Dividend policy

The group maintains a dividend policy to target a growth rate of CPIH inflation each year through to 2025. The annual increase in the dividend is based on the CPIH element included within allowed regulated revenue for the current financial year. This is calculated as using the CPIH annual rate from the November prior (i.e. the 2023/24 dividend is equal to the 2022/23 dividend indexed for the movement in CPIH between November 2021 and November 2022).

Outlook and guidance

ODI rewards

We are forecasting to achieve a net customer ODI reward for 2024/25 at least in line with FY24.

Revenue

Revenue is expected to increase by around 10 per cent in 2024/25, with around 3 per cent due to inflation offset by k factor, and 7 per cent due to timing.

Underlying operating costs

Operating costs including IRE are expected to increase by more than inflation due to business rates, regulatory charges and IRE.

Depreciation

With continued growth in our asset base and accelerated investments ahead of AMP8, depreciation is expected to increase by £30 million to £40 million.

Underlying net finance expense

Underlying net finance expense is expected to be broadly unchanged year on year. As at 31 March 2024, we had £4.7 billion of index-linked debt exposure, giving rise to a £47 million swing in our annual interest charge for every 1 per cent change in inflation.

Underlying tax

Our current tax charge is expected to be nil in 2024/25, reflecting expected benefits in relation to 'full expensing' and the 50 per cent first year allowances on longer life assets.

Capital expenditure

Capex in 2024/25 is expected to be in the range of £850 million to £1.1 billion. In addition to our AMP7 base programme, this reflects capital expenditure for the year in relation to the circa £400 million of investment brought forward from AMP8 (including Accelerated Infrastructure Delivery Project and AMP8 transitional investment) as well as our additional investment (including supporting our Better Rivers programme).

Creating long-term sustainable value

We delivered robust underlying financial performance this year. Revenue increased 8 per cent, mainly driven by the inflation increase allowed as part of our revenue cap. This revenue increase, partly offset by inflationary increases to costs resulted in underlying operating profit increasing by £77 million to £518 million. Reported operating profit was £38 million lower than underlying, at £480 million, reflecting an adjusting item in respect of costs associated with a fractured outlet pipe at our Fleetwood Wastewater Treatment Works.

Non-cash interest expense on our index-linked debt declined, resulting in an underlying profit of £227 million and an underlying earnings per share of 33.3 pence. Reported profit after tax was lower at £127 million, with reported earnings per share of 18.6 pence per share. Adjusted items between underlying and reported are set out on pages 96 to 97.

We have one of the strongest balance sheets in the sector, providing us with future flexibility. During the year, we completed a pension scheme buy-in transaction with Legal & General, covering two-thirds of scheme liabilities and representing a significant milestone in our de-risking journey. Our AMP7 investment requirements are fully pre-funded, and with gearing of 59 per cent and solid credit ratings we approach AMP8 in a strong position.

Revenue

Revenue was up £145 million, at £1,950 million, largely reflecting the inflation increase allowed as part of our revenue cap.

In 2023/24, we had a £103 million increase in the revenue cap due to regulatory adjustments, largely driven by a 9.4 per cent CPIH-linked increase partly offset by 1.4 per cent real reduction in allowed wholesale revenues as set out in our PR19 Final Determination.

Other revenue impacts largely reflect increases in consumption.

Operating profit

Underlying operating profit at £518 million was £77 million higher than last year, largely reflecting the increase in revenue, offset by inflationary pressures on our core costs.

Inflationary pressures on our operating costs have resulted in a £41 million increase. The largest increases have been to power and labour costs, where we incurred an additional £34 million and £13 million respectively. Other costs have been tightly controlled, partly mitigating the inflationary increases and leading to a £6 million cost reduction.

As our asset base continues to grow, IRE increased by £12 million and our depreciation charge for the year increased by £15 million.

Reported operating profit increased by £39 million compared to last year, reflecting the £77 million increase in underlying operating profit offset by £38 million of costs associated with responding to a fractured outlet pipe at our Fleetwood Wastewater Treatment Works. The specific nature, and the activity involved in remediating this failure, was unlike anything that would typically be experienced. As such, the associated costs were not representative of normal business activity and were excluded in arriving at underlying operating profit.

£1.9bn

revenue impacted by increased inflationary allowance

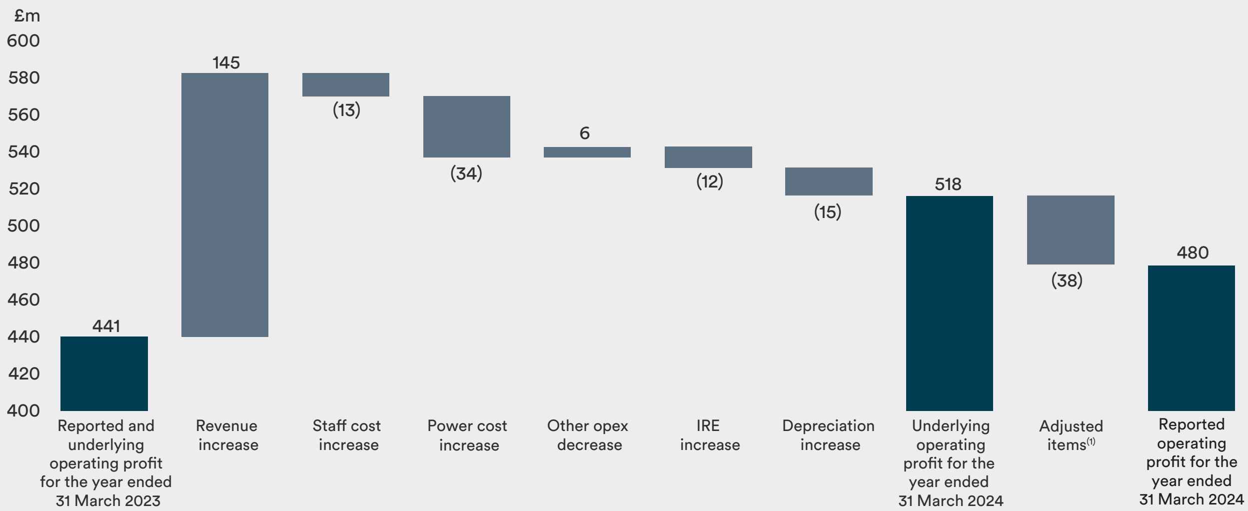
£518m

underlying operating profit increased due to higher revenue partially offset by the inflationary impact on core costs, particularly power and labour

1.6%

low level of bad debt as a percentage of household revenue

Summary of operating profit movement



[1] Adjusted items between underlying and reported are set out on pages 92 to 93.

Current year cash collection has been strong, supported by our industry-leading affordability schemes, effective credit collection practices and utilisation of technology. As a result, our bad debt position has reduced to 1.6 per cent of statutory revenue.

Profit/(loss) before tax

Underlying profit before tax of £221 million compared to a £34 million underlying loss before tax last year. The £255 million difference reflects the £77 million increase in underlying operating profit and a £182 million decrease in underlying net finance expense, partly offset by a small increase in the share of losses of joint ventures of £4 million. Underlying profit before tax reflects presentational adjustments as outlined on pages 96 to 97.

Reported profit before tax decreased by £86 million to £170 million reflecting a £90 million increase in reported net finance expense, a £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited recognised in the prior year, and a small increase in the share of losses of joint ventures of £4 million, partly offset by a £39 million increase in reported operating profit.

Net finance expense

Underlying net finance expense of £293 million was £182 million lower than last year mainly due to significantly lower inflation resulting in a £268 million decrease in the non-cash indexation on our debt and derivative portfolio, partly offset by a reduction in capitalised interest of £47 million, and rising interest rates resulting in higher net interest payable on debt, derivatives and cash of £39 million.

Cash interest of £125 million was £23 million higher than last year. Cash interest excludes non-cash items mainly comprising the indexation on our debt and derivative portfolio, capitalised interest and net pension interest income.

Reported net finance expense of £306 million was £90 million higher than last year, reflecting a £272 million reduction in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £259 million net fair value gain last year to £13 million net fair value loss this year, partly offset by the £182 million decrease in underlying net finance expense.

Joint ventures

The group incurred a share of the losses of Water Plus for the year ended 31 March 2024 of £4 million, all of which has been recognised in the income statement. This compares to a share of the profits of Water Plus of nil for the year ended 31 March 2023, with the deterioration this year largely as a result of the impact of higher interest rates.

Profit/(loss) after tax and earnings per share

The underlying profit after tax of £227 million was £236 million higher than the £9 million underlying loss last year, reflecting the £255 million increase in underlying profit before tax and a £19 million reduction in underlying tax credit.

Reported profit after tax was lower at £127 million and reported earnings per share at 18.6 pence per share with the adjusted items between underlying and reported set out on pages 96 to 97.

Tax

We continue to be fully committed to paying our fair share of tax and acting in an open and transparent manner in relation to our tax affairs, and are delighted to have retained the Fair Tax Mark independent certification for a fifth year.

The group makes significant contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 6,000 strong workforce. The total payments for 2023/24 were around £240 million and included business rates, employment taxes, environmental taxes and other regulatory service fees such as water abstraction charges.

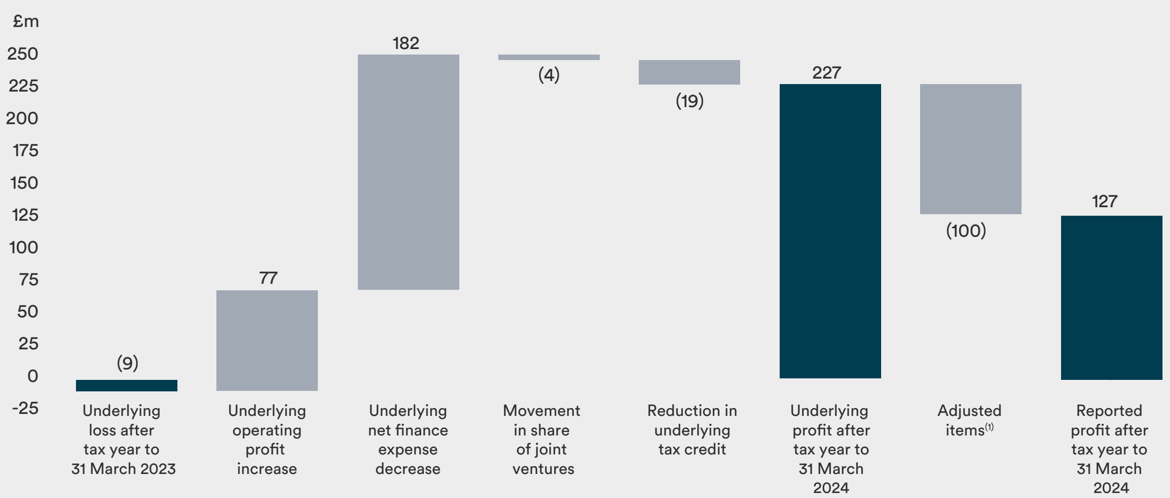
In the current year, we received a net corporation tax repayment of £5 million, which represents an effective cash tax rate of 0 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment including full expensing introduced in 2023.

The group recognised a current tax credit of £6 million, mainly due to prior year adjustment in relation to optimising the available research and development tax allowances on our innovation-related expenditure, for multiple prior years.

For the year to 31 March 2024, we recognised a deferred tax charge of £49 million, compared with £77 million last year.

The total effective tax rate, excluding prior year adjustments was 26 per cent for the year to 31 March 2024 compared with the headline rate of 25 per cent.

Summary of profit/(loss) after tax movement



(1) Adjusted items between underlying and reported are set out on pages 92 to 93.

Creating long-term sustainable value

There are £166 million of tax adjustments recorded within other comprehensive income, primarily relating to remeasurement movements on the group's defined benefit pension schemes. The rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 25 per cent (2023: 35 per cent), being the rate applicable to refunds from a trust.

Dividend per share

The board has proposed a final dividend of 33.19 pence per ordinary share in respect of the year ended 31 March 2024. This is an increase of 9.4 per cent compared with the dividend last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The 9.4 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2023/24 financial year (i.e. the movement in CPIH between November 2021 and November 2022).

The final dividend is expected to be paid on 1 August 2024 to shareholders on the register at the close of business on 21 June 2024. The ex-dividend date for the final dividend is 20 June 2024. The election date for the dividend reinvestment plan is 11 July 2024. A dividend reinvestment plan (DRIP) is provided by Equiniti Financial Services Limited. The DRIP enables the company's shareholders to elect to have their cash dividend payments used to purchase the company's shares. More information can be found at **www.shareview.co.uk/info/drip**

Cash flow

Net cash generated from operating activities for the year to 31 March 2024 was £745 million, £43 million lower than £788 million last year, principally due to higher net interest paid resulting from the rise in interest rates, and changes in working capital decreasing cash generated from operations. The net cash generated from continuing operating activities supports the dividends paid of £320 million and partially funds some of the group's net capital expenditure of £731 million, with the balance being funded by net borrowings and cash and cash equivalents.

The group's consolidated and company statements of cash flows can be found on page 185 of our consolidated financial statements.

Pensions

As at 31 March 2024, the group had an IAS 19 net pension surplus of £268 million, compared with a surplus of £601 million at 31 March 2023. This £333 million decrease principally reflects the impact of the purchase of bulk annuities as part of a buy-in transaction completed in July 2023 with Legal & General leading to around a £220 million reduction in the surplus. The partial buy-in represents a significant milestone in our de-risking journey for the benefit of the pension schemes, their members, and the group, by working as a near-perfect economic hedge, removing interest rate, inflation and longevity risks for the portion of liabilities secured. The remaining reduction materially relates to changes in financial conditions over the period, which have seen a fall in the value of the schemes' assets and the impact of inflation remaining above the assumption made at 31 March 2023.

Further detail on pensions is provided in note 14 ('Retirement benefits') of our consolidated financial statements.

Financing

Net debt at 31 March 2024 was £8,763 million, compared with £8,201 million at 31 March 2023. This comprises gross borrowings with a carrying value of £10,001 million, net derivative liabilities hedging specific debt instruments of £50 million and total indexation on inflation swaps of £111 million, and is net of cash and bank deposits of £1,399 million.

Gearing, measured as group net debt including a £74 million loan receivable from joint venture divided by UUW's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms) of £14.7 billion, was 59 per cent at 31 March 2024, slightly higher than the 58 per cent at 31 March 2023 but remaining within our target range of 55 to 65 per cent.

Cost of debt

As at 31 March 2024, the group had approximately £3.6 billion of RPI-linked instruments and £0.5 billion of CPI or CPIH-linked instruments held as debt. Including swaps, the group has RPI-linked debt exposure of £3.4 billion at an average real rate of 1.4 per cent, and £1.3 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

A significantly lower RPI inflation charge compared with last year contributed to the group's average effective interest rate of 4.7 per cent being lower than the rate of 8.0 per cent last year. More information on this can be found on page 97.

The group has fixed the interest rates on its non index-linked debt in line with its ten-year reducing balance basis at a net effective nominal interest rate of 2.7 to 3.1 per cent for the remainder of the AMP7 regulatory period.

Credit ratings

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

Debt financing

The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme. The group has fully pre-funded its AMP7 investment requirements, and has begun funding its AMP8 (2025–30) investment programme.

In the year to March 2024, we raised circa £1.6 billion of term funding. A 15.5-year £300 million sustainable public bond in April, a nine-year £100 million bilateral loan with a relationship bank in April, a 13-year £350 million sustainable public bond in June, a 22-year £250 million public bond in January, a £50 million tap of 12.3-year sustainable public bond in February and a €650 million sustainable public bond in February. In addition, we renewed £100 million of relationship bank revolving credit facilities with an initial five-year term. Further in March we repurchased and cancelled circa £110 million of bonds that had an original maturity date of February 2025.

Interest rate management

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings under the regulatory model. At 31 March 2024, approximately 39 per cent of the group's net debt was in RPI-linked form, representing around 23 per cent of UUW's regulatory capital value, with an average real interest rate of 1.4 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 16 years.

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

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

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

At 31 March 2024, we had liquidity out to March 2026, comprising cash and bank deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our ongoing capital investment programme.

Return on regulated equity (RoRE)

RoRE for 2023/24 was 8.5 per cent on a real, RPI/CPIH blended basis.

In addition to the base return of 4.0 per cent (including our 11 basis point fast track reward that we receive in each of the five years of the AMP), we delivered net outperformance of 4.5 per cent comprising:

Financing outperformance
We earned financing outperformance this year of 4.3 per cent. We have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. As in the prior year, our financing outperformance this year has been supplemented by higher levels of inflation, which increases the benefit of the roughly £4 billion fixed rate debt we have locked in.

Tax outperformance[1]
The 2.1 per cent outperformance on tax reflects the small current year underlying tax credit, and includes allowable tax deductions on capital investment including full expensing introduced in 2023.

Customer outcome delivery incentives (ODIs)
Customer ODI outperformance of 0.7 per cent reflects a net reward of £34 million.[2] Our overall performance was strong this year, meeting or exceeding 80 per cent of our performance commitments. However, exceptionally high rainfall during the year adversely impacted performance such as flooding and we expect to receive penalties against these commitments for FY24. The extreme weather we experienced meant that while our net reward reflects strong delivery for customers, it is around £30 million lower than we previously anticipated.

Customer ODI rewards and penalties are applied to revenues with a two-year lag. As we are approaching the end of the AMP7 regulatory period, the payments earned in 2023/24 and 2024/25 reporting year will be considered during the determination processes for the next regulatory period and will be reflected in adjustments to revenues during AMP8.

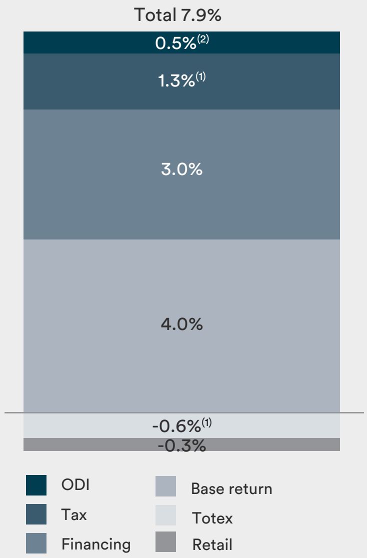
Totex performance[1]
The totex impact on RoRE of -2.2 per cent reflects the combined impact of the in-year portion of the £765 million investment programme announced in May 2022, accelerated investment brought forward from AMP8 and inflationary pressures, partly offset by the inflationary uplift within the totex mechanism. We continue to robustly challenge our costs to help us deliver our investment as efficiently as possible.

Retail performance
The retail impact on RoRE of -0.4 per cent reflects a small underperformance in household retail resulting from the impacts of cost of living and inflationary cost pressures.

(1) Tax benefits directly attributable to £765 million additional investments netted against totex performance

(2) Excluding per capita consumption, which Ofwat is considering as part of its final determination process in the context of a full understanding of the enduring impact of COVID-19 effects.

Cumulative AMP7 RoRE



8.5%

return on regulated equity (RoRE) for 2023/24

£34m

highest ever reward for customer ODIs earned in 2023/24[2]

Guide to alternative performance measures (APMs)

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated statement of comprehensive income, which can be found on page 181. As such, they represent non-GAAP measures.

These APMs can assist in providing a representative view of business performance, and may not be directly comparable with similarly titled measures presented by other companies. The group determines adjusted items in the calculation of its underlying measures against 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 reoccurrence and its volatility, which is either outside the control of management and/or not representative of current year performance.

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

Adjusted item	Rationale
Adjustments not expected to recur	
Fleetwood outfall pipe fracture	In June 2023, the group suffered a large-scale outfall pipe fracture at a major wastewater treatment works at Fleetwood. The specific nature of this incident, and scale of the activity involved in remediating this failure was unlike anything that would be typically experienced. As such, the associated costs, which were incurred across both operating expenditure and infrastructure renewals expenditure, were not representative of normal business activity and, therefore, the costs are excluded in arriving at underlying operating profit.
Profit on disposal of subsidiary	This relates to the disposal of the group's subsidiary United Utilities Renewable Energy Limited during the prior year, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are, therefore, excluded in arriving at underlying net finance expense as they are determined by macro-economic factors, which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt, which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit/(loss) before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Operating profit per published results	**480.2**	440.8
Fleetwood outfall pipe fracture	**37.6**	–
Underlying operating profit	**517.8**	440.8
Net finance expense		
Finance (expense)/income	**(389.3)**	(262.7)
Allowance for expected credit losses – loans to joint ventures	**(2.4)**	–
Investment income	**85.6**	47.0
Net finance expense per published results	**(306.1)**	(215.7)
Adjustments:		
Fair value gains on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	**12.9**	(259.4)
Underlying net finance expense	**(293.2)**	(475.1)
Share of profits/(losses) of joint ventures per published results	**(4.1)**	–
Profit on disposal of subsidiary	**–**	31.2
Adjustments:		
Profit on disposal of subsidiary	**–**	(31.2)
Underlying profit on disposal of subsidiary	**–**	–
Profit before tax per published results	**170.0**	256.3
Adjustments:		
In respect of operating profit	**37.6**	–
In respect of net finance expense	**12.9**	(259.4)
In respect of profit on disposal of subsidiary	**–**	(31.2)
Underlying profit/(loss) before tax	**220.5**	(34.3)
Profit after tax per published results	**126.9**	204.9
Adjustments:		
In respect of profit before tax	**50.5**	(290.6)
Deferred tax adjustment	**48.9**	76.6
Tax in respect of adjustments to underlying profit before tax	**1.0**	0.4
Underlying profit/(loss) after tax	**227.3**	(8.7)
Earnings per share		
Profit after tax per published results (a)	**126.9**	204.9
Underlying profit/(loss) after tax (b)	**227.3**	(8.7)
Weighted average number of shares in issue, in millions (c)	**681.9m**	681.9m
Earnings per share per published results, in pence (a/c)	**18.6**	30.0
Underlying earnings per share, in pence (b/c)	**33.3**	(1.3)
Dividend per share, in pence	**49.78p**	45.51p

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

Average effective interest rate	Year ended 31 March 2024	Year ended 31 March 2023
Underlying net finance expense	**(293.2)**	(475.1)
Adjustments:		
Net pension interest income	**(28.6)**	(28.7)
Adjustment for capitalised borrowing costs	**(81.0)**	(127.5)
Net finance expense for effective interest rate	**(402.8)**	(631.3)
Average notional net debt[1]	**(8,504)**	(7,849)
Average effective interest rate	**4.7%**	8.0%
Effective interest rate on index-linked debt	**6.2%**	12.4%
Effective interest rate on other debt	**2.9%**	2.2%

[1] Notional net debt is calculated as the principal amount of debt to be repaid, net of cash and bank deposits, taking the face value issued of any nominal sterling debt, the inflation accreted principal on the group's index linked debt, and the sterling principal amount of the cross currency swaps relating to the group's foreign currency debt.