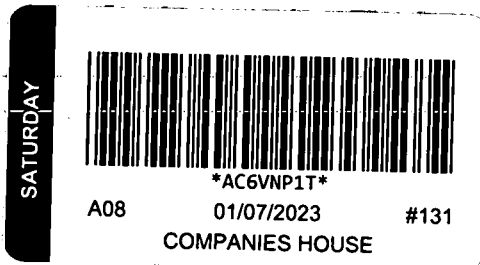


Registered No: 2366616

# United Utilities PLC

## Annual Report and Financial Statements

31 March 2023



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## Strategic Report

### Directors

L Beardmore (Appointed 26 April 2023)  
PA Aspin  
GL Baron (Resigned 22 July 2022)  
RJ Lee  
SL Mogford (Resigned 31 March 2023)  
BF Murphy

### Secretary

SR Gardiner

### Auditor

KPMG LLP  
St Peter's Square  
Manchester  
M2 3AE

### Registered office

Haweswater House  
Lingley Mere Business Park  
Lingley Green Avenue  
Great Sankey  
Warrington  
WA5 3LP

### Terms used in this report:

United Utilities PLC's ultimate parent company is United Utilities Group PLC. 'UUG' means United Utilities Group PLC and 'United Utilities' or 'the UUG group' means United Utilities Group PLC and its subsidiary undertakings. 'UU' or 'the group' means United Utilities PLC and its subsidiary undertakings.

### Cautionary statement:

This report contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements include without limitation any projections or guidance relating to the results of operations and financial conditions of the group as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and any strategic initiatives relating to the group, as well as discussions of our business plan and our assumptions, expectations, objectives and resilience with respect to climate scenarios. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the company undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast.

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## Strategic Report

### Our purpose

#### **Providing great water for a stronger, greener and healthier North West.**

This is why we are here.

Our purpose highlights how environmental, social and governance (ESG) considerations are integral to everything we do.

As shown on pages 6-7, each step in our water cycle and every aspect of our activities is aligned with delivering our purpose, and this is what drives us to create value for all of our stakeholders.

### Strategic priorities

Our strategy to enable delivery of our purpose has six priorities as set out below. These strategic priorities permeate everything we do. They help us deliver our purpose and drive sustainable long-term improvements for customers, the environment and society, at an efficient cost.

#### **Improve our rivers**

We are a sector leader in minimising pollution, and continue to protect bathing waters across the North West. River health in the UK has received a lot of public interest. The legacy industrial nature and high rainfall in our region means we have a bigger task than many to deliver the significant reduction in storm overflow activations required by the Environment Act 2021. This will form a significant component of our 2025–30 business plan, and we are accelerating investment with good progress already made.

#### **Provide a safe and great place to work**

We invest in our colleagues' training and development, and maintain high levels of health, safety and wellbeing. We want to attract, develop and engage great talent across the organisation, we support and encourage a diverse and inclusive culture, and we want colleagues to be empowered to contribute to making things better. To facilitate this, we are launching new 'Call it out' and 'Tell me' initiatives, which enable everyone across the business to raise things directly with the CEO and receive a response within 48 hours.

#### **Spend customers' money wisely**

We continuously challenge ourselves to improve cost efficiency in a sustainable way, so we can keep customer bills as low as possible in the long term without compromising on service or resilience. We look to minimise whole-life cost and deliver the best value solutions, using Systems Thinking and innovation to find better ways of working, leveraging partnerships and driving value in our supply chain, capitalising on digital and automation opportunities, and removing areas of duplication or waste.

#### **Create a greener future**

We are committed to protecting nature and biodiversity, and reducing water consumption. We have six carbon pledges underpinned by ambitious science-based targets and a net zero transition plan. We generate around a quarter of our energy from bioresources and through partners. We are looking at how we can make the best use of our land to deliver clean energy, be that through our pledges to create woodland and restore peatland, or increasing our renewable energy generation capacity.

#### **Deliver great service for all customers**

Delivering great service means continually improving our ways of working across the whole business. Improving water quality, minimising interruptions, leakage and sewer flooding, and supporting customers with affordability and vulnerability. Engagement helps us understand what matters most to customers and we act on their feedback. This can be seen in the way we redesigned our bills based on customer research, and the early investment we are making to improve customer and environmental performance faster.



## Strategic Report

### Contribute to our communities

Our work means we are working closely within communities across the North West and we want to ensure we are visible and trusted. We actively engage and make use of partnerships to drive value for communities, such as our Love Windermere initiative. With a lot to deliver in the years ahead, we have appointed regional stakeholder managers for each of the five counties to help manage these relationships and ensure we can deliver our planned improvements with minimal disruption.

## Our culture and core values

### Culture at United Utilities

Our culture drives the interactions we have with our stakeholders, and our commitment to responsible business and sustainability is reflected in the way we measure and report the value we create as a business, with metrics monitored and targets set for the greener, stronger and healthier ambitions within our purpose, closely aligned to ESG. These metrics also enable us to assess the value we are creating for stakeholders.

When assessing culture, we look at four categories – our core values, our purpose, our strategic priorities, and our people. We monitor a number of key metrics relating to our people, such as engagement, health and wellbeing, diversity, and development.

Our culture is underpinned by three core values, which cascade down the business from the board to every one of our colleagues, guiding how we expect our people to behave in a way that drives a high performance and innovative culture.

### Core values

Our core values demonstrate the way we work, and we want to ensure these are clear and easy for all our colleagues to apply to every situation. We have, therefore, redefined our core values to reflect the things we believe are most important to help us deliver our purpose of providing great water for a stronger, greener and healthier North West.

**Do the right thing** - First and foremost, as a responsible business, we want our people to always focus on doing the right thing. This means always putting safety first, delivering for the benefit of our stakeholders, championing fairness, acting with courage and speaking up if they come across anything that doesn't feel right. This is vital for building and maintaining trust with the public and all our stakeholders, and for delivering our purpose: doing the right thing for the natural environment helps us to create a greener North West; doing the right thing for customers, communities, colleagues and suppliers helps us to build a stronger and healthier North West.

**Make it happen** - We are focused on supporting each other and working as a team to make things happen, taking accountability and putting progress over perfection. We want to celebrate successes, for individuals and for the company, and learn when we don't get things right first time. This can already be seen across the business, for example:

- Enabling and fostering new ways of working through our Innovation Lab process.
- Being able to act quickly and capitalise on pockets of efficient financing opportunity.
- Our decisions to accelerate investment where we can deliver improvements for customers and the environment faster.

**Be better** - Ultimately, everything we do is about improving things and creating a better tomorrow for everyone. We want to be better as a company, and this means encouraging our colleagues to live this value as well. We want our people to be curious, ambitious, and solution-focused, seeking out new and innovative ways to deliver our services more efficiently and effectively. We want to ensure we are learning from the best people that are available to us, which is why we embrace diversity and inclusion, collaboration and partnership opportunities, innovation and best practice ideas from other companies, other industries, and the wider world.

## Our approach

### Systems Thinking

Our Systems Thinking approach is a key area of continuing opportunity. This enables us to better manage our end-to-end water and wastewater systems, optimising our decision-making and moving away from the traditional reactive approach to address problems proactively before they affect customers. This creates long-term value, improving our asset reliability and resilience, reducing unplanned service interruptions, and delivering cost savings.

We assess new opportunities against five capability maturity levels. At the lower levels there is a high degree of human intervention and reactive behaviour. At the higher levels there is a high degree of predictive analytics, use of artificial intelligence to process vast amounts of data, joined up decision-making across the system, and higher levels of automation. It requires time and investment to reach the higher levels, and we are at different levels in different areas of our business as we continue to embed and progress our approach.

Systems Thinking involves looking at the entire system and all of its linkages, rather than individual assets or sites in isolation, to find the best all-round solutions. Our digital backbone sends vast amounts of real-time data to our Integrated Control Centre (ICC), from which we plan, monitor and control our operations. We also factor in other source data such as weather forecasts and customer demand, and at the higher capability maturity levels we use artificial intelligence and machine-learning to identify trends and anomalies that could signal potential issues.

### Diversity and inclusion

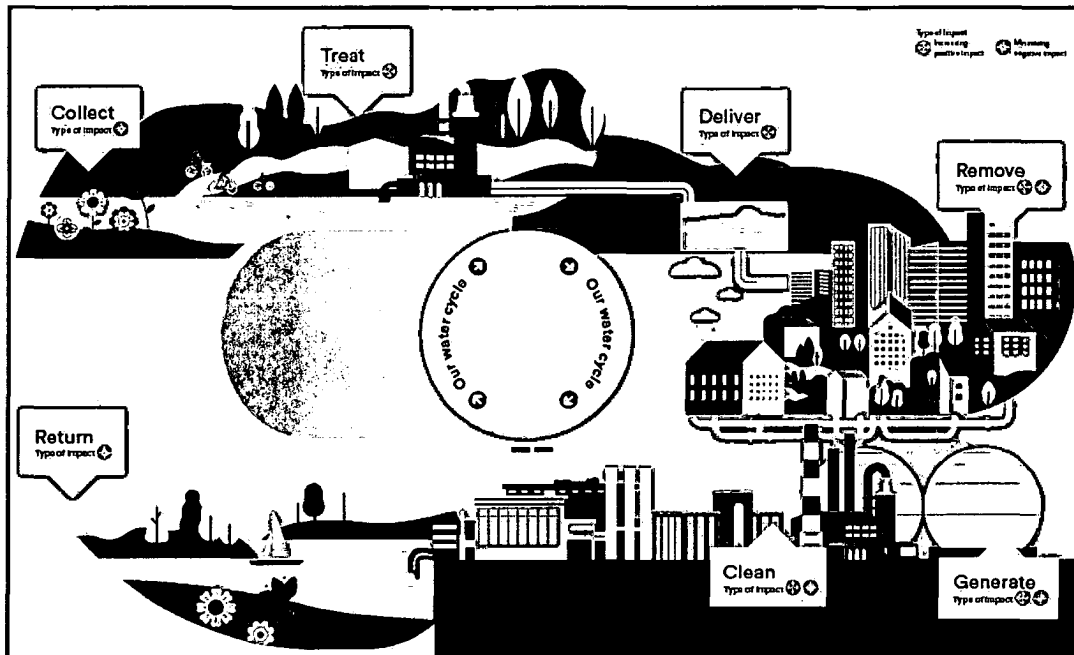
We need fantastic people to help us deliver great service to all our customers. We want our workforce to reflect the local communities we serve, with all colleagues feeling welcomed, valued and included, regardless of their gender, age, race, disability, sexuality or social background.

Our award-winning 'We are Better Together' campaign aims to drive a diverse and inclusive workforce. We are proud of how far we have come and in our latest internal engagement survey 89 per cent of colleagues said that United Utilities supports diversity and inclusion in the workplace – scoring higher than both the utilities and UK norm benchmarks and recognising our drive to be an inclusive workplace of choice.

Our people director sponsors the overall equity, diversity and inclusion plan, which sets out our bold, long-term targets to be achieved by 2030, and tracks its progress with the executive team.

More information on diversity and inclusion across the business can be found within the United Utilities Group PLC 2023 Annual Report and Financial Statements.

## How we provide great water for a stronger, greener and healthier North West



### Collect and treat –

**Providing great water:** We collect raw water from open reservoirs, lakes, rivers and boreholes. We then treat it in one of our 86 water treatment works to ensure it is safe and clean for customers to drink.

**For a stronger, greener and healthier North West:** We own and manage 56,000 hectares of land. We are optimising the use of this land to protect water quality, create natural carbon sinks by restoring peatland and planting woodland, and explore potential clean energy development. We manage our land and water resources in a sustainable way, protecting and enhancing local habitats, and open our land to the public to enjoy nature and its health and wellbeing benefits. Reservoirs are the biggest source of water in the North West, and we have more than any other UK water company. They are quick to fill when it rains, but are more vulnerable to periods of dry weather than ground water sources. They provide great tasting water, but have high maintenance needs and the raw water requires more treatment than some other water sources.

### Store and deliver –

**Providing great water:** The treated water goes to one of our covered storage reservoirs, ready to be delivered to customers' taps when they need it. We deliver an average of 1.8 billion litres of water every day to 7.4 million people and businesses, using 43,000 kilometres of water pipes.

**For a stronger, greener and healthier North West:** Our integrated supply network enables us to move water around the region as needed. Along with production planning and optimisation of storage levels ahead of anticipated demand increases, and a fleet of alternative supply vehicles, this helps us to deliver a more resilient water supply. We use sensors and artificial intelligence, and have dedicated teams to detect and fix leaks across our pipes as well as helping customers identify leaks on their property, which can save them

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## Strategic Report

money on their bills as well as reducing water losses. Our Haweswater Aqueduct uses gravity to transfer water from Cumbria to Manchester, helping to reduce our carbon footprint from energy-intensive pumping.

### Remove and clean –

**Providing great water:** We operate 79,000 kilometres of wastewater pipes to transport wastewater from sewers to one of our 584 wastewater treatment works, where it requires separation and treatment before it is returned to the natural environment.

Combined sewers take a mix of wastewater and rainwater to be cleaned. In excessive rainfall, when sewer capacity is overloaded, storm overflows are activated, using a separate pipe to allow this heavily diluted mix to flow directly into rivers or the sea to help prevent flooding of streets, homes and businesses.

**For a stronger, greener and healthier North West:** Urban rainfall in our region is 40 per cent higher than the average for the rest of England and Wales, and 54 per cent of our sewers take combined waste and rainwater, compared to an average of 33 per cent. This means more water runs into our sewers than other parts of the country, creating a much bigger challenge for reducing the use of storm overflows in the North West. We are already investing substantial amounts in AMP7, supporting our target of at least a one-third sustainable reduction in the number of overflow activations, improving 184 kilometres of rivers. Our ambitious plans for AMP8 target even more significant improvements.

### Generate –

**Providing great water:** We minimise waste from our operations, including by turning sludge byproduct into compost for farmers and capturing gas to generate renewable energy from bioresources.

**For a stronger, greener and healthier North West:** Self-generation helps us to reduce our carbon footprint and save energy costs, and the remaining electricity needs that we purchase are 100 per cent renewable. We are closely following the developments in the interpretation of Farming Rules for Water, and the impact this could have on our provision of compost for farmers throughout the year.

### Return –

**Providing great water:** Once the water is clean enough to meet stringent environmental consents, we return it to the natural environment through rivers and streams so that the water cycle can begin again.

**For a stronger, greener and healthier North West:** We have a long coastline and 25 designated coastal bathing waters across the North West. We are meeting 24 of 25 standards for these bathing waters and we are industry leading in minimising pollution, with zero serious pollution incidents in three of the last four years. We are going above and beyond our regulatory commitments to improve river health, with the commitments in our Better Rivers, Better North West programme and additional investment in the 2020–25 period to deliver improvements faster. We are recruiting a team of river rangers to help us look after the local rivers and streams in our communities, and exploring other new ways of working such as how we can work with farmers to reduce the impact of runoff, and the use of nature based solutions and partnerships with groups such as the Rivers Trust, to ensure we are pursuing the best ways to improve the natural environment and river and bathing water quality across the region.

### Retail –

**Providing great water:** Once United Utilities Water Ltd provides metering, billing and customer services for household customers in the North West. Business customers choose a water retailer, and our joint venture, Water Plus, operates in the competitive non-household retail market.

**For a stronger, greener and healthier North West:** Our region has the most areas of extreme deprivation in the country. We have an extensive range of affordability and vulnerability schemes, and are helping more than 330,000 customers with £280 million<sup>1</sup> of support in AMP7.

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## Strategic Report

### Our business model

#### How we provide great water for a stronger, greener and healthier North West

#### Our environment and the resources we rely on

##### *Our external environment*

What we do and how we do it is influenced by a number of factors external to our business, all of which must be considered and managed. We monitor developments and trends in our external environment and adapt our plans as needed to respond.

##### **Political environment**

This includes regional and national politicians as well as policymakers. We must understand the key policy issues affecting our industry.

Political decisions have the potential to impact on our operations. We engage with politicians and other policymakers to understand developments, influence where possible, and stay flexible to adapt as needed.

##### *Key trends:*

- *Reducing the use of storm overflows* – Recognising the need to act on storm overflows, the Government set out a discharge reduction plan in the Environment Act 2021. We are already investing significant amounts in AMP7 to improve the quality of rivers and seas in the North West, including £230 million leading to improvements to 184 kilometres of watercourses and supporting a sustainable one-third reduction in activations of overflows. Transparency is key and we have committed to achieve 100 per cent monitoring of storm overflows before the end of 2023, with 97 per cent already monitored.  
  
We have ambitious plans for reducing activations of storm overflows in AMP8 as part an environmental improvement programme that is significantly larger than any we have ever delivered, and we have provisional approval from regulators to accelerate around £200 million of investment into the next two years, the majority of which relates to this.
- *Phosphorus reduction and nutrient neutrality* – As well as addressing the use of overflows, the Environment Act also sets obligations to reduce phosphorus and address nutrient imbalance, which are reflected in our AMP8 investment plans.
- *National social tariff* – Additional cost of living pressures on households across the country is putting the focus on government and companies to do more to help those struggling to pay. We are a strong supporter of the Consumer Council for Water's drive to launch a national social tariff so water customers across the country are not reliant on the current postcode lottery.
- *Devolved regional plans* – We have a part to play in the plans of devolved regions and mayors for growth and green energy development in the North West, including our diversions activity to support HS2.

##### **Natural environment**

We must be resilient to changes such as climate change and population growth, and ensure our impact on the natural environment is positive.

The natural environment is constantly changing. We must adapt and prepare for these challenges, minimising our impact to help mitigate climate change and support a healthy water cycle.

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## Strategic Report

### Key trends:

- *Climate change* – We are already seeing prolonged dry periods and hotter summers, wetter winters and more extreme rainfall events, and the challenges created by freezing temperatures followed by rapid thawing. This increases the level of risk for water sufficiency, flooding and pipe damage. The dry weather and high temperatures last summer put much of the country's water supplies under stress, and in December we experienced a severe freeze-thaw event that put services under pressure. With these trends set to continue, we must plan well into the future and continually adapt to strengthen our operational resilience. We have detailed long-term plans for managing water resources, drainage and wastewater management, and are updating our drought plan. We have an adaptation report setting out how we will adapt to meet the challenges of climate change and are developing our plans to transition to a low-carbon economy.
- *Population growth* – We will need to extend our services and ensure we have sufficient resources to meet the increased demand of an anticipated one-million increase in population by 2050.
- *Natural capital and biodiversity* – Much of the landscape in the North West is legally protected for its environmental or cultural significance. The functioning of these natural environments is important to support communities and the regional economy, but they face pressure from climate change and population growth. We have a role to play in restoring healthy and resilient ecosystems, and need to work collaboratively with like-minded organisations to deliver nature-based solutions that offer many benefits including carbon sequestration, cleaner water, and improved biodiversity.

### Economic environment

The economy impacts our financing costs through market rate movements such as interest rates and inflation, and customers' ability to pay their bills.

#### Key trends:

- *Inflation and interest rate increases* – Inflation has been rising sharply, reaching highs not seen for over 40 years. While the peak is believed by many to have passed, rates are still very high, and this has driven government decisions to raise interest rates as well. The impacts of these market trends on our business are complex, with significant cost increases partly offset by increased allowances under the regulatory mechanism. Our activities are energy and chemical intensive, so we are particularly impacted by the sharp rises we have seen in these costs, and 55 per cent of our debt is in index-linked form and therefore impacted by inflation. We have increased wages with consideration to inflation, and our AMP7 dividend policy is growth in line with CPIH inflation to 2025. It is worth noting, however, that our regulatory capital value rises with inflation, we have £3 billion of fixed-rate debt that increases in benefit as interest rates rise and, unlike many, our low dependency pension schemes are protected from market rate movements.
- *Cost of living crisis* – Inflationary cost increases have a big impact on customers, and the country is experiencing a cost of living crisis with many households really struggling. It is typically the most deprived communities that are hit the hardest, and we have more in the North West than any other region, which makes the industry-leading affordability support we provide to customers even more critical.

### Technology and innovation

New technology and innovative ideas present opportunities for us to adapt the way we work to make things better, faster, safer and cheaper, but technology can also create risks such as cyber attacks.

#### Key trends:

- *Artificial intelligence bolstering our Systems Thinking approach* – The use of AI and machine learning has potential to improve infrastructure performance and management. Our Systems Thinking approach involves remote monitoring and control, taking a 'whole system' view of our network and

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## Strategic Report

assets, and proactive and preventative optimisation to spot and resolve issues before they impact customers. At the higher maturity levels we use AI to optimise the way we operate.

- *Cyber security* – Protecting infrastructure assets, customer information and commercial data from malicious activity is now a reality of the modern world. The global political situation in recent years with rising tensions between Russia and the West has added to the evolving threats. It is critical that we maintain a stringent approach to cyber security that evolves with new technological advances.
- *Customer expectations* – In an increasingly digital world, customers expect more from services than ever before. Technology has changed the way customers can get in touch with companies to access their bills, update their information and receive updates on services and support. As customer expectations change, we need to evolve our own services to ensure we meet those expectations.

### Regulatory environment

Regulators set minimum standards for customer service, drinking water and environmental performance, and market reform can drive change in the long term. Sustainable business means continually planning and preparing for future service improvements and potential market reforms, as well as meeting current regulatory commitments.

#### *Key trends:*

- *Current performance and preparations for AMP8* – We are subject to regulation of price and performance by various bodies, as set out in the diagram below, that protect the interests of customers and the environment and perform comparative assessments of companies' performance. We must balance incentives and requirements that can sometimes act in tension, such as the desire for rapid environmental improvements and the upward pressure this can place on customers' bills. We maintain constructive dialogue to agree commitments for improvement.

The water industry national environment programme (WINEP) sets out the actions needed to meet environmental obligations, the DWI can put in place programmes of work to improve drinking water quality, and companies must prepare and maintain long-term plans for managing water resources (WRMP) and drainage and wastewater (DWMP). Ofwat sets each company's final determination (FD) detailing revenue, required service levels, and the incentive package for five-year asset management plans (AMPs). Performance against the FD is reported in an annual performance report (APR). 2022/23 was the third year in AMP7, and in October we will submit our plan for the 2025–30 period (AMP8).

- *Future market reform* – There is a constant need to engage and monitor developments across all stages of the regulatory cycle, feeding into consultations on potential future market reforms for our industry.

## Strategic Report



\* Partnership made up of Ofwat, the Environment Agency and DWI.

### Stakeholders

Our work and the huge areas of land we manage impact a wide variety of stakeholders and we consult them to help develop and execute our plans.

### Key resources

We are reliant on each of the six capitals to deliver our purpose, and we strive to have a positive impact on those capitals through our activities in order to support our ongoing relationship with them for mutual benefit in the long term.

#### Natural capital

We rely on natural resources to supply water and take back wastewater after treatment, as well as to generate renewable energy.

#### Manufactured capital

We invest to maintain and enhance our assets and build long-term resilience, and we use telemetry to monitor and control many assets remotely.



## Strategic Report

### Intellectual capital

Innovation helps us continually improve, and understanding performance trends in our network helps us spot potential issues early and fix them proactively.

### Human capital

We rely on skilled and engaged employees and suppliers to deliver our services, and skills must be maintained through training and development.

### Social capital

The constructive relationships we have built with regulators, suppliers, and other stakeholders are fundamental to our ability to deliver our purpose.

### Financial capital

Efficient financing allows us to preserve intergenerational equity for customers while funding necessary long-term capital investment projects.

## Our approach to generating value

### Strategy

Our six strategic priorities help us deliver our purpose and drive sustainable long-term improvement for customers, the environment and society, at an efficient cost. We use adaptive planning across short, medium and long-term horizons to ensure flexibility and resilience.

#### *Key differentiators:*

- Our rigorous planning over multiple horizons
- Our multi-stakeholder approach to value creation

### Governance

We are committed to responsible business, factoring ESG matters and stakeholder priorities into decision-making at all levels of the business, and executive remuneration is linked to performance against customer, environmental and financial targets.

#### *Key differentiators:*

- Our integrated thinking
- Our diverse and inclusive culture
- Our holistic remuneration approach

### Risks and opportunities

We have a robust framework for identifying, assessing and managing risks and opportunities, with regular monitoring as well as longer-term plans to enhance our resilience to climate change. Our pioneering Systems Thinking approach and culture of innovation helps us to maximise opportunities to work better, safer and more efficiently.

#### *Key differentiators:*

- Our pioneering Systems Thinking approach
- Our culture of innovation

## Strategic Report

### Metrics and targets

We monitor and measure our performance against a range of operational metrics for each of the stakeholders we create value for, as well as financial metrics covering the income statement, balance sheet, and investor returns.

#### *Key differentiators:*

- Our multi-stakeholder value creation
- Our strong credit ratings and low dependency pension schemes with no pension deficit

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# Strategic Report

## Engaging with our stakeholders

There are many stakeholders who take an interest in the water industry, its role in society, and the North West region. Our decision-making considers the need to balance the often conflicting priorities of these stakeholders.

It is important that we understand what matters to our stakeholders and develop constructive relationships built on mutual trust. The nature of our work means we are at the heart of communities across the North West region. We interact with a large variety of stakeholders, from communities and environmental interest bodies to suppliers and regulators.

### Stakeholder views and priorities are factored into our decision-making

We engage with stakeholders to understand their views and priorities. These views are factored into strategic decision-making at board level, as set out in our S172(1) Statement on pages 23 to 25. They also feed into our materiality assessment, which gives rise to the material issues matrix on page 15, and this in turn feeds into our assessment of risks and opportunities.

### Stakeholder materiality assessment

We consider stakeholder priorities alongside our own assessment of what has the biggest impact on the company and its ability to create value. We then present the output in a material issues matrix, which can be found on page 15.

This informs decisions about what we report in documents such as this. Setting out issues in this way helps to ensure we understand key stakeholder priorities and are able to consider their interests in strategic decision-making, helping us to create long-term value.

In defining strategic relevance of an issue to the company, we have adopted the integrated reporting <IR> framework definition of materiality, which states: *“a matter is material if it could substantively affect the organisation’s ability to create value in the short, medium or long term”*.

Value, in this context, may be created internally (for the company and/or colleagues) and/or created externally (for customers, the environment, communities, and suppliers). Value may be financial or non-financial. We view this approach as consistent with the emerging concept of double materiality.

### Our materiality assessment process

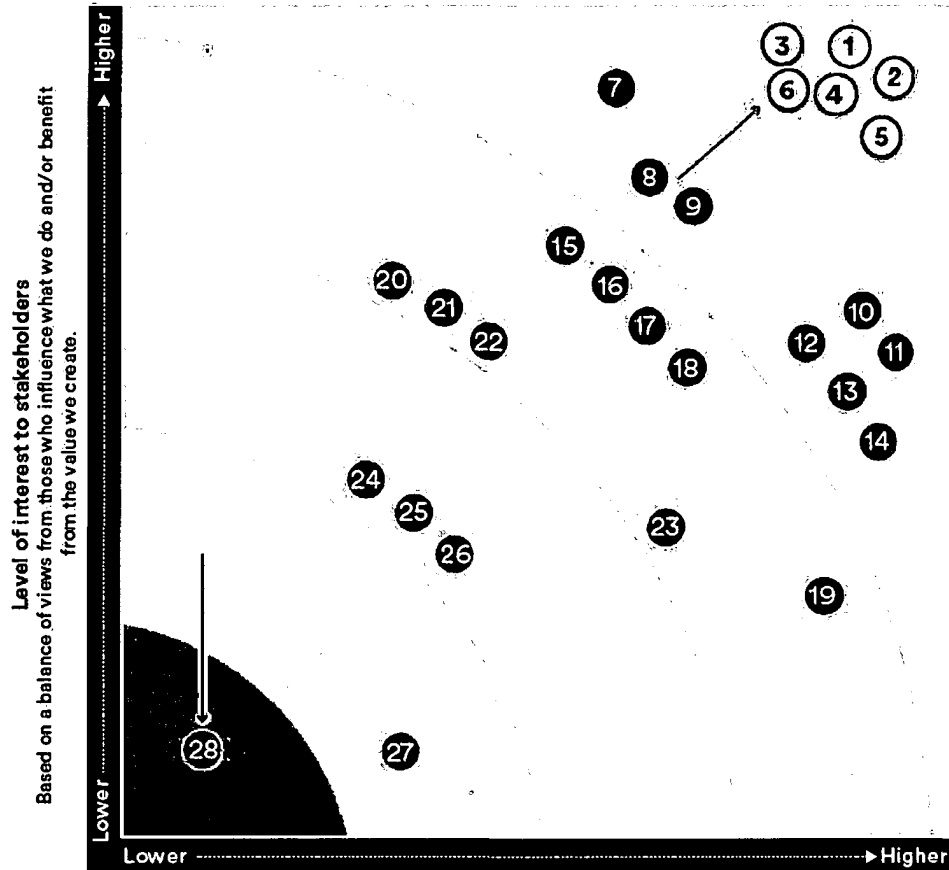
1. **Define** - We reviewed current best practice in materiality reporting. The assessment criteria for stakeholder interest and our ability to create value was confirmed. Building on our existing matrix we brought in more stakeholder views and evolved the matrix design. We committed to provide more detailed commentary on the most material issues.
2. **Engage** - Views were obtained from across all our stakeholder groups. Insight from consultations and data was made available through the engagement processes described on pages 30 to 32 of the UUG 2023 Annual report and financial statements. Key internal subject matter experts and stakeholder relationship managers provided further insight on issues.
3. **Assess** - Comments and data were drawn together to form an initial view of the issues. The rationale for issue selection and its significance was presented to senior management for discussion. This included potential new issues, removal of issues and movement of existing issues.
4. **Align** - We cross-referenced and aligned identified issues with our principal risks and uncertainties, as set out on pages 85 to 97. Matrix visuals were then created to easily

# Strategic Report

communicate the prioritisation of issues. For the first time an indication of how issues have moved since the previous review has been included.

## Materiality matrix

Issues are plotted on the matrix from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value. The most material issues are highlighted in light green.



**Effect on our ability to create value**  
 Based on the potential effect on our ability to create value over the short, medium and long term. Value can be created for United Utilities and our stakeholders. Value can be financial and non-financial.

# Strategic Report

Material Issue	Material Issue
1 Trust, transparency and legitimacy	15 Health, safety and wellbeing
2 Resilience	16 North West regional economy
3 Customer service and operational performance	17 Land management, access and recreation
4 Climate change	18 Sewage sludge to land
5 Political and regulatory environment	19 Energy management
6 Storm overflows	20 Environmental impacts
7 Affordability and vulnerability	21 Data security
8 Drinking water quality	22 Diverse and skilled workforce
9 Water resources and leakage	23 Responsible supply chain
10 Financial risk management	24 Colleague engagement
11 Corporate governance and business conduct	25 Supporting communities
12 Natural capital and biodiversity	26 Competitive markets
13 Innovation	27 Human rights
14 Cyber security	28 COVID-19

We actively engage with stakeholders to build and maintain trust and ensure we create long-term value for all. Strong, constructive relationships help us understand what matters most to them. The following pages detail how we engage with each of our key stakeholder groups across a range of ESG issues. Our analysis of what matters most to stakeholders and how these issues affect our ability to create long-term value is set out in our materiality matrix on page 15.

Our stakeholder relationships are subject to robust governance to ensure stakeholder insights are taken into account in decision-making at executive and board level. The board’s ESG committee has stakeholder engagement and reputation as one of its standing agenda items, and the chair of the independent customer challenge group (YourVoice) attends board meetings to provide its perspective. Our section 172(1) statement on pages 23 to 25 provides examples of some of the ways stakeholder views have influenced key board decisions during the year.

As shown below, there are nine key stakeholder groups that influence our planning and activities, and six of these groups benefit from the value we create. Our approach to engagement extends across all of these stakeholders. (Note that investors in this context relate mainly to investors in United Utilities Group PLC, the company’s ultimate parent).

# Strategic Report



## Colleagues

Our colleagues are the face of the company and we could not deliver our services without them, so maintaining productive relationships built on trust is vital to delivering our purpose. Colleagues know our business better than anyone, with a diverse range of views and experience, making them well placed to help us identify new ways of working and opportunities for improvement.

### How we engage

- Annual opinion survey enabling confidential feedback
- Regular manager one-to-one meetings providing two-way engagement
- Colleague Voice panel providing a link to the board
- Monthly trade union forums

### Top three material issues

- Colleague engagement
- Diverse and skilled workforce
- Health, safety and wellbeing



## Communities

Our work puts us at the heart of local communities, places where customers and colleagues live and work. We want to support them to be stronger and increase understanding of the impact and contribution our work has on everyday life. We balance decisions based on often competing stakeholder interests and look to develop collaborative and partnership solutions where feasible.

### How we engage

- Face-to-face meetings with local and parish councils to discuss projects
- Online portals for large capital projects to get the views of communities where we are working
- Facilitated workshops with partners to scope out solutions
- Public events across the region to promote sustainable uses

### Top three material issues

- Land management, access and recreation
- Supporting communities
- Trust, transparency and legitimacy



## Customers

To deliver value for customers, we need to understand their short-term issues, and longer-term expectations of us as their water company. As expectations change, we need to evolve our services to ensure we meet them. We actively seek feedback on what customers think about us so we can make our services better and address the issues that matter.

### How we engage

- Contacts through our operational call centre and social media channels
- Visits to customer properties to resolve issues. Direct customer research on our service provision
- Face-to-face engagement with groups representing vulnerable customers, such as MIND

### Top three material issues

- Drinking water quality
- Customer service and operational performance
- Affordability and vulnerability



## Environment

We depend on the environment and have a key role in protecting and enhancing it across the North West. We engage with interested groups such as environmental regulators, non-governmental organisations, campaigners and local communities to find the best ways to tackle environmental issues, like climate change and land management. Working together is often the best way to find the right solution.

### How we engage

- Meetings with national and regional environmental regulators, such as the Environment Agency
- Customer research to shape our investment plans
- Events such as our Environmental AGM
- Partnerships where we have common interests

### Top three material issues

- Storm overflows
- Climate change
- Water resources and leakage

# Strategic Report



## Investors

It is important that investors have confidence in the organisation and how it is managed. We provide regular updates to debt and equity investors and meet with many top investors to establish two-way dialogue about matters of interest to them. Increasingly, this includes environmental, social and governance (ESG) updates alongside financial and performance data.

- Capital market days and investor roadshows
- Annual general meeting open to all shareholders
- Direct dialogue with relationship banks and credit agencies
- Participation in investor-led ESG ratings and indices
- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct



## Suppliers

We rely on suppliers to deliver our services. Good relationships help ensure projects are delivered on time, to good quality, at efficient costs. Awareness of issues in the supply chain means we can address them together and become more resilient. Supplier engagement can also help us identify and realise innovative approaches and solutions.

- Directly through supplier relationship management process and United Supply Chain (USC)
- Setting challenges through our Innovation Lab
- Supplier databases such as Achilles, to assess market opportunities
- Trust, transparency and legitimacy
- North West regional economy
- Responsible supply chain



## Media

The media is influenced by stakeholders' interests, and in turn influences them through what it reports. Many people receive their information about us and our activities from traditional and/or social media, so it is important that coverage is fair, balanced and accurate. This requires effective two-way dialogue between the company and the media, and we provide media training to key senior managers to facilitate this.

### How we engage

- 24/7 press office available to respond to media requests and publish content for direct media use
- Dedicated social media team covering multiple channels
- Active media and social monitoring focused on the company and sector

### Top three material issues

- Storm overflows
- Customer service and operational performance
- Trust, transparency and legitimacy



## Politicians

Politicians influence the long-term national water strategy and environmental priorities, matters that affect how all businesses operate, and champion issues raised by their constituents. Local government, elected representatives and devolved administrations provide insight into shared social, environmental, economic and governance issues across the North West.

### How we engage

- Direct engagement with regional and national politicians across the spectrum, and working groups with devolved administrations and local authorities on common interests
- Direct engagement with parish councils linked to planning applications
- Responding to enquiries through our corporate affairs team

### Top three material issues

- Political and regulatory environment
- Customer service and operational performance
- Affordability and vulnerability



## Regulators

Through proactive, constructive engagement with economic, quality and environmental regulators, we understand requirements and deliver against commitments over specified time periods, aiming to meet or exceed the expectations they have of our business. We actively engage in events such as workshops and respond to consultations to contribute towards the policy and regulatory framework in which we operate, covering customer, economic, environmental, social and governance matters.

### How we engage

- Regular meetings with all regulators on objectives and performance
- Responses to consultations and contributing to policy debates on how regulation could evolve

### Top three material issues

- Political and regulatory environment
- Customer service and operational performance
- Resilience

## Our planning horizons

### **We plan for long, medium and short-term horizons to deliver our purpose in a sustainable way.**

We take an integrated approach to everything we do. To help us create and prioritise our plans, we consider:

- what the material issues are, both in terms of the level of interest to stakeholders and the effect they may have on our ability to create value;
- our assessment of principal risks and opportunities;
- our environmental, social and governance (ESG) commitments, including our net zero transition plan; and
- how our plans will fit with our Systems Thinking approach.

We undertake planning for long, medium and short-term horizons.

Long-term planning looks out 25 years and more. This helps us identify what we need to do to manage risks and opportunities that may arise, building resilience to ensure we can provide our essential services to customers far into the future.

Medium-term planning covers how we will deliver the commitments of our final determination for the current regulatory period (AMP7), as well as our non-regulatory activities, and our plans for the next five-year period (AMP8), therefore this currently extends out to 2030.

Short-term planning, for the next financial year, enables us to monitor and measure progress against our longer-term targets. We retain flexibility in our one-year plans to meet our five-year targets in the most effective and efficient way as circumstances change.

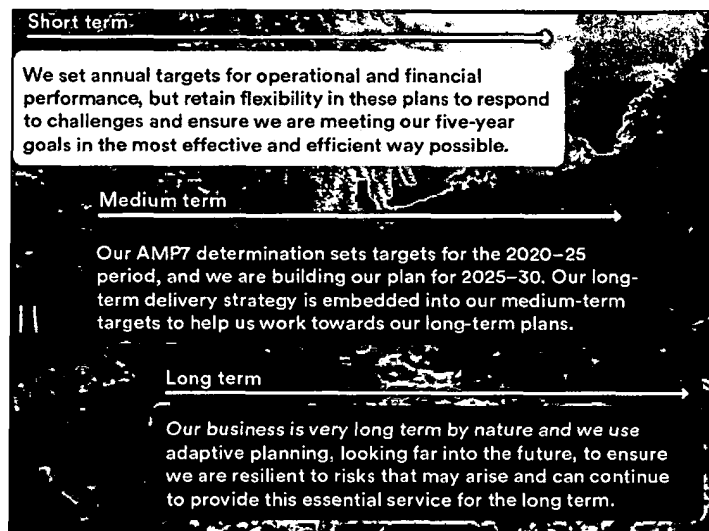
### **Metrics and targets**

We set targets across each of these planning horizons, with our shorter term targets helping us to ensure we are on track to deliver our longer-term ones. The metrics we track include key risk indicators, enabling us to adapt our plans to meet changing conditions, and performance metrics to continuously assess how we are doing against our targets. We use a wide variety of performance metrics, both operational and financial. These help us to measure the value we are creating for all of our stakeholders, and we have selected three operational key performance indicators (KPIs) for E, S and G, as well as monitoring various other performance metrics of interest to these stakeholders.



## Strategic Report

### Our planning horizons



### Long-term planning (up to 2080)

We plan far into the future to ensure we can respond to risks and opportunities that may arise.

To maintain a reliable, high-quality service for customers long into the future, we need to anticipate and plan for things that may impact on our activities. This includes monitoring the age and health of our assets, keeping track of innovations and advancements in technology, and looking at current and predictive data from various sources to track key risk indicators (e.g. economic forecasts, expectations for population growth, climate and weather predictions, legal and regulatory consultations and changes).

We review this information as part of our long-term planning and risk management processes, through which we assess and manage opportunities and risks such as climate change, population growth, a more open, competitive market, water trading, more stringent environmental regulations, developments in technology, and combining affordable bills with a modern, responsive service.

Our website has a dedicated section where we examine key long-term challenges and how we will focus our resources and talents to meet them.

You can find our long-term plans, such as:

- Water Resources Management Plan – setting out the investment needed to ensure we have sufficient water to continue supplying customers, taking into account the potential impacts of climate change, covering a 25-year period and considering consumption and climate forecasts out to 2080;
- Drought plan – setting out the actions we will take to manage drought risk, updated every five years; and
- Adaptation report – setting out the current and future predicted impacts of climate change on the business and our proposals for adapting to a changing climate.

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## Strategic Report

Our long-term delivery strategy out to 2050 is embedded into our plans for AMP8, and we are developing a Drainage and Wastewater Management Plan – examining the risks around flooding, pollution, storm overflows, and wastewater treatment over a 25-year period – that will be published in 2024.

We use whole-life cost modelling and maintain a robust financing structure to ensure we can invest efficiently to meet our long-term plans. Our training and development, graduate and apprenticeship programmes, and work with schools to encourage STEM careers, all helps to ensure we retain the skills we need in the North West to continue delivering these plans.

Read about our future plans at: [unitedutilities.com/corporate/about-us/our-future-plans](https://unitedutilities.com/corporate/about-us/our-future-plans)

### Medium-term planning (up to 2030)

Aligned to the commitments in our AMP7 determination and our plans for AMP8.

The majority of the group's activities sit in our regulated water and wastewater business, so our medium-term planning mostly sets out how we will deliver against the commitments in our final determination from Ofwat for each five-year period, and our plans for the next five-year period.

To ensure we deliver for all stakeholders, including customer preferences and environmental requirements, we align our plans to these priorities in line with key published methodologies.

Our medium-term plans are designed to help us work towards our long-term delivery strategy, build and maintain resilience, and fulfil our purpose.

We engage in extensive research to ensure our plans are robust and balanced, targeting the best overall outcomes for all our stakeholders.

Following scrutiny and challenge from Ofwat, we receive the final determination, which sets the price (in terms of total expenditure recovered through customer bills), service level, and incentive package that we must deliver over the five-year period. This includes an expected return to meet financing costs.

Adaptive planning is important in meeting our medium-term targets in the most effective and efficient way. During the current 2020–25 period we have adapted our total expenditure (totex) in two ways.

Firstly, we accelerated our capital programme, with around £500 million of totex brought forward over the first three years, delivering improvements early and making a strong start to our plans.

Secondly, we extended our totex by £765 million to deliver customer and environmental improvements, accelerating delivery of the Environment Act 2021 and improving performance against customer outcome delivery incentives (ODIs).

Our strategy helps us create value for our stakeholders by delivering or outperforming the final determination. We publish an annual performance report (APR) in July of each year, which reports our performance in a format that is comparable across the sector. This includes Return on Regulated Equity (RoRE), which comprises the base allowed return and any out/underperformance.

Our APR will be available at [unitedutilities.com/corporate/about-us/performance/annual-performancereport](https://unitedutilities.com/corporate/about-us/performance/annual-performancereport)

Information on companies' regulatory performance can be found at [discoverwater.co.uk](https://discoverwater.co.uk)

### Short-term planning (1 year)

We set annual, measurable targets, but retain flexibility to enable us to respond to challenges that may arise.

Short-term planning helps us work towards our medium and long-term goals and provides us with measurable targets so we can continually monitor and assess our progress.

## Strategic Report

Before the start of each financial year, which runs from 1 April to 31 March, we develop a business plan that is reviewed and approved by the board. This sets our annual targets to deliver further improvements in service delivery and efficiency, and help towards our longer-term goals.

Performance against these annual targets determines the bonus percentage that is awarded to executive directors and colleagues right through the organisation.

In order to avoid encouraging short-term decision-making and ensure management is focused on the long-term performance of the company, executive directors are also remunerated through a long-term incentive plan (LTP). This assesses three-year performance and includes return on regulated equity (RoRE), a basket of customer measures, and our carbon pledges.

Executive directors hold regular business review meetings with senior managers across the business to track progress against our annual targets.

It is vital that we retain flexibility within this short-term planning so we can adapt to meet challenges that may arise during each year, and deliver high-quality and resilient services to customers in the most effective and cost-efficient way possible.

This may involve bringing enhancements forward to deliver improvements for customers early, investing further into the business to maintain service, or delaying projects to occur later in the regulatory period in order to prioritise expenditure and focus our time on dealing with unexpected challenges that arise.

The severe freeze-thaw we experienced this year demonstrates how we adapt our short-term plans to focus efforts on immediate challenges. Read more on page 48 of the UUG 2023 Annual report and financial statements about the actions we took to maintain services during this time, the impact on our activities, and how we are still managing the aftermath of this extreme weather event.

The challenges presented by COVID-19 in 2020 were another example that showed why this flexibility was crucial and how effectively we managed this significant and sudden change.

Read more about the annual bonus and LTP in our remuneration report on pages 170 to 203 of the UUG 2023 Annual report and financial statements.

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## Strategic Report

### S172(1) Statement

#### Our key decisions during the year to 31 March 2023.

Throughout the United Utilities PLC Annual Report and Financial Statements, we provide examples of how we have thought about the likely consequences of long-term decisions and how we:

- build relationships with stakeholders and balance their needs and expectations with those of the business;
- understand the importance of engaging with our colleagues;
- understand the impact of our operations on the communities in our region and the environment we depend upon;
- are mindful of the interactions we have with our regulators; and
- understand the importance of behaving responsibly and being consistent with the company's purpose, values and strategic priorities.

#### Statement by the directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006

The board of directors of United Utilities PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2023 including:

#### Cyber Security

##### The decision

To respond to calls from investors and company commentators on the board's oversight of cyber issues and security. Cyber risk ranked as a top ten risk at United Utilities and this has been the case since 2019. The board receives presentations from the chief security officer, who reports functionally to the company secretary, twice a year, providing the board with insight into mitigation activities employed by the group in response to the evolving threat of cyber and physical security attacks. The board is kept apprised of developments in this area, and, in particular, matters impacting the water and other utility sectors. During the year, the audit committee, as part of its responsibility for financial internal controls, received a presentation on the management and assurance of the IT controls environment and its contribution toward mitigation of cybercrime. The board spends time understanding the increasing threats to the group's cyber/digital security and overseeing management's actions to mitigate the risk of a serious cyber-attack, with board members providing their experience of similar issues faced by other sectors to the board's discussions. Our Systems Thinking approach real-time digital monitoring capabilities have produced significant operational performance improvements, but adversely raised the risk of cyber-attack, in a similar way to that of hybrid working.

##### How we engaged with stakeholders

Preparedness to mitigate cyber-attacks is a topic investors are often keen to explore. As a provider of essential services for UK Critical National Infrastructure the group is governed by The Network and Information Systems Regulations (NIS Regulations), which came into force in 2018 and focuses on cyber security compliance; monitoring/enforcement of these regulations is within the remit of the DWI. The group is required to comply with the Security and Emergency Measures Direction (SEMD) which directs water undertakers to maintain plans to provide a supply of water at all times and includes security components. A SEMD report is submitted annually to DWI and is subject to independent attestation prior to the submission. Colleagues are encouraged and trained to be vigilant to phishing and cyber-attacks and a variety of modern protective defence tools are employed to protect our systems and data.

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## Strategic Report

### **The board's view**

The group's information security policies and compliance are aligned to ISO 27001. Good progress is being made with the programme of work to comply with the NIS Regulations, although the evolving nature of the sector-specific profile defined by the DWI can be challenging.

The board is strongly averse to accepting cyber risk within the group's business strategy or operational activity. The approach to the protection of information and data held by the group about its assets and operations, customers and colleagues is aligned with the group's strategic priority of delivering great service for all customers and the board believes that this would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

### **Better Rivers: Better North West**

#### **The decision**

Storm overflows help to minimise the risk of sewer flooding in periods of heavy rainfall by allowing heavily diluted wastewater to be released directly to the environment. The group committed to four pledges in support of the 'Better Rivers: Better North West' programme to underpin a revival of rivers across the North West region. £230 million has been committed to deliver environmental improvements, supporting at least a one-third sustainable reduction in the number of activations recorded from our storm overflows by 2025 compared to the 2020 baseline, leading to 184 kilometres of improved waterways across the group's region, and we have committed to accelerate these plans and get a head start on future requirements through £250 million of reinvestment funded from outperformance, to take action to improve river health across our region and make other environmental improvements.

#### **How we engaged with stakeholders**

Collaborative action will deliver the best results for our region, and an important step in the journey was the organisation and participation in the Future Rivers Forum in November 2022, which brought together representatives from environmental NGOs, businesses, local authorities and our regulators to focus on identifying new collaborations and collective actions to improve river health. Customers have told us we must report on the steps we are taking to improve river health. Our Storm Overflows report was published in December 2022, coinciding with the holding of the first Environmental AGM, which was attended by over 30 North West environmental leaders including representatives from local nature partnerships, wildlife trusts, rivers trusts combined authorities and other environmental stakeholders. A new partnership was launched with farmers to work with the farming community to incentivise farming practices that reduce the impact to river health, share best practice and develop sustainable farming clusters.

#### **The board's view**

Storm overflow activations are a big area of focus for the whole industry as part of improving river health. Following keen interest from the public and government, and publication of the new Environment Act 2021, ambitious targets have been set for a progressive but substantial reduction in activation frequency across the country. The North West receives 28 per cent more average annual water runoff than other regions and the industrial legacy of our region means we have a much higher proportion of combined sewers, with 55 per cent of our network taking both waste and surface water, compared with the industry average of 33 per cent.

We were an early adopter of activation monitoring and have one of the largest installed bases in the sector, with 100 per cent coverage to be achieved by 2023. Our Better Rivers programme is delivering improvements that support our target of at least a 33 per cent reduction in activations by 2025, from a 2020 baseline. We have already made great headway, delivering a 39 per cent reduction so far. We are conscious that performance can be significantly influenced by weather and while we are extremely pleased with the progress delivered so far, we recognise that there is more we could do, both individually and as a sector. The government has asked us to go faster, and we have responded by identifying additional investment that could be spent in AMP7 but would be fully recovered in AMP8. We are still

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## Strategic Report

early in the process of scoping and costing our environmental programme for AMP8, but as a result of these targets and other drivers coming out of the Environment Act, early indications point to an investment that could be significantly higher than the average level over the last two AMP periods. Given the size of this potential investment, we are in discussions with regulators about balancing the pace of investment in light of affordability and deliverability considerations, and the investment needed to meet these new environmental requirements is likely to run over successive AMP periods.

The board, in committing to playing its part in improving river health, believes this would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

### **Water Industry National Environment Programme (WINEP)**

#### **The decision**

Approval of the 2025–30 WINEP that sets out how United Utilities intends to meet its obligations from environmental legislation and UK Government policy.

#### **How we engaged with stakeholders**

We have been working in collaboration with our regulators, Ofwat, the Environment Agency, Natural England and Defra, and our suppliers who are key to helping us deliver our programme.

#### **The board's view**

The company has taken all reasonable steps to deliver a high quality WINEP programme that offers 'best value' as defined by the WINEP Options Development Guidance(1) as well as the Water Industry Strategic Environmental Requirements (WISER) based on a sound and robust evidence base. In relation to the 'affordable to deliver' requirement for a best value plan, the company has sought to make the plan as affordable as possible. However, the WINEP and WISER requirements are driving a programme of very significant size and scale and with an ambitious timetable for implementation. This means that it is not possible at the time of the WINEP final submission in January 2023 to conclude that the programme would be affordable to customers as a whole. The company will continue to engage with the UK Government and regulators to understand the scope to improve this position. The WINEP programme has been subject to sufficient processes and internal systems of control to ensure the reliability of information and has been assured in line with the published assurance framework. The company has appropriately considered the feedback and recommendations from independent external assurance partners.

Notwithstanding the board's support for the submission, it highlighted the considerable risk associated with the programme including the risk relating to: affordability, deliverability, the long-term impact on operating costs, the impact on whole life carbon, and the impact on operational and delivery performance. The submission of the WINEP is a statutory requirement and having taken all reasonable steps to deliver a high-quality WINEP programme the board believes our proposed programme is one that would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

## Strategic Report

### Non-financial information statement

The table below constitutes the company's non-financial information statement, produced to comply with sections 414CA(1) and 414CB(1) of the Companies Act 2006. Our purpose-driven approach, as described on page 17, sets out how we act as a responsible business and is applicable to the areas of disclosure required by s414CB(1). A brief description of our business model is set out on pages 8 to 13. Read more about our purpose on our website at: [unitedutilities.com/corporate/about-us/what-we-do/our-vision](https://unitedutilities.com/corporate/about-us/what-we-do/our-vision)

The composition of the UU PLC Board mirrors that of the UUG Board and therefore the non-financial information statement should be read in conjunction with the UUG 2023 Annual report and financial statements. Page references in the below table are to the relevant areas of the UUG Annual report and financial statements, with much of the information also incorporated within the UU PLC Annual report and financial statements.

We demonstrate that we are fulfilling our purpose in the performance section on pages 84 to 119 of the UUG 2023 Annual report and financial statements.

Reporting requirement	Information necessary to understand our business and its impact; policies and due diligence activities; and outcomes	Policies, guidance and standards which govern our approach (some of which are only published internally)
<b>Environmental matters</b>	Reflecting the needs of the environment: <ul style="list-style-type: none"> <li>• Natural resources – see pages 35 and 88</li> <li>• Natural environment – see pages 20 and 24</li> <li>• Energy and carbon report – see pages 93</li> <li>• TCFD and TNFD reporting – see page 5</li> </ul>	<ul style="list-style-type: none"> <li>• Waste and resource use policy</li> <li>• Environmental policy – see the responsibility pages on our website</li> <li>• Water Resources Management Plan – see page 41</li> <li>• Climate change mitigation policy</li> </ul>
<b>Colleagues</b>	Reflecting the needs of our colleagues: <ul style="list-style-type: none"> <li>• Health and safety – see pages 35, 49, 53, 64, 66, 73, and 100 to 102</li> <li>• Mental wellbeing – see pages 35, 49, 53, and 73</li> <li>• Competitive base salaries and benefits – see page 186</li> <li>• Gender pay report 2022 – see page 55</li> <li>• Engagement – see pages 35, 56, and 100 to 102</li> <li>• Board diversity – see page 143</li> </ul>	<ul style="list-style-type: none"> <li>• Health and safety policy</li> <li>• Mental wellbeing policy</li> <li>• Equity, diversity and inclusion policy</li> <li>• Flexible working arrangements</li> <li>• Agency worker policy</li> <li>• Human rights policy – see pages 73, 76, and 108</li> <li>• Board diversity policy – see page 143</li> </ul>
<b>Respect for human rights</b>	Reflecting the needs of our stakeholders: <ul style="list-style-type: none"> <li>• Suppliers – see page 108</li> <li>• Diversity within our workforce – see pages 35, 49, 54 to 55, 65, 73, 76, 82, and 100 to 102</li> </ul>	<ul style="list-style-type: none"> <li>• Colleagues data protection policy</li> <li>• Slavery and human trafficking statement</li> <li>• Human rights policy – see pages 73, 76, and 108</li> </ul>
<b>Social matters</b>	Reflecting the needs of our stakeholders: <ul style="list-style-type: none"> <li>• Customers – see pages 37, 57, 66, and 76 to 77</li> <li>• Communities – see pages 37, 56, 66, and 77</li> <li>• Environment – see pages 56, 66, and 76</li> <li>• Suppliers – see pages 53, 56, 66, 73, 76, and 108</li> <li>• Regulators – see pages 57 and 64</li> </ul>	<ul style="list-style-type: none"> <li>• YourVoice – see page 138</li> <li>• Charitable matched funding guidance</li> <li>• Volunteering policy</li> <li>• United Supply Chain – see pages 53, 108, and 213</li> <li>• Commercial procurement policy</li> </ul>
<b>Anti-corruption and anti-bribery</b>	Reflecting the needs of employees and suppliers: <ul style="list-style-type: none"> <li>• Colleagues – see pages 38, 64, 137, and 167</li> <li>• Suppliers – see pages 56, 108, 167, and 107 to 108</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-bribery policy</li> <li>• Fraud investigation and reporting processes</li> <li>• Whistleblowing policy</li> <li>• Internal financial control processes</li> <li>• Commercial procurement policy</li> </ul>

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## Strategic Report

### How we measure our performance

We monitor and measure our performance against a range of operational metrics for each of the stakeholders we create value for, as well as financial metrics covering the income statement, balance sheet, and investor returns.

#### Our key performance indicators

We measure our performance against a selection of key performance indicators (KPIs), both operational and financial. These are unchanged from last year.

Bonuses (for executive directors and employees right through the business) and long-term incentives for executive directors, are closely aligned to many of our operational and financial KPIs.

**Operational KPIs** - Our purpose drives us to create long-term value for all our stakeholders, and we report against one operational KPI for each of the six stakeholders for whom we create value. More detail on these operational KPIs, including our targets and performance this year, can be seen on pages 28 to 30.

**Financial KPIs** - We have selected financial KPIs that assess both profitability and sustainability of our business from a financial perspective. These are monitored and measured at the UUG level.

More detail on these financial KPIs, including our targets and performance this year, can be seen on pages 10 to 11 of the UUG 2023 Annual report and financial statements.

#### Our other performance indicators

Our KPIs are by no means the only measures by which we monitor and assess our performance. We report against many other metrics both internally and externally. As discussed on pages 14-18, our stakeholder engagement gives us a view of what matters most to them. We report on a selection of material ESG measures on pages 84 to 111 of the UUG 2023 Annual report and financial statements based on the issues shown to be of highest interest to our stakeholders, including climate and nature-related metrics. These measures relate to the group unless stated otherwise in the performance tables where they relate to the regulated entity, United Utilities Water Limited. We regularly report on numerous ESG performance measures on our website at: [unitedutilities.com/corporate/responsibility/our-approach](https://unitedutilities.com/corporate/responsibility/our-approach).

#### Assurance of performance metrics

All these performance indicators have received an appropriate level of assurance, such as independent third-party verification, regulatory reporting assurance processes, or through our own internal audit team. The performance tables on pages 84 to 119 of the UUG 2023 Annual report and financial statements state what level of assurance has been obtained for each metric, and the sections of this report that have received external assurance are marked as such on the relevant pages, including the figures in our energy and carbon report and our remuneration report. These audit opinions can be found on our website at: [unitedutilities.com/corporate/responsibility/our-approach/esg-performance/](https://unitedutilities.com/corporate/responsibility/our-approach/esg-performance/)

#### Our Annual Performance Report (APR)

Performance against our regulatory contract is monitored and assessed each year, and reported within the annual performance report (APR), as required by our economic regulator Ofwat. We include several regulatory performance measures within this report. Our APR provides more details, as well as further narrative, about our regulatory performance during the year.

There is financial information contained within the APR. This relates only to the regulated company, United Utilities Water Limited, and its appointed activities, and is calculated in accordance with the regulatory accounting framework. This differs from IFRS reporting, and a reconciliation to IFRS reporting is provided in the APR.



# Strategic Report

For the purposes of clarification, our financial KPIs relate to performance at the group level, and are calculated within the definitions given in this report. Our previous year APRs are available on our website, and the APR for 2022/23 will be published in July 2023.

Read more on APR on our website.

## Our key performance indicators (KPIs)

### Our operational key performance indicators

Delivering our purpose is about more than just providing customers with water and removing wastewater. Our operational key performance indicators (KPIs) provide an overview of how we are creating a stronger, greener and healthier North West.

#### Providing great water...



We measure the provision of our core services through a host of measures, including how we are doing against our regulatory performance commitments, where we have met or exceeded 83 per cent of these targets this year – our best ever performance. C-MeX is a regulator-compiled assessment that measures overall customer satisfaction with our services, and we use this as our KPI for customer service.

#### ...for a stronger, greener and healthier North West

Our industry-leading environmental performance with zero serious pollution incidents, Better Rivers programme driving a 39 per cent reduction in storm overflow activations, and the progress we are making in reducing our carbon footprint, are all helping to protect the natural environment in the North West. We provide an industry-leading package of affordability support, and have continuously improved our colleague accident frequency rate every year for the last five years. We invest in communities, spend money wisely and efficiently, and our strong governance and responsible business approach contribute to consistently strong performance against a suite of investor ESG indices.

Our performance against these operational KPIs is reported below.

**KPI status key**

Met expectation/target  Close to meeting expectation/target  Behind expectation/target

## ENVIRONMENTAL

**Better Rivers: Better North West commitments achieved**  **Met expectation/target**

**Target:** 95% of programme milestones delivered by 2025

**FY23 performance:** All of this year's milestones have been delivered, making good progress towards our targets for 2025, and we have driven a 39 per cent reduction in reported storm overflow activations since 2020. Including hosting our first Environmental AGM, publishing our Better Rivers report and undertaking our first citizen science event at Windermere.

## Strategic Report

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### Carbon pledges



#### Met expectation/target

Target:

1. 42% reduction of scope 1 & 2 emissions from our 2020 baseline by 2030
2. 100% renewable electricity by 2021
3. 100% green fleet by 2028
4. 1,000 hectares of peatland restoration by 2030
5. Plant one million trees to create 550 hectares of woodland by 2030
6. Set a scope 3 science-based target by 2021

FY23 performance: We have plans for 200 electric vehicles in the next 18 months, are more than halfway to our 2030 peatland target, and are making good progress on woodland creation despite slower planting this year due to weather and tree disease. We are working with construction partners to reduce scope 3 emissions, with 23 per cent having set science-based targets.

### EA's Environmental Performance Assessment (EPA) rating



#### Met expectation/target

Target: Upper quartile performance within the water industry each year

FY23 performance: The most recent assessment is for 2021, when we were awarded the maximum four stars for the second year running, meaning we were classed by the Environment Agency as an industry-leading company. The EA will publish its annual assessment for 2022 in July 2023.

## SOCIAL

### Colleague engagement



#### Met expectation/target

Target: At least as high as Utilities norm benchmark

FY23 performance: We have achieved a strong set of results this year, scoring well against external benchmarks, and despite falling slightly since last year our overall engagement score is higher than both the UK norm and Utilities norm benchmarks.

### C-MeX ranking



#### Close to meeting expectation/target

Target: Upper quartile against water and sewerage companies (WASCs)

FY23 performance: We were once again the top ranked listed company for customer satisfaction, ranked fourth among the 11 water and sewerage companies (WASCs) and fifth overall out of all 17 companies including those that provide water-only services. We expect to earn a £3 million reward this year.

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## Strategic Report

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### Customers lifted out of water poverty

● Met expectation/target

Target: At least 66,500 customers lifted out of water poverty by 2024/25

FY23 performance: We have helped more than 80,000 customers out of water poverty. The increase on last year has been driven by the number of customers supported via lower bill tariffs providing critical affordability support in the face of an increasing cost of living.

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## GOVERNANCE

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### Capital programme delivery incentive (CPDi)

● Met expectation/target

Target: At least 85%

FY23 performance: We exceeded our target of at least 85 per cent, delivering strong performance against the new CPDi measure, which places greater emphasis on efficiency compared with our previous time:cost:quality index (TCQi) metric.

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### Community investment

● Met expectation/target

Target: Average community investment between 2020 and 2025 to be at least 10 per cent higher than the average between 2010 and 2020 of £2.56 million per annum

FY23 performance: We achieved our £2.82 million annual target for community investment, contributing £2.88m. This was through increased investment in environmental and community partnerships, delivery of education in schools, and the contribution of time volunteered by our colleagues across the business.

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### Performance across a range of trusted investor indices

● Met expectation/target

Target: Upper quartile







FY23 performance: Our approach to responsible business has ensured consistent upper quartile performance across a range of ESG ratings and indices. We are a member of the Dow Jones Sustainability World Index, improved our latest CDP score to A-, and in the Sustainalytics assessment we continue to be classified as low risk and a top ten performer in the Utilities industry group.

## Strategic Report

### Our financial key performance indicators

We monitor six financial key performance indicators, for which targets and performance assessments are completed at the UUG level. As UU PLC makes up over 100 per cent of UUG assets, 100 per cent of UUG revenue and 100 per cent of UUG operating profits, the company KPIs are aligned to those of UUG and the outcomes are materially the same.

These financial KPIs in UUG, and performance against them in the year, is as follows:

Underlying operating profit		Behind expectation/target
Underlying earnings per share		Behind expectation/target
Dividend per share		Met expectation/target
Gearing		Met expectation/target
Total shareholder return		Close to meeting expectation/target
Return on regulated equity		Met expectation/target

More detail on these KPIs can be found on pages 12 and 13 of the UUG 2023 Annual report and financial statements.

### Operational performance

#### Delivering improvements in performance for customers and the environment

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

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

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

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

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## Strategic Report

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

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

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

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

### Driving a step change in river health

Communities are concerned about the country's rivers and particularly the impact of storm overflows. We have listened, understand the strength of feeling and we agree that we need to go further and faster to reduce the number of storm overflow activations. Overflows have been a core feature of the sewer network in the UK and around the world for more than a century. We recognise that the time has come to change this and a step change is needed. Achieving this will take significant time and sustained, new investment. The North West has more rainfall and more combined sewers than elsewhere in the country, as well as a very large network. We are committed to delivering the changes needed as quickly and effectively as possible.

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

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

### Creating a greener future

We continue to work towards our 2050 net zero ambition, underpinned by ambitious science-based targets. We are making good progress against our six carbon pledges, and have reduced our scope 1 and 2 greenhouse gas (GHG) emissions by a further 1.5 per cent this year. Our peatland restoration and

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## Strategic Report

woodland creation programmes help to protect water and other natural resources, support nature, and enable recreational access, as well as acting as natural carbon 'sinks' to help mitigate climate change.

We own and manage 56,000 hectares of land, which provides scope for the development of renewable and other clean technologies. Having previously delivered a portfolio of renewable assets across the North West, we are now moving to the next stage of the journey to net zero.

As an initial step, we are working on plans to develop 150 megawatts of new installed capacity by 2030. This programme could comprise a combination of solar, wind and batteries, helping to deliver emissions reductions and further improve both operating and financial resilience.

### **Supported by a talented, diverse and engaged workforce**

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

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

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

### **Building an ambitious future plan**

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

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

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

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

## Strategic Report

support customers with affordability challenges and we are planning to strengthen our industry-leading affordability support package as we head into AMP8.

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

### Thanks to our stakeholders for their continued support

The commitment and passion of each and every colleague within United Utilities to deliver fantastic services for customers, for the environment, and for each other is clear, and for that we say a huge thank you. Looking to the opportunities that are ahead of us in the next regulatory period and beyond, we could not have a better team to deliver on these opportunities. We also extend our thanks to customers and other stakeholders for their continued support.

## Financial performance

This has been a challenging year for the business. Revenue declined 2 per cent, mainly driven by lower than expected consumption while underlying operating profit fell 28 per cent or £169 million, primarily due to the reduction in revenue and inflationary pressures on core costs, particularly power and chemicals. The higher inflation has also significantly increased non-cash interest expense on our index-linked debt, which alongside the lower operating profit, has resulted in an underlying profit for the year of £36.6m.

However, the inflation linkage for both the Regulatory Capital Value (RCV) and the allowance for total expenditure (Totex), provides additional longer term value that is not reflected in the income statement. This has contributed to a robust economic performance, including an increase in our return on regulated equity of 11.0 per cent.

### Revenue

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

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

In 2022/23 we had a £70 million increase in the revenue cap due to regulatory adjustments, incorporating £21 million in relation to ODI rewards earned in 2020/21 and a 4.6 per cent CPIH-linked increase partly

## Strategic Report

offset by 1.3 per cent real reduction in allowed wholesale revenues as set out in our PR19 Final Determination.

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

### Operating profit

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

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

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

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

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

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

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



## Strategic Report

### Profit before tax

	£m
Underlying profit before tax – year to 31 March 2022	322.8
Underlying operating profit decrease	(169.2)
Underlying net finance expense increase	(133.8)
Share of JVs losses decrease	1.8
<b>Underlying profit before tax – year to 31 March 2023</b>	<b>21.6</b>
Adjusted items *	290.6
<b>Reported – year to 31 March 2023</b>	<b>312.2</b>

\* Adjusted items are set out on pages 42 to 43.

Underlying profit before tax of £22 million compared to a £323 million underlying profit before tax last year. The £301 million difference reflects the £169 million reduction in underlying operating profit and a £134 million increase in underlying net finance expense, partly offset by a decrease in the share of losses of joint ventures of £2 million. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 42 to 43.

Reported profit before tax decreased by £149 million to £312 million reflecting the £169 million decrease in reported operating profit and a £13 million increase in reported net finance expense, partly offset by a £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited, and a decrease in the share of losses of joint ventures of £2 million.

- Net finance expense

The underlying net finance expense of £419 million was £134 million higher than last year mainly due to significantly higher inflation resulting in a £520 million increase in the non-cash indexation on our debt and derivative portfolio, partly offset by higher capitalised interest of £127 million (2022: £53 million) and higher net pension interest income of £29 million (2022: £14 million).

Cash interest of £39 million was £59 million lower than last year. Cash interest excludes non-cash items mainly comprising the indexation on our debt and derivative portfolio, capitalised interest and net pension interest income.

Reported net finance expense of £160 million was £13 million higher than last year, reflecting the £134 million increase in the underlying net finance expense, partly offset by a £123 million increase in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £138 million last year to £260 million this year.

- Joint ventures

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

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### Profit after tax

	£m
Underlying profit after tax – year to 31 March 2022	383.9
Underlying profit before tax decrease	(301.2)
Reduction in underlying tax credit	(46.1)
<b>Underlying profit after tax – year to 31 March 2023</b>	<b>36.6</b>
Adjusted items *	213.6
<b>Reported – year to 31 March 2023</b>	<b>250.2</b>

\* Adjusted items are set out on pages 42 to 43.

The underlying profit after tax of £37 million is £347 million lower than the underlying profit after tax of £384 million last year, reflecting the £301 million reduction in underlying profit before tax and a £46 million reduction in underlying tax credit.

Reported profit after tax is higher at £250 million with the adjusted items between underlying and reported profit after tax set out on pages 42 to 43.

- Tax

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

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

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

The group recognised a current tax credit of £15 million, mainly due to a prior year adjustment to recognise the utilisation of tax losses previously assumed to be carried forwards.

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

There are £171 million of tax adjustments recorded within other comprehensive income, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

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### Cash flow

Net cash generated from continuing operating activities for year to 31 March 2023 was £772 million, £157 million lower than £929 million last year, principally due to the reduced revenue of £38 million and inflationary impacts on costs of £81 million.

The net cash generated from continuing operating activities supports the dividends paid for the year of £301 million and partially funds some of the group's net capital expenditure of £689 million, with the balance being funded by net borrowings and cash and cash equivalents. This forms part of a £2.0 billion capital programme undertaken in the first three years of the period, representing 62 per cent delivery of our AMP7 programme. We have been able to deliver this expenditure effectively, scoring 92.9 per cent against our Capital Programme Delivery incentive (CPDi) measure this year.

### Pensions

As at 31 March 2023, the group had an IAS 19 net pension surplus of £601 million, compared with a surplus of £1,017 million at 31 March 2022. This £416 million decrease principally reflects a decrease in the value of the schemes' assets due to changes in financial conditions over the course of the financial year, as well as experience losses resulting from actual inflation being higher than assumed at 1 April 2022. This more than offsets the significant reduction in the schemes' liabilities during the year due to an increase in the average discount rate since the start of the year and a lower long term RPI assumption.

Further detail on pensions is provided in note 18 ('Retirement benefits') of the financial statements.

### Financing

Net debt	£m
At 31 March 2022	7,654.2
Cash generated from operations	(804.3)
Net proceeds from disposal of subsidiary	(90.5)
Net capital expenditure	688.9
Movement in loans receivable from Joint Venture	(5.0)
Indexation	463.4
Dividends	301.1
Interest	39.5
Fair value movements	32.2
Exchange rate movements on bonds and term borrowings	20.6
Other	(7.0)
<b>At 31 March 2023</b>	<b>8,293.1</b>

Net debt at 31 March 2023 was £8,293 million, compared with £7,654 million at 31 March 2022. This comprises gross borrowings with a carrying value of £8,527 million and net derivative liabilities hedging specific debt instruments of £106 million net of cash and short-term deposits of £340 million.

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Underlying movements in net debt are largely a result of net operating cash inflows offset by our net capital expenditure, dividends, indexation and cash interest.

Gearing, measured as group net debt including a £76 million loan receivable from joint venture divided by UUW's adjusted RCV (adjusted for actual spend, timing differences and including full expected value of AMP7 ex-post adjustment mechanisms) regulatory capital value of £14.0 billion, was 58 per cent at 31 March 2023, slightly lower than the equivalent 59 per cent at 31 March 2022, and remains within our target range of 55 to 65 per cent.

- Cost of debt

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

A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 8.0 per cent being higher than the rate of 5.1 per cent last year.

The group has fixed the interest rates on its non index-linked debt in line with its 10-year reducing balance basis at a net effective nominal interest rate of 2.2 to 2.9 per cent for the remainder of the AMP7 regulatory period.

- Credit ratings

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. United Utilities Water's (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.

- Debt financing

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

In total over 2020-25, we expect to raise around £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.8 billion, taking advantage of attractive funding opportunities available and extending our liquidity out to August 2025.

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

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

- Interest rate management

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings under the regulatory model. At 31 March 2023, approximately 40 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value, with an average real interest rate of 1.3 per cent. A further 15 per cent of the group's net debt was in CPI or CPIH-linked form, representing around 9 per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 17 years.

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

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## Strategic Report

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

- **Liquidity**

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

At 31 March 2023, we had liquidity out to Mar 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our capital investment programme.

### Return on Regulated Equity (RoRE)

Return on regulatory equity (RoRE) relates to the regulated entity, United Utilities Water Limited, and 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, which is set by Ofwat, plus or minus any out or under performance earned. It is reported on an annual and cumulative basis throughout each asset management period (AMP).

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.

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 can also be higher or lower as a result of 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.

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

This comprises the base return of 4.0 per cent (including our 11 basis point fast track reward that we receive in each of the five years of the AMP), financing outperformance of 4.7 per cent, tax outperformance of 2.5 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the

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total expenditure (totex) impact on RoRE of -0.8 per cent as a result of our additional investment to improve operational and environmental performance.

- Totex performance

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

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector, and our performance improvements over AMP6 meant we started AMP7 at a totex run rate that supported delivery of the stretching efficiency challenge in our FD allowance. Our totex allowance increases with inflation, which helps to mitigate some of the cost pressures experienced this year, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

- Customer outcome delivery incentives (ODIs)

Customer ODI outperformance of 0.5 per cent reflects a net reward of £25 million<sup>1</sup>. Our customer ODI performance has been strong across the board, meeting or exceeding 83 per cent of our performance commitments, our best ever performance. We continue to target a total a cumulative net ODI reward over this five-year period of around £200 million.

Customer ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore the net reward earned this year will be reflected in an increase to revenues earned in 2024/25 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism.

- Tax outperformance

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

- Financing outperformance

We earned financing outperformance this year of 4.7 per cent. We have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. This delivered significant financing outperformance during AMP6 and the rates we have locked-in for AMP7 compare favourably with the price review assumptions. Our financing outperformance this year has also been supported by the recent high level of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

### Outlook

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

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

Operating costs are expected to be around £60 million higher year-on-year. This increase is largely driven by inflation, with the largest inflationary pressures impacting power and labour costs. The remaining

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<sup>1</sup> Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID 19 and any enduring effects

## Strategic Report

increase reflects the 2023/24 operating cost impact of additional investments, including our Better Rivers programme.

Underlying net finance expense is expected to be at least £150 million lower year-on-year, due to the impact of falling inflation. As at 31 March 2023, we had £4.5 billion of index-linked debt exposure, giving rise to a £45m swing in our interest charge for every 1 per cent change in inflation. Our cash interest in 2022/23 was £39 million and we expect this to be slightly higher in 2023/24.

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

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

## 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 income statement, which can be found on page 121. 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 which considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of reoccurrence and its volatility which is either outside the control of management and/or not representative of current year performance.

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

Adjusted item	Rationale
<i>Adjustments not expected to recur</i>	
Profit on disposal of subsidiary	This relates to the disposal of the group’s subsidiary United Utilities Renewable Energy Limited, which represents a significant, atypical event and, as such, is not considered to be part of the normal course of business
<i>Consistently applied presentational adjustments</i>	
Fair value (gains)/losses on debt and derivative instruments,	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

## Strategic Report

<p>excluding interest on derivatives and debt under fair value option</p>	<p>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.</p>
<p>Deferred tax adjustment</p>	<p>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.</p>
<p>Tax in respect of adjustments to underlying profit / (loss) before tax</p>	<p>Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.</p>



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Underlying profit	Year ended	Year ended
	31 March 2023	31 March 2022
	£m	£m
<b>Operating profit per published results</b>	<b>440.8</b>	<b>610.0</b>
<b>Underlying operating profit</b>	<b>440.8</b>	<b>610.0</b>
<b>Net finance expense</b>		
Finance expense	(262.7)	(187.8)
Investment income	102.9	40.3
Allowance for expected credit losses – loans to joint ventures	-	0.1
<b>Net finance expense per published results</b>	<b>(159.8)</b>	<b>(147.4)</b>
Fair value (gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	(259.4)	(138.0)
<b>Underlying net finance expense</b>	<b>(419.2)</b>	<b>(285.4)</b>
Share of profits/(losses) of joint ventures	-	(1.8)
<b>Profit on disposal of business per published reports</b>	<b>31.2</b>	<b>-</b>
Profit on disposal of subsidiary	(31.2)	-
<b>Underlying profit on disposal of subsidiary</b>	<b>-</b>	<b>-</b>
<b>Profit before tax per published results</b>	<b>312.2</b>	<b>460.8</b>
Adjustments in respect of:		
operating profit	-	-
net finance expense	(259.4)	(138.0)
In respect of profit on disposal of subsidiary	(31.2)	-
<b>Underlying profit before tax</b>	<b>21.6</b>	<b>322.8</b>
<b>Profit/(Loss) after tax per published results</b>	<b>250.2</b>	<b>(39.9)</b>
Adjustments in respect of profit before tax	(290.6)	(138.0)
Deferred tax adjustment	76.6	562.5
Tax in respect of adjustments to underlying profit before tax	0.4	(0.7)
<b>Underlying profit after tax</b>	<b>36.6</b>	<b>383.9</b>

## Strategic Report

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
<b>Average effective interest rate</b>		
<b>Underlying net finance expense</b>	(419.2)	(285.4)
Adjustments:		
Net pension interest income	(28.7)	(14.3)
Adjustment for capitalised borrowing costs	(127.5)	(52.7)
<b>Net finance expense for effective interest rate</b>	<b>(575.4)</b>	<b>(352.4)</b>
<b>Average notional net debt</b>	<b>(7,905)</b>	<b>(7,377)</b>
<b>Average effective interest rate</b>	<b>7.3%</b>	<b>4.8%</b>

# Strategic Report

## Our TCFD, TNFD and other sustainability disclosures




Sustainability concerns, including climate and nature, are fundamental to our business and integrated in everything we do.

Our activities are so reliant on the natural environment that assessing and managing the risks, opportunities, dependencies and impacts we have in relation to climate change and nature is integral to our entire business model, therefore disclosures in relation to these issues are integrated throughout our report to reflect the way we think about these things. Other material matters are integrated in the same way, including cyber security, financial risk management, affordability and vulnerability, health safety and wellbeing, responsible business in our supply chain, and diversity and inclusion.

We have adapted our business model to follow the four-pillar structure that links the Taskforce on climate related Financial Disclosures (TCFD), Taskforce on Nature-related Financial Disclosures (TNFD) and International Sustainability Standards Board (ISSB) recommendations. To assist readers with finding the disclosures of interest to them, this page shows where disclosures can be found.

The composition of the UU PLC Board mirrors that of the UUG Board and therefore these TCFD, TNFD and other sustainability disclosures should be read in conjunction with the UUG 2023 Annual report and financial statements. Page references in the below table are to the relevant areas of the UUG 2023 Annual report and financial statements, with much of the information also incorporated within the UU PLC Annual report and financial statements.

### Where to find our TCFD recommended disclosures

		 Where to find our TCFD disclosures	 Where to find our TNFD disclosures	 Where to find our Other disclosures	
	Pages	Topic	Pages	Topic	
Governance	50-52	Companywide governance summary			
	128- 139	Further detail on board and management committees, including structure responsibilities and meeting frequency			
	58	Section 172(1) statement			
	52	Board oversight of climate-related risks and opportunities	53	Board oversight and management role in managing and accessing nature-related dependencies, impacts, risks and opportunities	
	52	Management role in assessing and climate-related risks and opportunities		53-55	Governance around other risk and opportunities of material interest
Strategy	38	Strategic priorities			
	39-41	Planning horizons : what we mean by short term, medium term and long term			
	28-30	Our approach to materiality			

# Strategic Report

	42-44	Climate risks and opportunities identified over short, medium and long term	49	How nature influences our approach, strategy and planning, and the resilience of our strategy to different scenarios, with adaptive planning	49	Other risk and opportunities of material interest that influence our approach
	43-44	Impact of climate-related risks on our strategy and planning				
	44	Use of climate-related scenarios				
	45-47	Net zero transition plan				
	71	Our risks most sensitive to climate change				
	241	Climate-related financial planning				
Risk and opportunities	60-69	Our approach to identifying , assessing and managing risks and opportunities including our principal risks, common themes, most significant event-based risks, and new and emerging risks and opportunities				
	70	How we identify and assess climate-related risks	72	How we identify, assess and manage nature-related risks, and how this is integrated into our risk management processes	73	How we identify, assess and manage other risks other risk and opportunities of material interest
	71	Management of climate-related risks				
	71	Integration of climate-related risks into our risk management processes				
	71	Our risks most sensitive to climate change				
71	Our risks most sensitive to climate change					
Metrics and targets	80	Metrics for assessing general company performance, and assurance of those metrics				
	83	Short, medium and long-term targets				
	84-109	Operational performance for 2022/23				
	81	Metrics and targets used to assess climate-related risks and opportunities	82	Metrics and targets used to assess and manage nature related dependencies,	82	Metrics and targets in relation to other risks and opportunities of

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	93-95	Energy and carbon report with scope 1, 2 and 3 greenhouse gas (GHG) emissions	impacts, risks and opportunities	material interest to stakeholders
	81	Targets used to manage climate related risks		

## TCFD



### Strategy

**Climate strategy: How climate-related risks and opportunities impact the organisation's businesses, strategy and financial planning.**




#### Summary

- Twin track approach of adaptation and mitigation to address climate change and manage both physical and transitional risks in a sustainable and resilient way.
- Further developed our strengths in long-term and adaptive planning to manage uncertainties and ensure a low regrets approach.
- Built relationships with key suppliers to reduce environmental impact by sharing best practice and collaborating on how to reduce GHGs and improve resilience.
- Assessed the carbon impact of our DWMP, WRMP and PR24 plan to minimise impact while enhancing environmental and social value and resilience.

#### **Most material climate-related risks – risk score (1) of 9+ in our 2021 Adaptation progress report**

We are already experiencing the impacts of climate change with increasingly frequent or more extreme heatwaves and changes to rainfall.

# Strategic Report

TCFD risk type	Climate trend	Leading to	Horizon			Resulting in...	
			ST	MT	LT		
<b>Physical – acute</b> 	<b>Cold snaps</b>	Reduced effectiveness of biological processes in wastewater treatment	●	●	●	Pollution events	
		Leaks and thus increased volumes of calls	●	●	●	Pressure on our emergency response	
	<b>Extreme events</b>	Increasing frequency and duration of loss of power within a treatment process		●	●	●	Service disruption
		<b>Heatwaves</b>	Causing work environments to become intolerable	●	●	●	Risk to health, safety and wellbeing
Resulting in increased reservoir misuse			●	●	●	Risk to health, safety and wellbeing	
<b>Physical – chronic</b> 	<b>Increased rainfall</b>	Sewer capacity exceeded	●	●	●	Sewer flooding, pollution incidents, customer impact	
		Flooded assets	●	●	●	Service disruption and asset damage	
		Restrictions on ability to recycle biosolids to land	●	●	●	Adverse effect on supply and demand of biosolids to agriculture	
		More storm overflow activations	●	●	●	Pollution and perception of pollution of rivers and bathing waters	
		Runoff polluting water sources	●	●	●	Water quality deterioration	
		Increased soil movement causing pipe systems to move leading to fractures	●	●	●	Service disruption and asset damage	
		More runoff from agricultural land	●	●	●	Raised nutrient loads in water sources	
		Increased use of rising mains	●	●	●	Supply interruptions and energy use	
		Decreasing raw water quality	●	●	●	Impact to treatment and costs	
	Floods, accidents and landslips	●	●	●	Disruption to transport and supply lines		
	<b>Hotter, drier summers</b>	More severe and frequent moorland/forestry fires		●	●	●	Water demand and quality stresses, risk to catchment health
		Promotion of cyanobacteria and actinomycetes growth		●	●	●	Taste and odour compound formation
		More NW tourism and access of UU land		●	●	●	Increased risk of damage to land and catchments
	<b>Lower average summer rainfall</b>	Reducing water resources		●	●	●	Supply interruptions
Shock load from first flush when it rains		●	●	●	Pollution		
Blockages in the sewage system		●	●	●	Sewer flooding and pollution		
Political pressure regarding water use priorities		●	●	●	Supply interruptions and impact to reputation		
<b>Rising sea levels</b>	Coastal flooding		●	●	●	Asset failures	
<b>Transitional</b> 	<b>Moving to a net zero economy</b>	Decarbonisation of the UK electricity grid	●	●	●	More intermittent power generation	
		The need to adopt new technologies driven by a change in legislation and standard practice	●	●	●	Change in operational processes and capabilities	
		Legislation, taxation, and decarbonisation targets	●	●	●	Higher energy costs and greater regulatory duties	
		Changes in social expectations	●	●	●	Demand for further progress	
		Water use change including increased abstraction by other catchment users.	●	●	●	Pressure on water resources	

(1) Risk score is the product of score (between 1 and 5) for likelihood and consequence.

Key: ● Low <8 ● Medium 8 to 12 ● High 12+

## Climate-related risks and opportunities impacts

Climate risks and opportunities are assessed using the same planning horizons, materiality and risk assessment as other matters. As our assets typically have long, even very long, lifespans, our planning horizons look longer into the future, in some cases as far as 2080.

Our services being intrinsically linked to the natural environment, it is not surprising that many of our most material climate risks are physical risks. The weather directly and indirectly constrains our ability to

# Strategic Report

deliver our services which is why climate change will exacerbate the impact of existing challenges such as sewer flooding, asset flooding and asset deterioration.

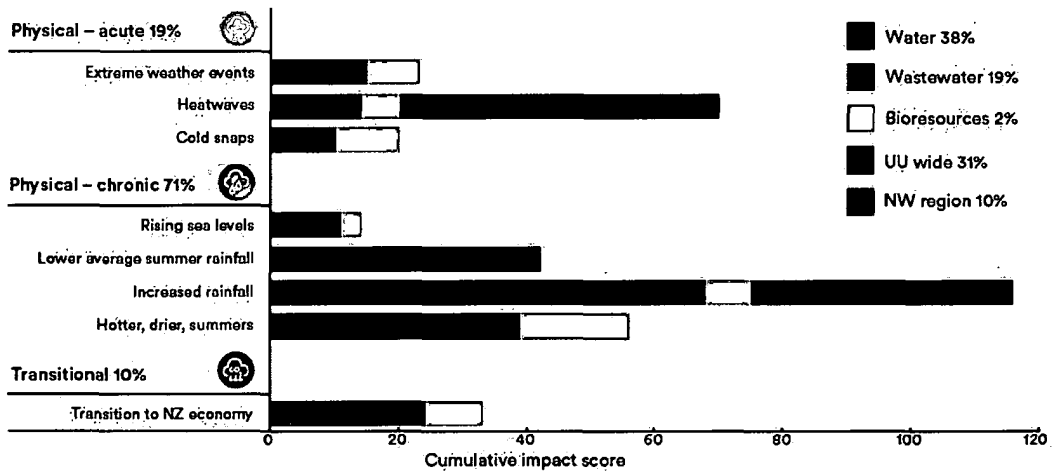
The North West region has 28 per cent more rainfall than the average for England and Wales. This, together with our significantly higher proportion of combined sewers, puts more pressure on our sewerage and treatment infrastructure, and in turn creates greater risk from sewer flooding and/or activations of storm overflows.

We have quantified the impacts of the physical climate risks using the highly respected and relevant Met Office UK Climate Projections 2018 (UKCP18). For our assessment we chose the Met Office climate projections for the representative concentration pathway, RCP 6.0, which has an emissions peak occurring in 2080 and an expected 3.0–3.5oC increase in global mean temperatures from pre-industrial levels. We chose this as it is widely recognised to be the most likely pathway that supports effective planning.

To assess the magnitude of the transitional risks we have generally adopted a more qualitative approach. In relation to mitigation activities we have used the carbon values (£ per tCO2e) for use in policy appraisal, provided by the UK Government.

### Climate-related risks by business area and region - from 2021 Adaptation progress report

The chart below shows the cumulative impact/consequence scores of the assessment of climate-related risks in the 2021 adaptation progress report. These risks are also those that have been considered in the preparation of the financial statements. See page 131.



### Addressing the impact of climate change in our planning

Predicting the effects of climate change is multifaceted and complex. There is considerable uncertainty about how our processes, people and infrastructure will respond to the challenges of both climate and demographic changes. We address the challenge of uncertainty by using adaptive planning to shape our plans for the long term (25+ years) while remembering our short-term needs and financial and regulatory constraints. An adaptive approach allows us to prepare for the future without knowing the exact scale and impact that climate change poses on our services. This means we can be agile as climate science and technology advance, as legislation develops and our customer and stakeholder expectations evolve.

Our public Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) address this multidimensional challenge by using detailed and extensive models to test how resilient our services would be against a wide range of possible future demands from population growth and movement, economic trends and patterns of water use. Understanding these potential impacts

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## Strategic Report

allows us to adapt our plans to improve performance and resilience across key topic areas such as water supply, leakage, sewer flooding and pollution.

Our ability to pre-empt compound physical impacts to our system, and have various recovery tactics, is increasingly vital in effective climate change adaptation. We are addressing how to plan for when multiple different extreme weather events occur in a short time frame. An example of such a cascade effect is the dry and hot summer of 2022 being followed by a winter with freeze-thaw challenges.

To address compound issues, we stress test our WRMP by building weather scenarios that combine together pairs of worst examples of weather that have happened in the past, for instance, a dry winter like 1984 being followed by a 1995/96 style summer. We then model how our current assets and systems would cope.

As well as combining impacts in our modelling, we are also attempting to deliver compound benefits in our controls by designing interventions that have multiple benefits. For instance, sustainable drainage systems (SuDS) to slow down or divert rainwater runoff both reduce the risk of sewer flooding and optimise wastewater treatment capacity and also provide an opportunity to deliver wider social value in the community and local environment.

### **Using scenario analysis to test resilience**

In developing our long-term strategic plans, and seeking customer feedback on those plans, we have used potential future scenarios encompassing wide ranges of environmental, regulatory, technological and societal influences. To simplify the interaction of multiple factors while retaining an expansive scale of uncertainty about the future, we have developed three company-wide alternative scenarios for 2050 that incorporate different metrics for the most relevant factors such as the water industry structure, the North West economy, water value to customers and of course climate change. These scenarios are named 'green guardianship', 'centralised control' and 'climate chaos'.

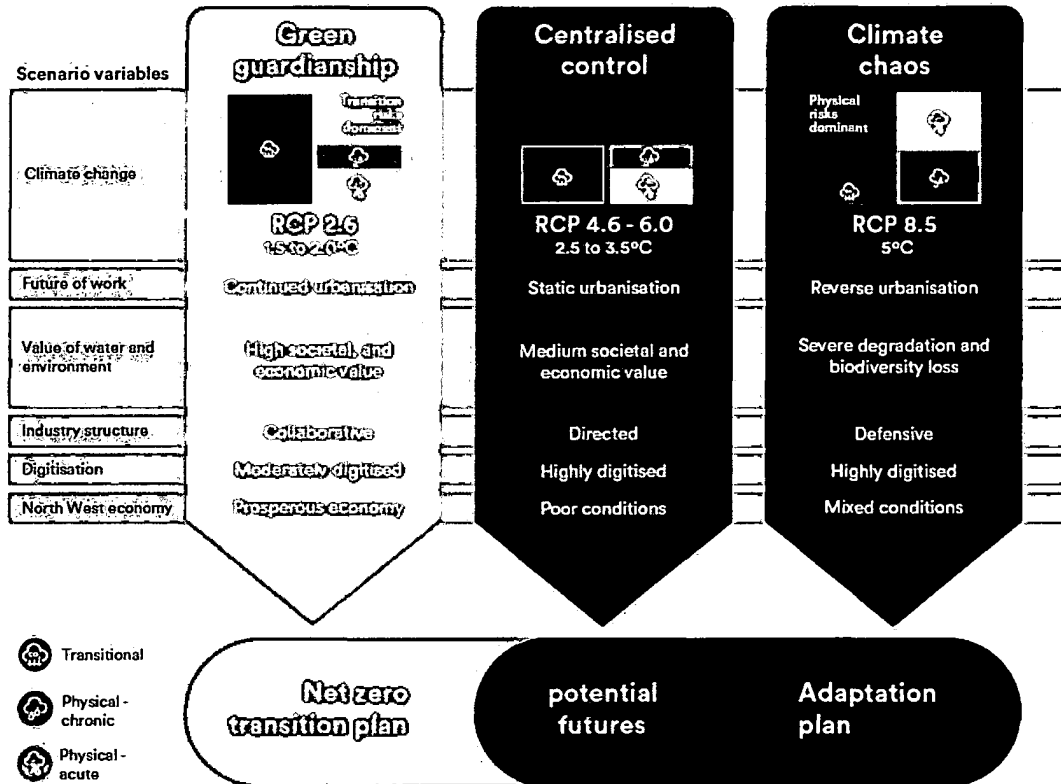
The scenarios recognise climate change as one of the most critical factors and use RCPs 2.6, 4.5 and 8.5 (GHG concentration pathways adopted by the Intergovernmental Panel for Climate Change) to describe how well climate change has been mitigated by society in each case. This in turn gives the relative climate risks in each scenario. In the extreme climate scenario of 'climate chaos' the physical risks are substantial and provide a worst case from which to base our adaptation planning. At the other extreme, 'green guardianship', the challenges of providing water and wastewater services in the North West are determined primarily by transitional risks. For instance, the risk from an electricity supply from a UK grid that is based on low carbon but intermittent power generation and therefore is more vulnerable to power outages.

These imagined future scenarios have brought challenges and ambitions into sharp focus and encouraged reconsideration of the relative priorities in our business plans. For example, our latest plans now include even greater focus on further reducing water use and preventing storm overflow activations and flooding.



# Strategic Report

## Climate and societal scenarios



### Future focus

- Publish more details behind our net zero transition plan
- Continue to improve our assessment of climate-related risks and opportunities
- Embed low-carbon and climate-adjustable approaches in our long-term delivery strategies and PR24 business plans

### Our net zero transition plan

Our transition plan to contribute to and prepare for a rapid global transition towards a low emission economy is based on our established climate change mitigation strategy. This has four pillars; 'vision and visibility', 'ambition and commitment', 'demonstrating action' and 'beyond here and now' that between them define our principles, priorities and approach.

### Vision and visibility

#### Demonstrating integrity and leadership in carbon reporting and disclosure.

Vision and visibility are the foundations of our climate change mitigation strategy and thus our net zero transition plan. We have a strong track record of sustainability reporting having disclosed our GHG emissions for nearly 20 years. We are committed to reporting in the most open and transparent way possible aiming to be recognised as among the best in the UK. We have responded to the CDP climate change questionnaire since 2010 and use this as our benchmark of what demonstrates leadership. We were proud that our 2022 response was rated as A- putting us in the leadership category.

# Strategic Report

We publish our GHG emissions and underlying energy use in our annual report as required under the Companies Act 2006 and follow the 2019 UK Government Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance. Our reporting is supported by robust governance and accountability mechanisms. Since 2007, our greenhouse gas inventory has undergone independent, third-party verification by Achilles Group confirming our reporting is compliant with the international carbon reporting standard (ISO 14064) and certified as compliant with the CarbonReduce programme.

We are dedicated to understanding how every aspect of our operations contributes to our emissions. As part of our vision, we are working to ensure we consider the climate in all our operational and strategic decision-making and influence strategy and behaviours by including in remuneration schemes and carbon pricing in our six capital value framework.



## Ambition and commitment

Playing our part to mitigate climate change and lower our greenhouse gas emissions to help make the North West a better place to live now and in the future.

An important element of our approach is to demonstrate our ambition and encourage others to contribute by making public commitments. In 2020 we made six carbon pledges as part of our commitment to tackling climate change and we are making good progress to deliver on these commitments. See page 89 of the UUG 2023 Annual report and financial statements for more details.

Central to our pledges was to set science-based targets for all emission scopes. United Utilities is proud to be the first UK water company to have targets approved by the Science Based Targets initiative (SBTi), a

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collaboration that defines and promotes global best practice in science-based target setting. SBTi assessed and verified our four science-based targets in July 2021 and commended our ambitious 1.5°C aligned scope 1 and 2 target.

Our four targets are:

SBT1 – reduce scope 1 and 2 emissions 42 per cent by 2030 from a 2020 base year

SBT2 – increase annual sourcing of renewable electricity to 100 per cent

SBT3 – 66 per cent of suppliers by emissions within scope 3 capital goods will have science-based targets by 2025

SBT4 – reduce scope 3 emissions (other categories) 25 per cent by 2030 from a 2020 base year

These near term targets are intended to deliver an emissions reduction pathway consistent with the 1.5° ambition of the Paris Agreement. The SBTi Net Zero Standard was launched late 2021 and we will validate our long term net zero ambition to this standard when we revise and revalidate our near term term targets in advance of 2025.

### Demonstrating action

#### Reducing our environmental impacts through delivery of transformation strategies and culture change.

Our action plan to achieve the long-term ambition of 'net zero by 2050' (in line with the UK Government) is set out on the next page with the below hierarchy. We are already working on, and delivering on, actions in all themes to

- Reduce through the efficient use of resources,
- Replace processes and resources with more sustainable alternatives,
- Remove GHGs from the atmosphere,
- Collaborate to tackle emissions in the supply chain,
- Innovate to address current technological or market gaps.

Our priority in the medium term will be to reduce our emissions through these actions before we purchase any credits to offset the residual emissions to net zero.

#### GHG emissions scopes

Our net zero transition plan addresses all three emissions scopes.

##### Scope 1 - emissions from activities we own or control.

Wastewater and sludge processes cause approximately 70 per cent of our scope 1 emissions as the gases released, nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>) have much greater global warming potentials than carbon dioxide (CO<sub>2</sub>). Our process emissions are currently estimated as a direct function of the population whose wastewater we treat. This means that even if we achieve a 100% green fleet and eradicate our fossil fuel use we, along with the global water industry, still have a gigantic challenge of process emissions to tackle.

##### Scope 2 - emissions from electricity and heat purchased.

Scope 2 emissions have reduced, since we began to measure them in 2005/06, from 360 ktCO<sub>2</sub>e to 261 ktCO<sub>2</sub>e location based and 0 ktCO<sub>2</sub>e market based. This is a combination of the ongoing decarbonisation of the UK grid, maintaining our energy requirements in the face of substantial growth and policy to buy REGO backed renewable electricity supplies. We have ambitions to substantially increase our self-generation and energy resilience by using our land for development of renewables and other clean technologies.

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## Scope 3 - emissions from our value chain.

Scope 3 emissions are proportional to our business activities. This means if our infrastructure development activity increases, for instance as a result of a prescribed environment programme as is expected for AMP 8 and 9, then our emissions will also substantially increase.

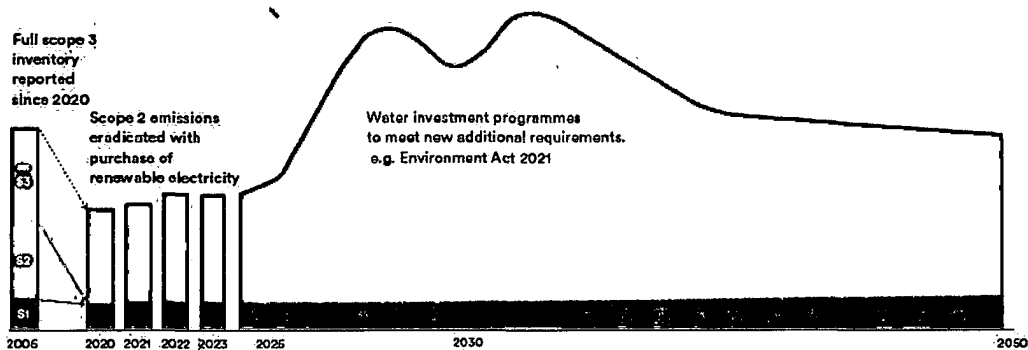
This increase could be mitigated by the use of nature-based solutions and low carbon material replacements but it is by no means certain these technologies and processes will be market ready in time.

Action plan	Short term including recent progress	Medium term	Long term
<b>Reduce</b> through the efficient use of resources	<ul style="list-style-type: none"> <li>• Colleague campaign 'Use Less, Save More'</li> <li>• Achieved ambitious targets for percentage of waste to beneficial reuse</li> </ul>	<ul style="list-style-type: none"> <li>• Optimise wastewater processes for GHG</li> <li>• Careful delivery of environment improvement programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Continual search for efficiency opportunities</li> </ul>
<b>Replace</b> processes and resources with more sustainable alternatives	<ul style="list-style-type: none"> <li>• Renewable electricity sourcing</li> <li>• Substantial renewable energy generation capacity and capability</li> <li>• 60%+ sludge processing by low GHG advanced digestion</li> </ul>	<ul style="list-style-type: none"> <li>• Grow further renewables capabilities and capacity</li> <li>• Bioresources planning and investment to increase sludge processing capacity</li> <li>• Electric vehicles rollout and trials for HGVs</li> </ul>	<ul style="list-style-type: none"> <li>• Replace fossil fuels with alternatives e.g. hydrogen</li> <li>• Nutrient recovery initiatives</li> <li>• Continual stretch for sustainability informed by latest innovations</li> </ul>
<b>Remove</b> GHGs from the atmosphere	<ul style="list-style-type: none"> <li>• Woodland creation – planning and first planting schemes</li> <li>• Peatland restoration – schemes started</li> </ul>	<ul style="list-style-type: none"> <li>• 550ha Woodland creation</li> <li>• 1000ha Peatland restoration</li> </ul>	<ul style="list-style-type: none"> <li>• Growing benefits from created woodlands</li> <li>• Carbon capture, use and storage</li> </ul>
<b>Collaborate</b> to tackle emissions in the supply chain	<ul style="list-style-type: none"> <li>• Comprehensive scope 3 reporting</li> <li>• Encourage SBTs for Capital Delivery Partners</li> </ul>	<ul style="list-style-type: none"> <li>• Inform national approach to water environmental improvements</li> <li>• Enriched sustainability criteria for suppliers</li> <li>• Quantify emissions using product/activity data</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborate to decarbonise our infrastructure programmes and wider supply chain</li> </ul>
<b>Innovate</b> to address current technological or market gaps	<ul style="list-style-type: none"> <li>• Carbon categories in United Utilities Innovation Labs</li> <li>• CEO challenge improvement projects on carbon</li> </ul>	<ul style="list-style-type: none"> <li>• Low-carbon capital delivery options e.g. nature-based solutions and low-carbon concrete</li> <li>• Process emissions monitoring</li> <li>• Nutrient recovery research</li> </ul>	<ul style="list-style-type: none"> <li>• Transformation in water and wastewater processing e.g. nature-based solutions</li> <li>• Opportunities for circular economy</li> <li>• Eradicate use of remaining fossil fuels</li> </ul>

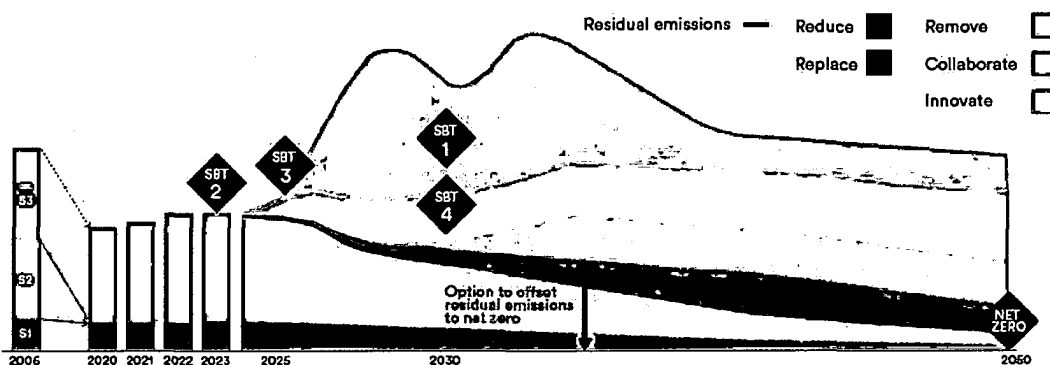
Green text are actions that directly link to our six carbon pledges

# Strategic Report

## Our emissions challenge - large growth pressures from environmental obligations



## Our route to net zero - adopting a science-based approach



Our plan to net zero is a science-based approach focused on reducing emissions as the first priority whilst also growing our programmes that store carbon, such as peatland restoration and woodland creation, and working with our supply chain to share and develop sustainable development practice. We may purchase credits in the medium to long term to offset residual emissions and achieve net zero.

### Beyond here and now

#### Innovating across our processes, technology and culture

We are not only concerned with things we can do now to reduce our reportable emissions. Our strategic theme of beyond here and now allows us to reflect on the challenge to influence emissions regardless of whether those emissions are part of our inventory.

We will be innovative, challenge standards and drive improvement by understanding and joining in relevant research to develop new technologies and practices. For instance, we are investigating what operational interventions we can make that will reduce process emissions.

We have recently launched our fifth Innovation Lab, a 12 week programme that provides successful applicants with the opportunity to test their solutions to our business challenges in a live environment. Our Innovation Lab programme is designed to 'look for ideas where others aren't looking' – in other sectors, other countries and with suppliers that are often small, start-up businesses, just starting on their idea development or business growth journey.

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## Strategic Report

We will continue to explore opportunities to innovate across processes, technology, standards and culture. We will lead by example and deliver outcomes in partnership whilst we inform and influence future developments affecting the environment.

Read more about innovation at United Utilities here [unitedutilities.com/corporate/about-us/innovation/](https://unitedutilities.com/corporate/about-us/innovation/) including how we are using innovative solutions to tackle the sustainability challenges we face.



### Strategy

#### How nature influences our approach

Protecting and enhancing the natural environment is key to the 'greener' aspect of our purpose. Maintaining compliance and meeting regulatory requirements helps us to maintain the environment, and we enhance it by driving performance improvements, adopting best asset management practices, and investing in nature-based and other environmental solutions. Our environmental policy is underpinned by a framework of strategies and long-term plans in response to nature-related risks and opportunities. Some of these are statutory requirements, like our Water Resources Management Plan, and are reviewed every five years through the price review process.

#### How we consider nature-related risks, opportunities, dependencies and impacts within our business strategy and planning

Our long-term planning activity considers the uncertainty associated with complex issues such as climate change, population growth, technology and abstraction reduction needs.

Planning for the long term allows us to deliver further environmental and social value. For example, prioritising sustainable drainage and monitoring impacts before investing in more traditional assets, or carrying out modelling and investigations to ensure solutions are best value. This gives us confidence that our investment plans are highly efficient.

Our Catchment Systems Thinking (CaST) approach enables project decisions to be made in the context of the catchment, or system, in which they are situated. This encourages goals to be set in a collaborative way, maximising the benefits that can be achieved and delivering ecosystem resilience through improvements to water quality, flood risk reduction, access to green space, nature recovery, and carbon sequestration.

#### An example of how we adapt to nature-related risks

Much of the land that we own is designated as Sites of Special Scientific Interest (SSSI), which indicates the importance of the habitat for biodiversity. 94 per cent of SSSIs on our land now meet favourable or unfavourable recovering condition status, in part because we pioneered the use of nature-based solutions to address raw water quality when we started our SCaMP programme in 2005. We recognise our role as a steward of our land and make decisions based on the benefits and impacts our operations have on the natural environment.

#### Resilience of our strategy

Adaptive planning allows us to test a range of future scenarios to account for uncertainty and sets out how we might adapt programmes in the future to meet long-term ambitions under different circumstances. Through scenario testing, we have been able to prioritise low regrets activities in the short term, preparing ourselves for future needs without investing unnecessarily or prematurely but taking action where it is clearly necessary and good value.

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## Strategic Report

Innovation is embedded in our approach to solving environmental challenges. By understanding and engaging in relevant research we can integrate new technologies and practices to drive environmental enhancements.

### Progress this year

- Launched the public consultation on our draft Water Resources Management Plan

### Future focus

- Finalise our business plan for 2025–30 with details on how this will improve the natural environment



### Strategy

#### Risks and opportunities of material interest that influence our approach

##### Cyber security

Our cyber security strategy is largely focused on the security requirements within the Cyber Assessment Framework created by the National Cyber Security Centre (NCSC). This outlines 39 security controls that are required to achieve an industry standard of compliance. These are driven from an EU-defined maturity scale of best practice that is reflected across all European operators of essential services. We have had a strong, dedicated programme of work in place for four years aimed at meeting and maintaining compliance, and have met regular expectations at all times.

Our longer-term strategy and investment plan aims to bolster our broader security posture by focusing significant effort on *people, process and technology*.

We maintain a good relationship with the NCSC through our dedicated contacts and ensure we have up-to-date visibility of developing and long-term threats at all times, which helps shape our approach to security.

##### Financial risk management

We have robust financial risk management policies, targets and thresholds for liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. The strategies and limits set out within these policies are designed to avoid excessive volatility and risk, align with the regulatory model in which we operate, maintain strong credit ratings and deliver efficient financing. Read more on pages 161 to 174.

##### Affordability and vulnerability

Our approach is based on delivering industry-leading affordability and vulnerability support to customers with a wide range of affordability schemes and over 290,000 customers signed up to Priority Services. We use a variety of methods to help customers access the best schemes for them, including our door-to-door affordability visits. We pioneer cross-sector collaborative approaches through our affordability summits and the Hardship Hub platform we developed to help debt advisers access all the help that is available across multiple sectors in one place.

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# Strategic Report

## Health, safety and wellbeing

Our aim is that no one will be harmed while working for us or on our behalf, and we actively work to support and improve the wellbeing of our colleagues, for example through our Home Safe and Well programme.

## Responsible supply chain

Our United Supply Chain (USC) strategy encourages collaborative and responsible ways of working with our supply chain. Through regular engagement and positive collaboration, we will mitigate risk, improve assurance and create value.

## Diversity and inclusion

Our equity, diversity and inclusion plan sets out our strategy and targets, focused on inclusive leadership, encouraging openness, improving our policies, raising awareness, and increasing the use of support networks. Read more on pages 54 to 55 of the UUG 2023 Annual report and financial statements.



## Governance

### Governance around climate-related risks and opportunities

#### Summary

- The UUG board and its committees have oversight and scrutiny of climate change matters, including tracking delivery of our carbon pledges, science-based targets, and review of the climate-related risks.
- Climate-related governance is fully integrated within board and management committee responsibilities, supported by our director-led climate change mitigation steering group and cross business working groups.
- Carbon measures are included within the executive remuneration framework and are key components of the environmental performance metrics.
- Public disclosures are complemented through conversations with investors and participation in climate-related indices and assessments. Leadership ratings in both climate change (A-) and supplier engagement (A) for CDP 2022.

### Board oversight of climate-related risks and opportunities

The climate and natural environment are critical to our purpose to provide great water, therefore climate matters are monitored closely by our board and the principle committees as a core part of their duties and agenda. The role of the board of directors is to set, review and guide the strategy of the group ensuring the long-term success of United Utilities for customers, investors and wider stakeholders. *Climate-related issues play a significant role in determining what is sustainable and responsible for the environment and customers.*

The board provides oversight of climate-related matters in the business through our business model, where we:

- Consult and plan for short, medium and long-term horizon;
- Deliver the outcomes set out in our regulatory contract;
- Create long-term value for a range of stakeholder; and



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## Strategic Report

- Review and measure our progress.

Our CEO, Louise Beardmore, has responsibility to manage the group's business and to implement the strategy and policies approved by the board and has accountability to the board for climate matters. Louise, as new CEO, is an active and vocal champion with respect to environmental topics and initiatives and she passionately promotes the need for both pace and scale of action to adapt and mitigate climate change.

This year, climate change matters have been discussed by the UUG audit committee in its review of *carbon commitments risk and the introduction of the enhanced audit and assurance framework*. The remuneration committee covered climate through endorsing continuing the link between long-term incentive outcomes and the delivery of carbon pledges.

Considerations in respect of the impact of climate change risk on the measurement basis of the assets and liabilities of the group are included within the notes to the financial statements (Accounting Policy note, page 131).

### Management role

The CEO has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy and does so through chairing all relevant management committees. Our CFO, Phil Aspin, has executive responsibility for risk management and has made climate change and ESG core to the business. The executive management team, through its groups and committees, is tasked with assessing and managing the climate-related risks and opportunities and enacting the mitigating actions, for example by ensuring the company has the necessary financial resources and skilled people are in place to achieve its climate-related objectives.

The high value we place on climate and the environment is seen by the fact that most of our board and management committees contribute to our 'create a greener future' strategic priority. This illustrates that climate-related matters influence both day-to-day and strategic decision-making and behaviours, for instance, how we respond to the high costs of energy by focusing on efficiency and maximising use of our self-generated electricity and introducing climate-related criteria into supplier selection evaluations.

### Future focus

- Continued communication and engagement programme with all stakeholder groups.
- Deploy whole-life carbon costing using an internal carbon price aligned to government carbon values.



### Governance

#### Governance around nature-related dependencies, impacts, risks and opportunities

##### Board and committee oversight

The board provides oversight of nature-related issues through six-monthly updates on performance. Matters are regularly reviewed at UUG's ESG committee such as our progress against our Better Rivers plans.

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## Strategic Report

### Management role

Our interactions with the natural environment are broad and complex. Overall accountability rests with the executive team, who are responsible for day-to-day compliance with the legal and regulatory requirements as set out in our environmental policy. The environmental advisory group is a management group with a remit to ensure the delivery of the environmental policy commitments, including nature-related strategies (e.g. land, catchment, clean air, plastics, waste, water quality, water resources, and natural capital).

Governance over these strategies is through cross-departmental working groups comprised of subject matter experts and decision-makers to drive implementation. Governance around investment in nature-related risks and opportunities is applied as part of our Internal Control Manual.

### Progress this year

- Enhanced our approach to nature-related reporting using the beta release of the TNFD framework guidance.

### Future focus

- Communication and engagement across the organisation on the increased interest in nature-related disclosures and reporting.



### Governance

#### Governance around other risks and opportunities of material interest

##### Cyber security

The board is responsible for the oversight of cyber security and updates are provided to the board at each of its scheduled meetings, with a presentation given by the chief security officer twice a year. The executive team is updated on performance on a monthly basis.

The security steering group (SSG) meets monthly to consider changes to digital and physical security risks and mitigating actions, and to review any incidents. Members of the committee include the company secretary, who has responsibility for security matters and is in attendance at all board meetings, the chief security officer, and representatives from each business unit. The SSG reports security metrics on a quarterly basis to the group audit and risk board, and six-monthly to the board. As it is one of our top ten principal risks, an update on cyber security is provided every six months to the board. The chief security officer reports to the company secretary and, along with the information security team, works closely with the digital services team.

Our information security policies and compliance are aligned to ISO 27001. As a provider of essential services for UK Critical National Infrastructure, we are governed by The Network and Information Systems Regulations, which came into force in 2018 and focuses on cyber security compliance. We are making good progress with our programme of work to comply with these regulations. We are required to comply with the Security and Emergency Measures Direction (SEMD) to maintain plans to provide a supply of water at all times, and this includes security components. A SEMD report is submitted annually to the Drinking Water Inspectorate (DWI) and this is subject to independent attestation prior to submission.

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## Strategic Report

### Financial risk management

The board delegates authorities to UUG's treasury committee, which reviews its policies in relation to key financial risks on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

As well as managing our exposure to these key financial risks, these policies help us maintain compliance with relevant financial covenants in our borrowings, including interest cover and gearing metrics, and help us to maintain our credit ratings.

Day-to-day responsibility for operational compliance with the treasury policies and the targets set therein rests with the group treasurer. An operational compliance report is provided monthly to the treasury committee, detailing our performance against these policies and highlighting the level of risk against the appropriate risk limits in place, with more detailed management information provided quarterly.

### Affordability and vulnerability

The customer services management team has responsibility for the delivery of our affordability and vulnerability schemes, including our certification to ISO 22458 for our Priority Services scheme. The schemes are continuously monitored and performance is reported to the executive performance meeting and the board on a monthly basis. Affordability and vulnerability are reviewed by the board twice a year.

### Health, safety and wellbeing

Health, safety and wellbeing matters, including policies and our accreditation to ISO 45001, are managed through the health, safety and wellbeing team and reported monthly to the executive performance meeting. Health, safety and wellbeing is reported to the board every month, with a detailed review twice a year.

### Responsible supply chain

The commercial performance team has responsibility for the delivery of our United Supply Chain (USC) programme. Supplier sign ups to our Responsible Sourcing Principles are reported on a monthly basis, alongside other commercial measures, through the executive performance meeting and on to the board.

### Equity, diversity and inclusion

We need fantastic people to help us deliver great service to all our customers. We want our workforce to reflect the local communities we serve, with all colleagues feeling welcomed, valued and included, regardless of their gender, age, race, disability, sexuality or social background.

Our award-winning 'We are Better Together' campaign aims to drive a diverse and inclusive workforce. We are proud of how far we have come and in our latest internal engagement survey 89 per cent of colleagues said that United Utilities supports diversity and inclusion in the workplace – scoring higher than both the UK norm and Utilities norm benchmarks and recognising our drive to be an inclusive workplace of choice.

Our people director sponsors the overall equity, diversity and inclusion plan, which sets out our bold, long-term targets to be achieved by 2030, and tracks its progress with the executive team.

We have been recognised as one of the top 15 FTSE company performers when it comes to women in leadership, having exceeded the 40 per cent target for Women on Boards and Women Leaders set by the FTSE 100 Women Leaders Review, tracking at 44.4 per cent and 43.1 per cent respectively. We have been included once again in the Bloomberg LP Gender-Equality Index, which tracks the performance of public companies committed to transparency in gender-data reporting. We are one of 484 companies across 45 countries and regions committed to more equal and inclusive workplaces.

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## Strategic Report

At the 2022 Water Industry Awards, we were Highly Commended for our approach to recruiting a diverse apprenticeship cohort in the Diversity & Inclusion Initiative of the Year. We were also winner of the Inclusive Culture Initiative Award for our 'We Are Better Together' campaign at the 2022 Inclusive Companies Awards, recognising our remarkable efforts and commitment to harness and strengthen a diverse workforce.

We are proud to have been ranked 11th in the Inclusive Companies Top 50 UK Employers list, reinforcing our pledge to take action on diversity and inclusion and recognising our commitment to creating a more equal and inclusive workplace. For the second year running, we are the highest ranking water company in this respected, cross-sector inclusion index. We have improved our position in the Financial Times Inclusive Leaders Index 2023, which assesses companies' success in promoting diversity aspects, such as gender, age, ethnicity, disability and sexual orientation, in their workforce. We were placed 89th out of 850 companies across Europe, and are the only UK utilities company in the top 100.

### Ethnicity

We continue to collect information to build on our diversity data. The percentage of colleagues who choose not to disclose their ethnic origin continues to decrease, currently at 8.2 per cent. The proportion of our colleagues who identify as from an ethnic background stands at 2.7 per cent.

We've committed to supporting the '10,000 Black Interns' programme over the next five years. During the year, we welcomed 23 students onto placements. The programme included 'lunch and learn' sessions with our directors, teambuilding activities with the local Army Reserves, and a CV and interview skills workshop with specialist recruitment providers.

It was a huge success, with 56 per cent of those who were ready for employment being offered a role with us. 54 per cent of interns from the programme are female, and 60 per cent of interns we offered a role to are female.

Following the success of our first 'Stepping Up' programme in 2021, specifically designed for colleagues from an ethnic minority background, we ran a second cohort for a group of ten colleagues. Over the past two years we've supported 20 people, and 35 per cent of these are female. The programme has provided participants with opportunities to network with senior leaders, sponsors and mentors, and to develop personal and leadership skills to help them fast track their careers with us. Since completing the programme, 50 per cent of participants have already secured a new role and over 40 per cent now manage a team.

### Gender

Our workforce profile remains at 65 per cent male and 35 per cent female. We recognise the need to attract diverse and talented individuals with an interest in science, technology, engineering and maths (STEM) and have a focused approach to improving the gender diversity of our workforce.

To inspire young people from a wide range of backgrounds into STEM-related careers, we continue to run our award-winning 'Engineering Masterclass' competition with secondary schools from the local area – some of which have a high number of pupils from deprived and disadvantaged backgrounds. This year, over 80 students took part and 63 per cent of them were female. Following the masterclass, 95 per cent of students said they were extremely interested in pursuing a STEM-related career and 100 per cent said they would recommend the session and now have a better understanding of engineering at United Utilities.

We continue to promote and support strong female role models at all levels of our organisation. Louise Beardmore's appointment as CEO means the percentage of women serving on our board has increased to 44 per cent, while females now make up 50 per cent of our executive leadership team. We offer targeted support for future female talent through our Female Leadership Pipeline and Aspiring Manager Programme, which have been designed to support colleagues into leadership positions. Sixty-seven per

# Strategic Report

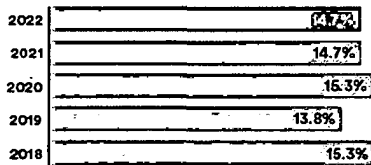
cent of colleagues currently on our Aspiring Manager Programme are female. Overall, 42 per cent of our graduates are female and 30 per cent of our apprentices are female.

In the last 12 months, we have welcomed 32 graduates on our schemes and 61 apprentices have also joined us on operational, service and future-facing digital and environmental schemes. Of our new intake, 41 per cent of graduates are female and 35 per cent of apprentices are female, compared to the UK average of 24 per cent for females in STEM roles.

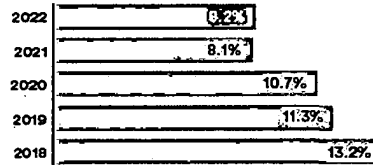
We are pleased that 91 per cent of our current female workforce would recommend us as an employer and 94 per cent say that we support diversity and inclusion in the workplace.

We remain committed to closing the gender pay gap in our organisation. At 14.7 per cent, our median gender pay gap is less than the national average and less than the gap in similar STEM-industry organisations. We are confident that the work we are doing to attract, support and develop women, to build a 'pipeline' of female talent, will bring long-term improvements in our gender pay gap.

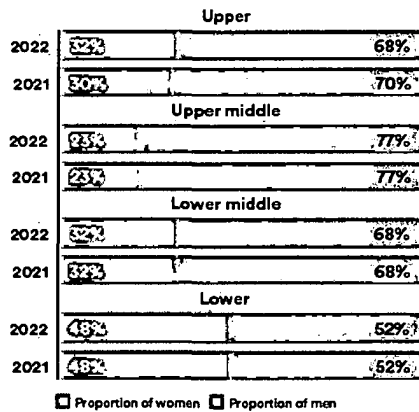
**Our median gender pay gap over time**



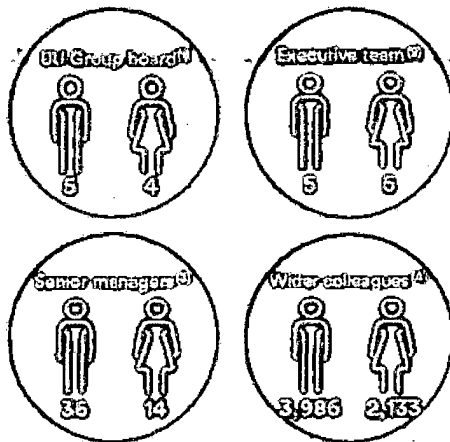
**Our mean gender pay gap over time**



**Percentage of women and men overall and in each quartile of the pay range (figures for 2022 and 2021)**



## Strategic Report



- (1) Group board as at 31 March 2023. Includes Steve Mogford.
- (2) Executive team excludes CEO, CEO designate and CFO, who are included in group board figures.
- (3) As at 31 March 2023, there were six male and three female colleagues appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'.
- (4) Wider colleagues as at 31 March 2023.

### Colleague networks

We are committed to providing a supportive and inclusive working environment for all of our colleagues and we recognise that leaders have a clear role when it comes to championing equity, diversity and inclusion. Our leadership team has taken an active part in sponsoring each of our colleague networks, which support colleagues within under-represented communities and focus on educating, raising awareness and celebrating key events – such as Black History Month, International Women's Day and National Autism Week.

Through our networks we have hosted live Q&A sessions with external speakers, including one in partnership with Northern Power Women, and established monthly cafés around the topics of hearing loss, neurodiversity and menopause. We introduced menopause training that everyone in the company can access, and we continued to roll out our 'Pride in the workplace' training, designed to help break down barriers and improve confidence to talk about LGBT+ in the workplace.

We are a Disability Confident employer and we are one of over 20,000 UK employers to have signed up to the Government scheme.

We held our inaugural 'Better Together Inclusion Awards', to recognise individual colleagues and teams for their hard work and commitments towards making United Utilities a more inclusive workplace, and to celebrate the achievements of those colleagues going the extra mile in our wider communities.

### Attracting local diverse talent

We've been raising the profile of our commitment to promoting STEM-related careers. During National Apprenticeship Week, our apprentices and early careers team mentored students from University Technical College Warrington, attended four different schools and colleges and hosted the Engineering Masterclass final, with over 80 students from schools in the local area.

We welcomed 600 aspiring apprentices and parents to our first ever apprenticeship open evening and delivered a series of apprenticeship accelerator sessions for students from underrepresented

## Strategic Report

communities across the North West. The sessions aim to help students accelerate their careers – focusing on apprenticeships and improving employability prospects and skills.

Our 'Tap into your Future' virtual work experience programme has offered young people in years 11 to 13 an exclusive insight into our business and our fantastic early careers opportunities. The sessions targeted under-represented communities across the North West and attracted over 500 students. A hundred per cent of attendees rate United Utilities as a diverse and inclusive employer, and 76 per cent said they were extremely interested in applying for an apprenticeship after completing the programme.



### Risks and opportunities

#### How we identify, assess and manage climate-related risks and opportunities

##### Summary

- The company operates a mature risk and resilience framework for the identification, assessment and management of all risks.
- We have both physical and transitional climate risks in our corporate business risk profile, including seven of our most significant event-based risks.
- Climate change is fully integrated across our overall corporate risk management system with climate change identified as both a material issue and one of our most prominent causal themes of event-based risks.
- Our 2021 climate change adaptation report available on our website includes a comprehensive climate change risk assessment of both physical and transition risks and opportunities. The most material of these are presented on page 64 of the UUG 2023 Annual report and financial statements and it is clear how these risks are key drivers to our strategies and business planning.
- We published our 2022 Drought Plan.

#### Climate risk identification and assessment

We have a mature risk and resilience framework for the identification, assessment and management of risks that is described on pages 62 to 80 of the UUG 2023 Annual report and financial statements. Following recognition of climate change as a material issue, a special review of all event-based risks in our business risk profile was carried out to ascertain which risks in our business risk profile are sensitive to climate change. The risks identified as most sensitive are outlined on the next page, along with our 2023 assessment of their current likelihood and impact. Long-term likelihood and impacts at 2050 and 2100 are also shown and are based on the Met Office climate projections using the most likely global emissions scenario known as RCP 6.0, in which emissions peak around 2080 and average temperatures will have risen to between 3 and 3.5°C by 2100.

Incorporating longer-term climate change impacts explicitly into our corporate risk framework has raised the profile of climate change. This enabled the board to consider our appetite and tolerance, choosing to mitigate and control the risks from within existing risk management processes and with the same thresholds for materiality.

We consider both physical risks that impact our operations, assets or resources, and transitional risks, and those associated with the transition to a low-carbon economy, such as evolving policies, regulation and legislation. We use a variety of approaches to assess risks such as PESTLE, to ensure complete coverage of external influencing factors, and complex and detailed models to use Met Office UK climate projections to understand the impacts on water resources and drainage and wastewater management.

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## Strategic Report

In our quantification of the significance of different risks we also recognise that some risk events may happen multiple times so we compare impacts over a long-term (typically 40-year) horizon. This accentuates where interdependencies of climate change and other demographic changes influence the frequency of events as well as the consequences.

### Managing climate-related risks

We have a clear understanding of the risks in the short and medium term but to help us manage uncertainties and ensure a low regrets approach, we are maturing our strengths in long term and adaptive planning and considering the uncertainty associated with particularly complex issues including climate change, but also population growth, technology and abstraction reduction needs.

In preparing our latest climate change adaptation report, we assessed the organisation's resilience to physical outcomes of climate change, such as hotter, drier summers and more extreme weather events. Over 90 risks were noted that might impact a single business area, for instance wastewater, and we also identified business-wide risks, interdependencies and transitional risks. The most material of these physical and transitional climate risks are also presented in the table on page 64 of the UUG 2023 Annual report and financial statements to show how climate trends lead to business challenges and can result in consequences to customers or the environment.

By recognising the causes and consequences, and assessing the likelihood and the severity of impact (both financial and reputational) should the event occur, we are able to prioritise climate-related risks and take proactive and early action to manage these risks and reduce the frequency and severity.

The actions being undertaken to manage these climate risks are described in the third climate change adaptation report. We are applying a Systems Thinking approach to provide great water for a stronger, greener and healthier North West. This means that interventions to address one risk have multiple benefits. For instance, sustainable drainage systems (SuDS) to slow down or divert rainwater runoff both reduce the risk of sewer flooding and optimise wastewater treatment capacity. Green infrastructure solutions such as SuDS provide an opportunity to deliver wider social value in the community and local environment.

Our public Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) are examples of where adaptive planning are used to shape our plans for the long term (25+ years) while staying aligned with our short-term needs. In these plans we describe how we have used complex models to test how resilient our services would be against a range of possible future climate change and demand scenarios (population growth and movement, economic trends and patterns of water use). Understanding these impacts allows us to adapt our plans to improve performance and resilience across key topic areas such as water supply, leakage, sewer flooding and pollution.

### Integration of climate-related risks into our risk management framework

We are maturing our understanding of risk and uncertainty to build and maintain long-term resilience across the corporate, financial and operational structures of the group. Planning for the long term allows us to deliver further environmental and social value, for example, through prioritising sustainable drainage and monitoring impacts before investing in more traditional assets; or carrying out modelling and investigations to ensure we spend customers' money wisely as we look to create a stronger, greener and healthier North West.

### Future focus

- Produce our PR24 business plan with full integration of carbon reduction and climate resilience priorities.
- Improve our long-term strategic plans for water resources and drainage, integrating advanced climate change analysis to shape our investment and operational approaches in the short, medium and long term.



## Strategic Report

- Learn more about the profile of risk events, their causes and consequences, and to identify opportunities to improve our capacity and capability.
- Further embed climate change impacts into corporate decision-making tools and processes.

Read our climate change adaptation report on our website at:

[unitedutilities.com/corporate/responsibility/environment/climate-change/climate-change-adaptation](https://www.unitedutilities.com/corporate/responsibility/environment/climate-change/climate-change-adaptation)

# Strategic Report

## Our event-based risks most sensitive to climate change<sup>(1)</sup>

### TCFD risk categories

- Chronic physical risk** – changing trends in weather patterns, such as rising temperatures, sea level and rainfall.
- Acute physical risk** – chance of severe weather events, such as storms, heat waves and floods.

<sup>(1)</sup> One of the top ten ranking event-based group risks (see pages 69 to 69).  
<sup>(2)</sup> Global emissions scenario RCP 6.0.

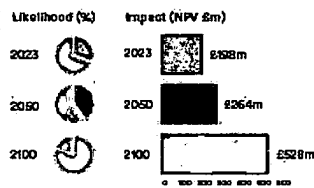


### Water sufficiency event<sup>(2)</sup>

Prolonged dry periods can cause supply challenges. Warmer temperatures intensify these pressures because of increased water usage and evapo-transpiration.

#### Controls

- Reduce leakage.
- Support customers to use less water.
- Install more meters in domestic properties.
- Develop new sources of water, particularly boreholes.
- Long-term water resources management planning.
- Facilitate water trading between the North West and other regions of the UK.

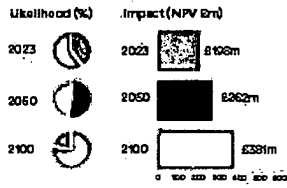


### Failure of wastewater network<sup>(2)</sup>

More frequent and intense storms can overload the wastewater network and lead to severe sewer flooding or storm overflow activations. Urbanisation makes this worse due to quick runoff from hard surfaces.

#### Controls

- Increase combined sewer capacity and build stormwater holding tanks.
- Implement and encourage 'slow the flow' and sustainable drainage solutions.
- Support customers to use sewers responsibly.
- Use technology to monitor and better control flows in the sewer system.
- Install flood protection devices to at-risk properties.



### Control effectiveness

Controls are the activities we undertake to reduce the long-term risk or realise the opportunity.

- Mostly sufficient
- Somewhat sufficient
- Largely insufficient to mitigate risk

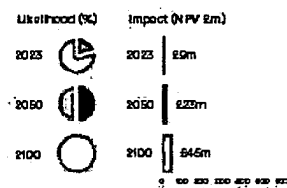


### Land management<sup>(2)</sup>

Deterioration in land quality due to climate change has both direct and indirect impacts. Hotter, drier summers lead to fire, flood, subsidence and landslip events which in turn have associated health, safety and environmental impacts.

#### Controls

- 'Catchment Systems Thinking' and proactive land management, including nature-based solutions.
- Deliver net gain in biodiversity from our construction projects.
- Directly restore peatland and woodland.
- Work in partnership with farmers, regulators and others to improve upland watercourses.

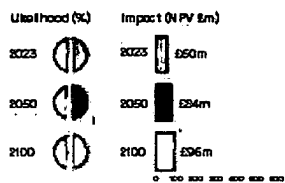


### Failure to adequately treat wastewater

Extremely heavy rainfall, which is projected to happen more often, can exceed our wastewater treatment works capacity and result in activations of overflows to prevent flooding of assets, streets and homes.

#### Controls

- Investment to meet legislated environment and treatment capacity requirements.
- Inclusion of climate change growth parameters in long-term adaptive plans.
- Controls for failure of wastewater network will support this risk.

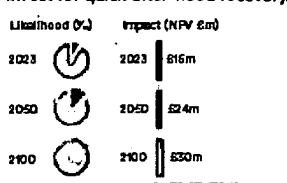


### Failure of above-ground water and wastewater assets (flooding)

Operational sites can be flooded from sea, river or surface water sources. Climate change is expected to increase the likelihood of flooding due to average winter rainfall being projected to rise, frequent storm events and rising sea levels.

#### Controls

- Install permanent flood defences at most flood-prone sites.
- Improve flood forecasting capabilities.
- Build better network connectivity to maintain water supplies during floods.
- Invest for quick after-flood recovery.

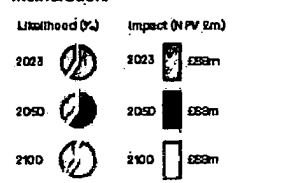


### Recycling of biosolids to agriculture<sup>(2)</sup>

Water logging resulting from more persistent rainfall will limit options for recycling biosolids to land for a greater part of the year. Uncovered sludge stores and stockpiles will be more vulnerable in persistent wet, winter weather, increasing the risk of environmental pollution from runoff.

#### Controls

- Additional storage capacity.
- Contingency planning for alternative methods for sludge disposal, e.g. incineration.



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# Strategic Report



## Risks and opportunities

### How we identify, assess and manage nature-related risks and opportunities

Many key risks in our risk management assessments are linked to the natural environment, including many of our principal risks and significant event-based risks.

We recognise that impacts and dependencies on nature are often location-specific and are inextricably linked to the local environment and communities.

The risk breakdown structure that underpins our operational risk assessment framework includes consequences related to biodiversity, flooding, drought, water quality, recreational access, carbon storage, air quality and waste. This includes a process to make decisions that avoid, minimise or mitigate nature-related risks. Prioritisation of risks is determined based on current risk exposure (calculated based on likelihood of occurrence and most likely impact) of each of the principal risks relative to each other. Decisions are made on the level of risk we are prepared to manage relative to risk appetite and tolerance in order to deliver on our strategy.

There is a close link between nature and climate change, with many pressures on the natural environment becoming more acute as the climate changes. Our climate change adaptation report highlights key physical risks related to the natural environment. Two of our carbon pledges – woodland creation and peatland restoration – are intrinsically linked to the natural environment and will deliver nature-related benefits beyond their value as natural carbon sinks.

In 2022, we published a discussion document jointly with The Rivers Trust on barriers to nature-based solutions, entitled PR24: Unlocking nature-based solutions to deliver greater value. This identified some of the key risks associated with the transition to a nature-positive economy, alongside recommendations for collaborative working with the Government and others to address these barriers. We are working with regulators, other water companies and nongovernmental organisations to take forward proposals to address these risks.

#### *Links to principal risks:*

- Water service
- Wastewater service
- Health, safety and environment

#### *Links to event-based risks:*

- Price Review 2024 outcome
- Wastewater network failure (sewer flooding)
- Water sufficiency
- Recycling of biosolids to agriculture.

## Strategic Report



### Risks and opportunities

**How we identify, assess and manage other risks and opportunities of material interest.**

#### Cyber security

Security is one of our ten principal risks, including cyber security, and cyber is identified as one of our most significant event-based risks. We have a low risk appetite in this area, and to date have not experienced a material breach in our IT security. We undertake number of mitigating actions, including:

- Enhanced physical security measures to counter general criminality and potential terrorism as appropriate.
- We monitor and review alerts and guidance issued by the National Cyber Security Centre and the US Cybersecurity and Infrastructure Security Agency, and implement new security technologies where needed to address growing threats, such as upgrades to our firewalls and multi-factor authentication to access our systems.
- We have a structured security policy framework including detailed guidance to allow all users, administrators and moderators to operate within a clearly communicated, best practice ruleset. Internal audits are regularly carried out to ensure compliance is maintained.
- Colleague training, including mandatory 'Security Seven' training, cyber incident training, and enhanced training for incident first responders. We also improve colleague awareness with regular cyber incident response exercises, phishing tests and associated phishing training, as well as running regular cyber-related events.
- Our Cyber Security Incident Response Plan is incorporated into business continuity and incident management plans and processes, and we have a dedicated business-wide Cyber Security Incident Response Team.
- Strong, independent assurance, including a continuous annual schedule of penetration testing, red team exercises for both physical and cyber and regulatory audits against our operational assets, and independent assurance and guidance against our regulatory security commitments as part of our annual security assessments. We have a comprehensive supply chain security assurance process, and work with suppliers to help them reach the required security level where needed.

#### Financial risk management

Finance is one of our ten principal risks and credit ratings and financial outperformance are identified as event-based risks. The controls we have in place through our financial risk management policies and processes provide a high degree of mitigation and protection from market volatility, enabling us to raise finance across the economic cycle. Our debt has a long average life and maturities are spread to avoid a high concentration of risk in any one year. We monitor financial ratios regularly as well as considering the impact on these metrics within our business planning processes.

Read more on pages 161 to 174.

#### Affordability and vulnerability

Retail and commercial is one of our ten principal risks, and this incorporates a number of underpinning event-based risks. These include customer experience, cash collection, billing accuracy, and affordability support, which collectively take account of economic conditions including cost of living pressures, providing value for money, and supporting our most vulnerable customers. In order to achieve high levels of performance, our customer experience and debt strategy includes multiple controls, including:

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## Strategic Report

- Customer consultation (requirements and expectations);
- Customer surveys;
- Affordability schemes;
- Tariff setting policies; and
- Reconciliation processes.

### Health, safety and wellbeing

Health, safety and wellbeing is part of one of our ten principal risks: health, safety and environmental. We have an adverse appetite and tolerance in this area.

We have identified six factors critical to our success:

- Active leadership;
- Engaged, empowered colleagues;
- Clear expectations;
- Safe, healthy working environments;
- Simple effective systems; and
- Continuous improvement.

We work relentlessly to ensure our health, safety and wellbeing culture is built upon these six key principles.

### Responsible supply chain

Supply chain and programme delivery is one of our ten principal risks, and we have a prudent risk appetite and tolerance in this area. We are committed to working with suppliers that share our values. As part of our United Supply Chain approach, our Responsible Sourcing Principles are structured around ESG issues that are important to us as a business and in our approach to responsible sourcing. We assess sustainability risk on partner and strategic suppliers against our Responsible Sourcing Principles to target our enhanced due diligence audits and to focus on opportunities for improved performance in tackling key issues such as modern slavery and human trafficking.

### Diversity and inclusion

Diversity and inclusion is not directly identified as a key risk, but having a diverse and inclusive workforce is important to ensuring we have access to a wide range of ideas and views and to maximising colleague engagement, which has an impact on resource risk, one of our top ten principal risks. We are dedicated to continuing to improve in this area.

# Strategic Report



## Metrics and targets

### Climate-related metrics and targets used to assess and manage climate-related risks and opportunities

#### Summary

- United Utilities was the first UK water company to have targets verified by the SBTi, including for scope 3 emissions. We have now achieved SBT 2 as 100 per cent of our annual electricity is from renewable sources.
- We have made progress on SBT 1 reducing absolute scope 1 and 2 emissions by 3.6 per cent (gross) compared to our baseline year 2019/20 and SBT 3 where 23 per cent of our suppliers of capital goods (by emissions) have set their own science-based target.
- UK Government carbon values are used in our risk assessments and our planning for medium and long-term investments, including PR24.

#### Metrics to assess climate-related risks

Our vulnerability to climate-related risks is determined by two factors: the physical and transitional impacts we experience and the control measures we have put in place to manage the risks and realise opportunities. To manage our physical risks effectively we must track and understand patterns of weather, and weather events, and learn how they can affect us operationally. To do this we have been working with the Met Office to use both their short-term forecasts and longer-term projections in our planning, modelling for up to a 4°C change in global temperature. We monitor factors relating to transitional risks, including energy pricing (of both fossil fuels and low carbon alternatives), carbon pricing (through purchasable credits, offsets and certificates), and the marketplace for the availability and cost of alternative fuelled vehicles, batteries and for emerging technologies to reduce process and fugitive emissions.

#### Performance metrics: climate-related risks management

We manage our climate-related risks by putting in place controls such as those as set out on page 71 and in Appendix A.3 of the climate change adaptation progress report in the UUG 2023 Annual report and financial statements. The effectiveness of these controls is seen in our operational performance metrics. The following metrics are recognised as examples of those key to our resilience to a changing climate and are reported in the annual performance report:

- Leakage;
- Per capita consumption;
- Flooding incidents, risk and resilience;
- Storm overflow activations;
- Risk of severe restrictions in a drought;
- Sewer collapses;
- Water service supply and resilience; and
- Low water pressure areas.

Note as a regulated business climate-related opportunities are limited to ways we can avoid costs rather than generate revenue.

# Strategic Report

## Performance metrics: Science-based targets

We have a strong track record of playing our part to mitigate climate change and have reduced scope 1 and 2 emissions by over 70 per cent since 2005/06, largely through our substantial investment in renewable power generation and green energy procurement. Our ambition and commitments are based on international guidance and climate science and we were delighted in July 2021 that our four near-term science-based targets were verified by the Science Based Targets initiative (SBTi). Since October 2021, the remainder of our purchased electricity has been on a renewable tariff backed by Renewable Energy Guarantees of Origin certificates, meaning that in the future 100 per cent of our purchased electricity will be from renewable sources enabling us to deliver on our carbon pledge and our SBT. The SBTi Net Zero Standard was launched in late 2021 and we have committed to validate our 2050 ambition to this standard when we revise and revalidate our near-term targets in advance of 2025.

As well as our company-specific science-based targets, we share the UK water sector ambition for a subset of operational emissions to be net zero from 2030. Note that this target has a smaller scope than SBTi and allows use of purchased credits, using agreed offsetting principles.

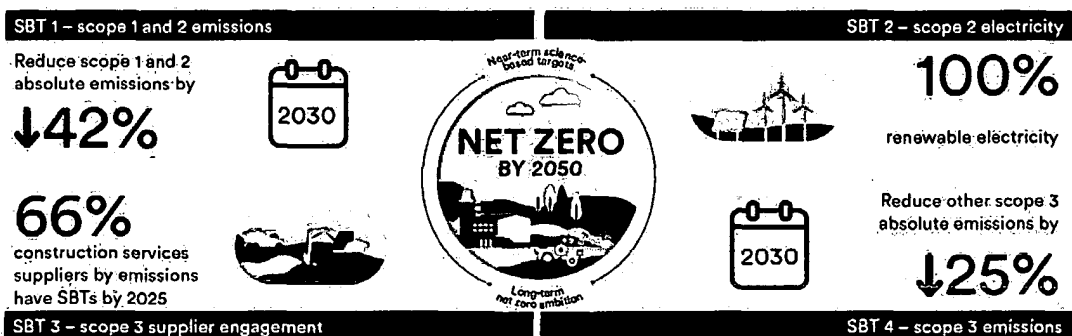
## Future focus

- Continue our collaboration with suppliers so that we can increase the proportion of our scope 3 emissions that are estimated using volume of product purchased rather than spend.
- Attempt to inform national approach to water investment programmes arising from public pressure and the new Environment Act 2021.
- Work to validate our long-term net zero ambition to the new SBTi Net Zero Standard.

Read about progress to deliver our six carbon pledges on page 92 of the UUG 2023 Annual report and financial statements.

Read our streamlined energy and carbon report including 2022/23 greenhouse gas emissions on pages 93 to 95 of the UUG 2023 Annual report and financial statements.

Read more about our 2022/23 environmental performance on page 89 of the UUG 2023 Annual report and financial statements.



## Strategic Report



### Metrics and targets

#### Nature-related metrics and targets

#### Managing nature-related risks and opportunities

Nature is fundamental to the sustainability of our business and so we monitor a wide variety of metrics and set targets to help monitor and assess nature-related risks and opportunities.

To measure our performance we demonstrate delivery against contributing targets from a number of statutory requirements, such as the condition of protected sites, biodiversity net gain, environmental performance, and supporting strategies. We were the only water company to set a natural capital outcome delivery incentive in our business plan for 2020–25. This is measured by demonstrating additional value created through ecosystem services for customers and the environment. We achieve this by implementing nature-based solutions where they offer best value compared against a hard-engineered solution.

We are a key contributor to the North West's first natural capital account developed in collaboration with many regional organisations. By considering this baseline value, we can benchmark the impact of future changes to our natural assets and quantify improvements. It is helping to understand how valuable the region's natural capital assets are. This year, we have updated our own natural capital account as part of a five-yearly review cycle.

Many of our targets in the short and medium term are regulatory performance commitments for 2020–25. We also have targets that go further, like our Better Rivers pledges and targets for monitoring and reducing storm overflow activations. We are in the process of preparing our business plan with targets for the 2025–30 period. Our long-term targets align with government expectations, such as achieving 75-per cent favourable condition for SSSI locations by 2042. We are committed to improving surface, groundwater and bathing water quality in the immediate term and beyond.

#### Progress this year

- Updated our corporate natural capital account in 2022 so we can track and measure trends in our impact on nature.
- Developed our long-term environmental strategy.

#### Future focus

- Continue to engage with the taskforce to develop our nature-related disclosures, and work towards the global shared vision of 'living in harmony with nature by 2050'.
- Develop a strategy on how we will achieve the four 2030 biodiversity goals adopted by nations during COP15. By engaging in the TNFD process early we are already working towards achieving Target 15 to disclose on our interactions with nature.



### Risks and opportunities

#### Metrics and targets in relation to areas of material interest

#### Cyber security

We monitor a number of security metrics and have targets against each. Many are aimed at meeting or exceeding national recommendations or comparative performance, such as targets for security patching recommended by the National Cyber Security Centre, and our phishing test platform where we monitor



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## Strategic Report

comparative performance on clicks, compromises and reports. We target zero malware outbreaks and use a series of technical and process controls to ensure we achieve this. We aim to have all our major suppliers security assured to our standards, and maintain a dynamic and live assessment of our supply chain. We are measured annually by our regulators against NIS security targets and have remained compliant since this was introduced. As a tier two PCI-DSS merchant, we are measured annually by our payment industry stakeholder against PCI-DSS and have remained compliant to requirements for many years.

### Financial risk management

We operate within targets set out in our financial risk management policies, including a range for how many months' liquidity we maintain on a rolling basis, levels of index-linked and fixed rate debt we want to maintain, and energy price hedging. We set individual credit risk targets for counterparties based on their level of risk. We target a 55 to 65 per cent gearing range, which supports our credit rating targets. Performance against all of these targets is monitored on a monthly basis.

### Affordability and vulnerability

We monitor various metrics around cash collection, bad debts, and the number of customers on our support schemes. Our C-MeX score for customer satisfaction is also impacted in part by the help we provide to customers in vulnerable situations. We have 2025 performance commitments for lifting customers out of water poverty and signing more customers up to Priority Services. Read more on pages 98 to 101 of the UUG 2023 Annual report and financial statements.

### Health, safety and wellbeing

We monitor various metrics for health, safety and wellbeing, including accidents and near misses. We have targets for accident frequency rates for both colleagues and contractors, and we target maintaining accreditation with the Workplace Wellbeing Charter. Read more on pages 100 to 101 of the UUG 2023 Annual report and financial statements.

### United Supply Chain

We aim to have 100 per cent of targeted suppliers signed up to United Supply Chain by 2025. Read more on page 108 of the UUG 2023 Annual report and financial statements.

### Diversity and inclusion

We monitor a number of metrics on the inclusive nature of our workforce, including gender, ethnicity, disability, and LGBT+. We target scoring at least in line with both the UK norm and the Utilities norm on the diversity and inclusion questions in our colleague engagement survey, and we look to continually progress towards improving our diversity statistics, including closing the gender pay gap. Read more on pages 54 to 55 of the UUG 2023 Annual report and financial statements.

## Strategic Report



### Energy and carbon report

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations require us to publish this energy and carbon report applying the 2019 UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Guidance (SECR).

We use the financial control approach so our energy and carbon accounting is aligned with the consolidated financial statements for United Utilities Group PLC for 1 April 2022 to 31 March 2023. This includes subsidiaries listed in section A8 on page 286 of the UUG 2023 Annual report and financial statements.

Our greenhouse gas inventory, including the underlying energy data summarised below, has undergone independent third-party verification by the Achilles Group to the requirements of Toitu CarbonReduce programme.

	2022/23	2021/22	2020/21	2019/20
	GWh	GWh	GWh	GWh
<b>Energy use</b>				
Electricity	818.8	803.3	807.3	802.3
Natural gas	33.8	33.8	40.0	38.3
Stationary fossil fuels (Gas oil, kerosene, diesel)	59.9	50.5	36.5	50.8
Stationary low carbon fuels (HVO, LPG)	<0.1	<0.1	0	0
Energy for transport (from fuel used or distance travelled)	71.7	72.6	67.5	65.5
<b>Total energy used</b>	<b>983.9</b>	<b>960.2</b>	<b>951.3</b>	<b>956.9</b>
<b>Electricity purchased</b>				
Grid renewable	655.7	611	591.4	602.9
Grid standard tariff <sup>(1)</sup>	<0.1	22.3	47.8	40.8
<b>Total purchased</b>	<b>655.7</b>	<b>633.3</b>	<b>639.2</b>	<b>643.7</b>
<b>Renewable energy generated</b>				
CHP	123.0	133.8	127.6	121.5
Solar	46.4	47.8	50.7	42.6
Wind	5.1	4.8	5.3	5.7
Hydro	6.9	7.2	6.9	6.8
Biomethane <sup>(2)</sup>	14.5	15.9	14.8	14.2
<b>Total generated</b>	<b>195.9</b>	<b>209.5</b>	<b>205.3</b>	<b>190.8</b>
<b>Renewable energy exported</b>				
Electricity	18.3	23.5	22.4	18.1
Biomethane <sup>(2)</sup>	14.5	15.9	14.8	14.2
<b>Total exported</b>	<b>32.8</b>	<b>39.4</b>	<b>37.2</b>	<b>32.3</b>

# Strategic Report

1. Non half hourly metered supplies were on a standard tariff up to the end of September 2021. The emissions were 289g CO<sub>2</sub>e/kWh in 2019/20, 178g CO<sub>2</sub>e/kWh in 2020/21 and 188g CO<sub>2</sub>e/kWh in 2020/21. Non half hourly supplies moved to a new supplier on a 0g CO<sub>2</sub>e/kWh renewable tariff on 1 October 2021.
2. The residual electricity on a standard tariff is associated with default tariffs for recently adopted sites.
3. Biomethane generated and exported to grid is expressed as an electricity equivalent.

## Energy strategy

Our energy management strategy has four objectives:

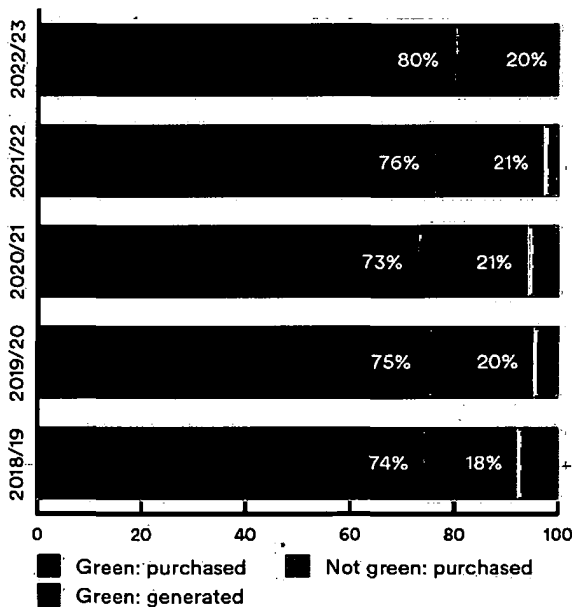
- Efficient use of energy;
- Maximising self-generation and direct supply opportunities;
- Reducing costs (through time of use); and
- Supply resilience to ensure we can deliver our services.

In 2021/22, we set a record for renewable energy generation of 210 GWh through focus on end-to-end performance of our bioresources operations, which produce electricity, heat and biomethane.

Each year we serve a growing population, driving increased energy use as we strive to achieve environmental performance targets. We seek to mitigate this through our energy management programme and in recent years have maintained consistent energy use in the face of these considerable upward pressures.

## 100 per cent green electricity transition

Since October 2021 100 per cent of our electricity used has either been renewably generated on site or its purchase backed by REGO (Renewable Energy Guarantee of Origin) certificates.



## Strategic Report

### Energy efficiency actions taken

Our approach to energy efficiency is based on continuous improvement of:

- people – optimising ways of working;
- systems – improving visibility of use and analysis of data systems; and
- technology – targeted investment to remove technological inefficiencies.

Our Energy Management Programme is now firmly established and working well after activities were restricted during COVID-19. The programme carries out site-based workshops and develops ways of working to optimise operations at sites and local area and is underpinned by e-learning packages and a comprehensive energy performance reporting and analysis capability.

To support reporting and analysis, we have invested over recent years to capture data from our fiscal meters and have installed thousands of sub-meters. The resulting data is used to identify opportunities, assess impacts and benefits of trials and maintain good performance. We are using analytics to identify optimisation interventions, such as pump specification.

We have a dedicated investment programme to implement targeted energy saving opportunities for existing operations and we focus on ensuring efficient outcomes from our capital programme. Examples of invest-to-save projects include pump optimisation, time-of-use actions and improved control of wastewater treatment. We are also working to ensure energy and chemical efficient outcomes from our capital programme.



### Greenhouse gas emissions inventory

Our greenhouse gas inventory (including all the underlying energy data) has undergone independent third party verification by Achilles group and is certified to the requirements of the Toitu CarbonReduce programme, as aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the international carbon reporting standard ISO 14064, Part 1:2018. Assurance certificate and report can be found at [unitedutilities.com/corporate/responsibility/environment/climate-change/](https://unitedutilities.com/corporate/responsibility/environment/climate-change/).

Emissions are calculated by estimating the individual greenhouse gases that result from all United Utilities' activities, converted into a carbon dioxide equivalent (tCO<sub>2</sub>e). Emissions have been estimated using the UK water industry Carbon Accounting Workbook v17 (CAW v17), the 2022 UK Government GHG conversion factors for company reporting and CEDA Global '22 (Comprehensive Environmental Data Archive) factors. We report scope 1, 2 and all relevant scope 3 emissions.

Our carbon footprint is calculated by estimating the individual greenhouse gases that result from all United Utilities' activities, converted into a carbon dioxide equivalent (tCO<sub>2</sub>e). We report scope 1, 2 and all relevant scope 3 emissions. Emissions have been estimated using the UK water industry Carbon Accounting Workbook v16 (CAW v16), the 2021 UK Government GHG conversion factors for company reporting and CEDA (Comprehensive Environmental Data Archive) factors. Our greenhouse gas inventory has been independently verified and certified by Toitu carbonreduce programme, as aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the international carbon reporting standard ISO 14064, Part 1:2018.

## Strategic Report

**Scope 1** - Emissions from activities we own or control, e.g. burning fossil fuels, wastewater and sludge processing.

**Scope 2** - Emissions from purchased electricity including for use in vehicles.

**Scope 3** - Emissions from our value chain, e.g. sludge disposal, business travel and products and services.

Scope 1 & 2 greenhouse gas emissions		2022/23	2021/22	2020/21	SBT baseline
		tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	2019/20 tCO <sub>2</sub> e
<b>Scope 1:</b>					
Direct emissions from burning of fossil fuels		21,339	19,207	17,371	15,247
Process and fugitive emissions – including refrigerants		94,915	96,020	98,569	96,186
Transport: Company-owned or leased vehicles		17,665	16,507	16,634	15,739
<b>Scope 2:</b>					
Purchased electricity – generation	Market-based <sup>(1)</sup>	9.3 <sup>(5)</sup>	4,201	8,507	11,789
	<i>Location-based<sup>(2)</sup></i>	<i>126,813</i>	<i>134,492</i>	<i>149,030</i>	<i>164,521</i>
Purchased electricity – vehicles	Market-based	1.7	0.04	0	0
	<i>Location-based</i>	<i>1.7</i>	<i>0.04</i>	<i>0</i>	<i>0</i>
<b>Total scope 1 &amp; 2 emissions (Gross)</b>	Market-based	<b>133,930</b>	<b>135,936</b>	<b>141,081</b>	<b>138,961</b>
	<i>Location-based</i>	<i>260,734</i>	<i>266,226</i>	<i>281,604</i>	<i>291,693</i>
<b>Emissions reduction from</b>					
Renewable electricity exported <sup>(3)</sup>		-1,310	-4,317	-4,184	-3,979
Biomethane exported <sup>(4)</sup>	<i>Location-based</i>	<i>-9,360</i>	<i>-10,283</i>	<i>-9,725</i>	<i>-9,302</i>
Green tariff electricity purchased	<i>Location-based</i>	<i>-125,746</i>	<i>-133,197</i>	<i>-138,015</i>	<i>-164,210</i>
<b>Total scope 1 &amp; 2 emissions (Net)</b>	Market-based	<b>132,620</b>	<b>131,619</b>	<b>136,897</b>	<b>134,982</b>
	<i>Location-based</i>	<i>124,318</i>	<i>118,429</i>	<i>129,680</i>	<i>114,202</i>

<sup>(1)</sup> Market-based figures use emission factors specific to the actual electricity purchased. If electricity is on a standard grid tariff they are calculated using factors from suppliers' published fuel mix disclosures.

<sup>(2)</sup> Location-based figures use average UK grid emissions to calculate electricity emissions and are shown in *italics*.

<sup>(3)</sup> Exported electricity emissions use the average UK grid emissions factor for both market and location-based totals.

<sup>(4)</sup> Exported biomethane was sold with green gas certificates so has zero emissions reduction benefits in market-based accounts.

<sup>(5)</sup> The residual market-based electricity emissions is associated with default tariffs for recently adopted sites.

## Strategic Report

	2022/23	2021/22	2020/21	SBT baseline 2019/20
Scope 3 greenhouse gas emissions	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e	tCO <sub>2</sub> e
Category 1: Purchased goods and services <sup>(6)</sup>	250,189	292,946	271,871	213,442
Category 2: Capital goods <sup>(6)</sup>	138,182	112,498	95,968	128,286
Category 3: Fuel and energy-related emissions <sup>(7)</sup>	53,487	58,948	42,599	45,262
Category 4: Upstream T&D – sludge transport <sup>(7)</sup>	35	103	1,119	3,374
Category 5: Waste generated in ops: including sludge disposal <sup>(7)</sup>	27,454	25,458	26,333	27,936
Category 6: Business travel: public transport, private vehicles and hotel stays <sup>(7)</sup>	1,486	1,138	1,226	3,508
Category 7: Employee commuting and homeworking <sup>(8)</sup>	5,336	4,066	4,108	4,231
<b>Total scope 3</b>	<b>476,169</b>	<b>495,158</b>	<b>443,224</b>	<b>426,039</b>
<b>Scope 3 SBT measure (excluding category 2)</b>	<b>337,987</b>	<b>382,660</b>	<b>347,256</b>	<b>297,753</b>

<sup>(6)</sup> For Category 1 and 2 we use CEDA Global '22 (an EEIO (environmentally-extended input-output) inventory) to estimate emissions based on the £ spent by spend category.

<sup>(7)</sup> Category 3, 4, 5 and 6 use company activity records and UK government conversion factors.

<sup>(8)</sup> Category 7 uses EcoAct models to estimate emissions from employee commuting and homeworking based on company FTE figures and home, site, hybrid working patterns.

### United Utilities' greenhouse gas emissions intensity

As in previous years, we report the regulated emissions kilograms CO<sub>2</sub> equivalent per megalitre treated (using the location-based method as calculated in the CAW v17), as these are common metrics for our industry.

We also state our scope 1 plus 2 emissions (market-based) as tonnes CO<sub>2</sub> equivalent per £million revenue.

Regulated emissions per megalitre water treated (kg)		Regulated emissions per megalitre sewage treated (kg)	
2022/23	101.4	2022/23	158.76
2021/22	106.91	2021/22	144.21
2020/21	118.51	2020/21	152.26
Scope 1 and 2 emissions (gross) per £m revenue (tCO <sub>2</sub> e)		Scope 1 and 2 emissions (net) per £m revenue (tCO <sub>2</sub> e)	
2022/23	73.4	2022/23	71.4
2021/22	73.0	2021/22	70.7
2020/21	78.0	2020/21	75.7

### Scope 1 emissions

Wastewater and sludge processes cause approximately 70 per cent of our scope 1 emissions as the gases released, nitrous oxide (N<sub>2</sub>O) and methane (CH<sub>4</sub>) have much greater global warming potentials than carbon dioxide (CO<sub>2</sub>). Our process emissions are currently estimated as a direct function of the amount of wastewater we treat. We are undertaking research with other UK water companies to better quantify these emissions from measured values and to find ways to reduce or capture those emissions for beneficial use.

### Scope 2 emissions

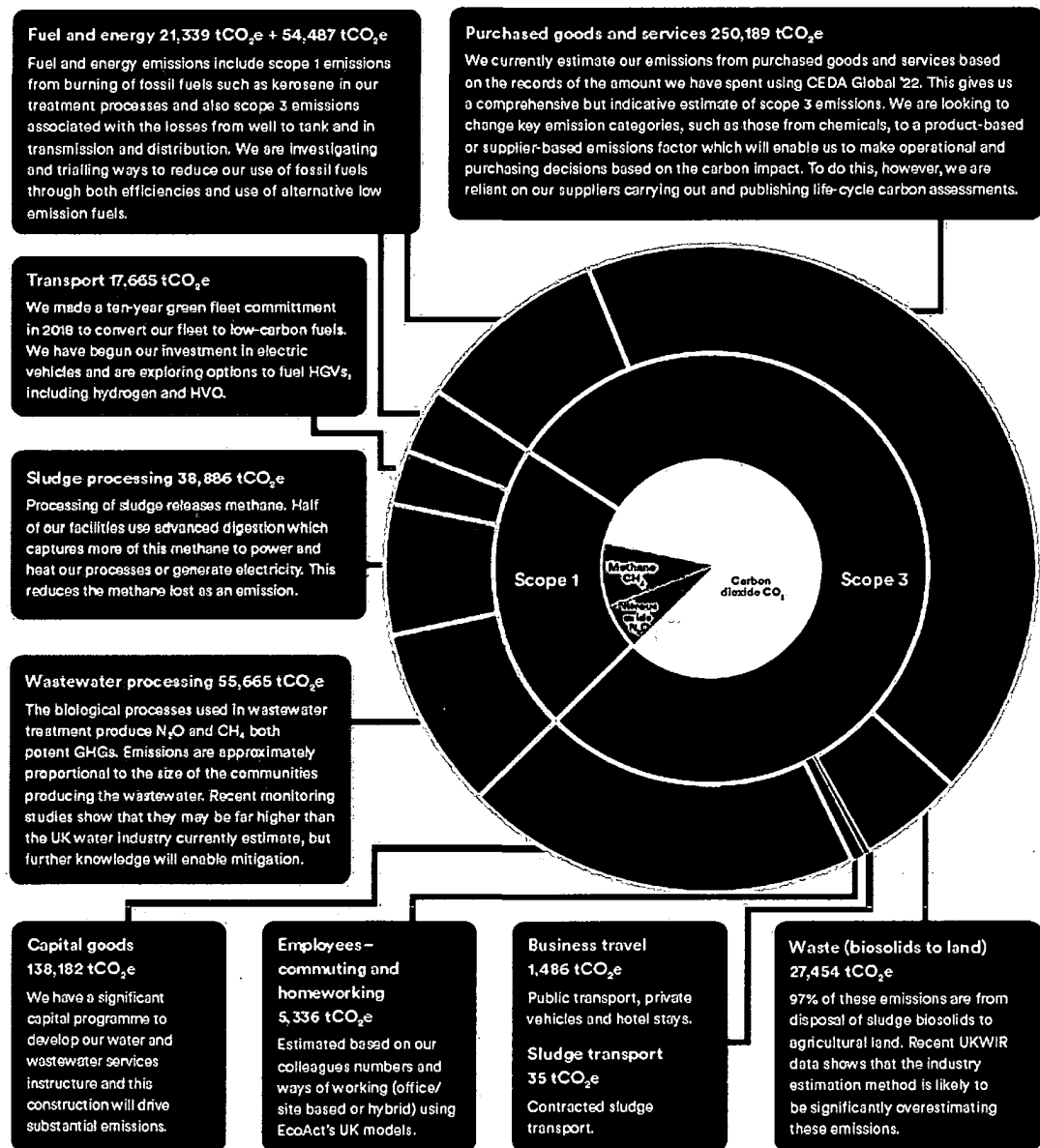
Our market-based scope 2 emissions are negligible as our agreed supply contracts are REGO backed renewable tariffs.

# Strategic Report

## Scope 3 emissions

Most of our scope 3 emissions are in GHG Protocol categories 1 (products and services) and 2 (capital goods); the latter being those provided by our construction services suppliers. We currently calculate category 1 and 2 emissions using records of the amount we have spent. This provides an indicative estimate but is determined by the scale of our investment programme rather than our design choices. We are working internally and with supply chain partners to enhance our data and systems so that we can calculate these emissions based on types and quantities of materials used, thereby showing the full impact of our management decisions.

The next highest category is indirect emissions from fuel and energy use. Electricity and fuels used at our operational sites make up 90 per cent of this quantity, so our clean energy and renewable generation ambitions will reduce these as well as scope 1 emissions.



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## Strategic Report

### Risks and opportunities

#### Our risk and resilience framework

We have a robust risk and resilience framework for the identification, assessment and mitigation of risk.

#### Our approach to risk and resilience

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for a stronger, greener and healthier North West and be more resilient across our corporate, financial and operational structures. A key objective of our approach to risk and resilience is to support the sustainable achievement of the strategic priorities that underpin our vision to be the best UK water and wastewater company:

- Provide a safe and great place to work;
- Deliver great service for all customers;
- Improve our rivers;
- Create a greener future;
- Spend customers' money wisely; and
- Contribute to our communities.

Our risk and resilience framework provides the foundation for the business to anticipate threats to delivering an effective service in these challenging times, and to respond and recover effectively when risks materialise.

Key components of the framework include:

- an embedded group-wide risk management process, which is aligned to ISO 31000:2018 risk management guidelines;
- a board-led approach to risk appetite, based on strategic goals;
- a strong and well-established governance structure giving the board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes and controls; and
- a portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Continuous improvement is a key feature of the framework, which incorporates a maturity assessment model to identify areas to enhance. Based on risk management capabilities relative to five levels of maturity, a recent assessment has supported the development of a road map of improvements. This includes the enhancement of non-financial assessment criteria by aligning to the six capitals (see page 11) to ensure a consistent consideration of key stakeholders and areas of value; an improved focus on control; and the continued development of tactical appetite and tolerance statements.

#### Identifying opportunities

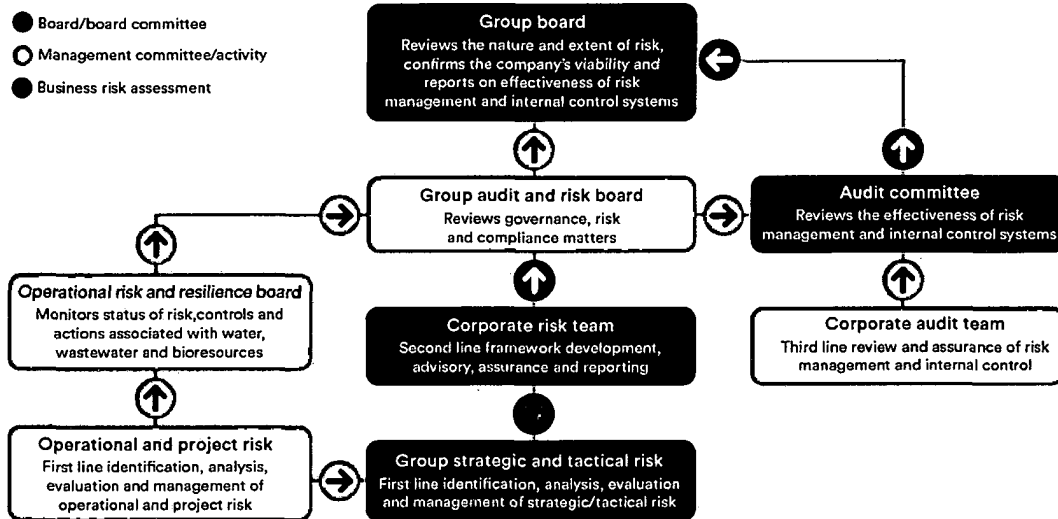
Factors from both the internal and external business environment may give rise to opportunities that will positively affect our performance and future prospects. The identification, analysis and management of upside as well as down side risk will further support the achievement of the strategic priorities, with our Systems Thinking approach and culture of innovation being a fundamental component (see page 5).



# Strategic Report

## Governance and reporting process

The risk management and governance and reporting process, as summarised on page 41, can be represented by the following diagram:



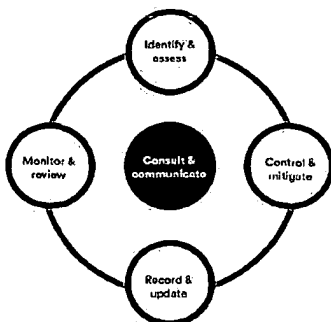
## Risk appetite and tolerance

Focused on supporting decision-making, the risk appetite and tolerance framework consists of a package of measures. The General Risk Appetite represents financial limits against which event-based risks are compared at each full and half-year assessment and reporting cycle. In parallel are a series of strategic statements which align directly to the principal risks (see pages 85 to 97). Each statement reflects the strategic intent, strategic theme, relevant stakeholders and governance, but fundamentally emphasises the attitude to risk taking and control relative to four descriptors:

- **Averse:** A strong opposition to accept risk within business strategy or operational activity.
- **Prudent:** A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries.
- **Moderate:** Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits.
- **Accepting:** Willingness to accept risk with regard to business strategy or operational activity.

As a regulated company providing essential public services none of the principal risks have risk accepting as a strategic direction or approach. Underpinning each strategic statement, and currently under development, are a series of more tangible, tactical statements with specific levels and limits.

## How we identify and assess risk



# Strategic Report

We have a number of mechanisms in place to identify risk. These include a risk universe, cross-business horizon scanning forums, consultation with third parties and comparison with National Risk Registers.

Each risk is event based and is sponsored by a senior manager who is responsible for the analysis of the corresponding causal factors, consequences and the control effectiveness, taking account of both the

internal and external business environment. This process quantifies the likelihood of the event occurring and the full range of potential impacts from a minimum (best case) to a maximum (worst case).

Comparing this position against the desired target state, in combination with the strengths, weaknesses and gaps of the control environment, supports the decisions for further mitigation as appropriate. This ongoing analysis culminates in the biannual business unit risk assessment (BURA) which forms part of the governance and reporting process (as outlined opposite) to ensure consistency of approach and a true reflection of the risk facing the company. It also serves to calibrate the most significant risks from a financial and reputational context and to assess how these relate to our risk appetite.

### Risk profile

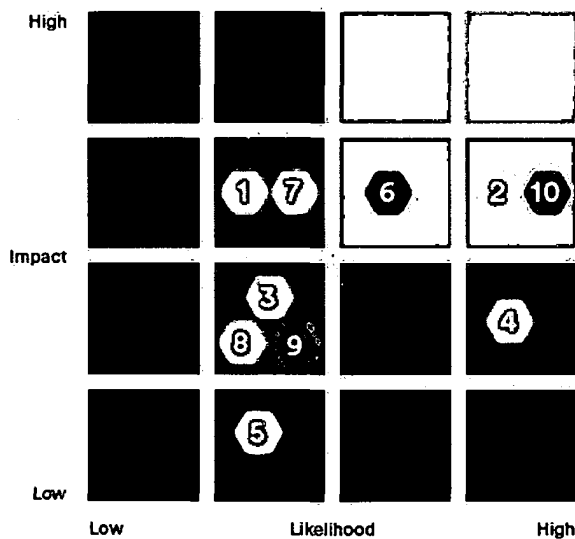
The business risk profile is based on the value chain of the company, with the ten principal risks representing inherent risk areas (primary and supportive) where value can be gained, preserved or lost relative to the performance, future prospects or reputation of the company. Underpinning the principal risks, the profile consists of approximately 100 event-based risks, each of which is allocated to one of the ten inherent risk areas based on the context of the event, enabling the company to consider interdependency and correlation of common themes and control effectiveness.

### Principal risk heat map

The heat map provides an indicative only view of the current risk exposure (likelihood of occurrence and most likely impact) of each of the principal risks relative to each other.

Seven of the principal risks have remained relatively stable in the last 12 months with the following principal risks demonstrating an increase in exposure:

- Finance due to current economic conditions and uncertainty;
- Conduct and compliance due to the potential for increased penalties; and
- Political and regulatory due to increased public and political interests in the water sector and societal expectations.



# Strategic Report

**Risk exposure**

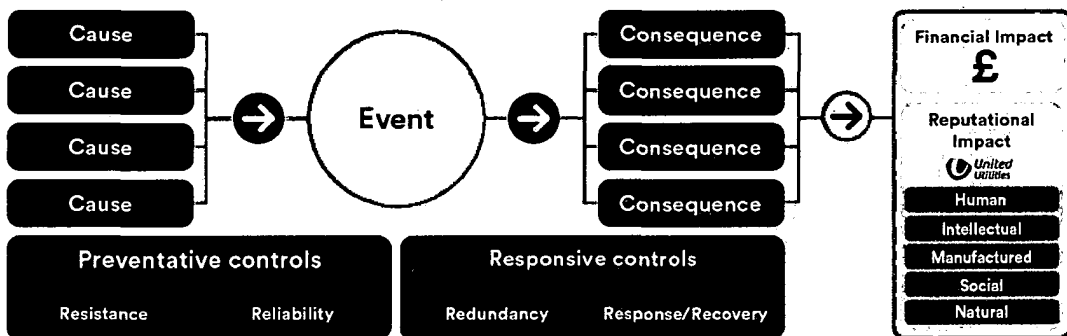
An indication of the current exposure of each principal risk relative to the prior year. Decreased Stable Increased

**Principal risks**

- ① Water service
- ⑤ Resource
- ⑨ Conduct and compliance
- ② Wastewater service
- ⑥ Finance
- ⑩ Political and regulatory
- ③ Retail and commercial
- ⑦ Health, safety and environmental
- ④ Supply chain and programme delivery
- ⑧ Security

**Common themes**

As illustrated in the diagram below, each of the event-based risks has multiple causes and consequences, which in turn lead to financial and/or reputational (non-financial) impact. Preventative and responsive controls, which incorporate the four components of resilience (resistance; reliability; redundancy; and response/recovery), are applied to reduce the likelihood of the event occurring and limit the impact if the event were to materialise. New and emerging circumstances in respect of causes, consequences and controls make the profile multifaceted and dynamic. Analysis of the profile highlights common themes, notably associated with the causes and consequences. These common themes can then be considered more holistically, which combined with the analysis of the strengths, weaknesses, gaps and interdependency of control across the business, enables a more integrated approach to risk management.



**Common causal themes**

The event-based risks include multiple causal factors, which individually, or in combination, could drive or influence the risk event to occur. Categorisation illustrates seven common causal themes:

- **Asset health:** General use, exposure to natural hazards, pressure and load all contribute to the deterioration of assets. In addition, other factors such as technological obsolescence and operating assets beyond their optimal capacity to cope with increased demand (population growth and/or climate change) also affect asset health. Asset health is a cross-business risk as it can affect operational efficiency and resilience.
- **Culture:** Embedded through processes, reward mechanisms, values and behaviours, corporate culture cuts across the majority of risks including service delivery; recruitment and talent management; colleague engagement; security and our reputation to multiple stakeholders. In an increasingly challenging business environment, our focus is to continue to embed a culture of delivering benefit to customers and communities, taking accountability and seeking new and innovative ways to deliver our services more efficiently and effectively.

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## Strategic Report

- **Demographic changes:** Population growth/shift and evolving age profiles can impact the capacity and capability of water and wastewater treatment and network assets, can affect demand on water resources, and increase uncertainty in relation to pension obligations.
- **Economic conditions:** Macro events can have multiple financial implications, including: lower revenue; reduced cash collection; increased operational cost through inflationary pressures; and increased cost of borrowing.
- **Extreme weather/climate change:** Our water resources, asset base and operations can generally cope with extreme weather conditions, although they can become overwhelmed in intense situations. Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme variations in weather patterns. Climate change will affect both our capacity and capability for service delivery, and the environment that we strive to protect and enhance. It is therefore a key focus and we are committed to the principles set by the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD).
- **Legislative and regulatory change:** Changes in, or the interpretation of, legislation and regulation can have implications for our business model, asset base and ways of working.
- **Technology:** Increased automation, system integration and artificial intelligence against the backdrop of systems thinking provides competitive advantage, improves efficiency and user experience for our colleagues, suppliers and customers. However, there is an increased capital requirement to keep pace with technological change, challenges in short-term adaptability of the workforce, and data and security threats as systems converge.

### Common consequence themes

Each consequence is analysed for the financial and reputational (non-financial) implications relative to multiple stakeholders. Categorisation of the consequences illustrates five common impact themes:

- **Colleagues:** Our colleagues are fundamental to delivering our service requirements as well as our strategic objectives. Equally, our colleagues can be affected by multiple risks across the business, but primarily in relation to employment and health, safety and wellbeing risks.
- **Customers:** Customers are impacted through our service offering, the quality of their experience when dealing with us, and how our operational and capital schemes affect them in the community.
- **Environment:** Our assets, operations and capital programmes can have a significant impact on the environment in both rural and urban settings. As a major land owner and operator of a large fleet of vehicles, the way we manage these also has environmental implications.
- **Investors:** The vast majority of risks in the profile have financial implications that could affect shareholder investment in the short and long term. Reputational impact associated with ethics, environmental protection and efficiency is also relevant for investors' interest in the company.
- **Suppliers:** The safety of working conditions, economic conditions, asset health, and contractual arrangement can all affect the effectiveness, sustainability and resilience of our suppliers and partners who are crucial to meeting our objectives and ensuring effective service.

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## Strategic Report

### Our principal risks

Based on the value chain of the company, principal risks represent inherent areas where value can be gained, preserved or lost. Water, wastewater (including bioresources) and retail and commercial areas are the primary inherent risk areas with all other areas being supportive or contributing activities.

***Appetite and tolerance:***

**Adverse:** A strong opposition to accept risk within business strategy or operational activity.

**Prudent:** A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries.

**Moderate:** Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits.

**Accepting:** Willingness to accept risk with regard to business strategy or operational activity.

***Risk exposure:***

Risk exposure gives an indication of the current exposure of each principal risk relative to the prior year.

#### **1 Water service (risk exposure – stable)**

**Strategic priority**

Deliver great service for all our customers

**Sponsor(s)**

Chief operating officer

**Principal risk description**

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

**Causal themes (Drivers/influences)**

- Asset health
- Demographic change
- Extreme weather/climate change
- Legal and regulatory change
- Technology

**Consequence themes and stakeholder groups**

- Customers
- Environment
- Investors

**Appetite and tolerance**

Water - Averse

**Control/mitigation**

- Strict quality controls and sampling regime
- Physical and chemical treatment with automation

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## Strategic Report

- Cleaning, maintenance and replacement of assets
- Water resources and production planning
- Pressure/flow management and leak detection
- Integrated network and response capability

### Top five event-based business risks (\*most significant group risks)

- Failure of Haweswater Aqueduct\*
- Water sufficiency\*
- Dam failure\*
- Failure to treat water
- Failure of the distribution system (leakage)

## 2 Wastewater service (risk exposure – stable)

### Strategic priority

Improve our rivers

### Sponsor(s)

Chief operating officer

### Principal risk description

The failure to remove, treat and return water and sludge to the environment

### Causal themes (Drivers/influences)

- Asset health
- Demographic change
- Extreme weather/climate change
- Legal and regulatory change
- Technology

### Consequence themes and stakeholder groups

- Customers
- Environment
- Investors

### Appetite and tolerance

Wastewater - Prudent

Bioresources - Moderate

### Control/mitigation

- Physical and chemical treatment and sampling/testing systems
- Customer campaigns
- Odour management
- Drainage and wastewater management plans
- Wastewater network operating model
- Cleaning, maintenance and replacement of assets
- Better Rivers Programme

## Strategic Report

### Top five event-based business risks (\*most significant group risks)

- Wastewater network failure (sewer flooding)\*
- Recycling biosolids to agriculture\*
- Failure to treat sludge\*
- Recycling biosolids to agriculture\*
- Wastewater treatment
- Mersey Valley Sludge Pipeline

### 3 Retail and commercial (risk exposure – stable)

#### Strategic priority

Deliver great service for all our customers

#### Sponsor(s)

- Customer services director
- General counsel and company secretary

#### Principal risk description

Failing to provide good and fair service to domestic customers and third-party retailers or a failure of, or issue in relation to, non-regulated interests

#### Causal themes (Drivers/influences)

- Legal and regulatory change
- Economic conditions
- Asset health
- Culture

#### Consequence themes and stakeholder groups

- Customers
- Investors

#### Appetite and tolerance

Retail - Moderate

Commercial - Moderate

#### Control/mitigation

- Customer-focused initiatives
- Best practice collection techniques
- Customer segmentation
- Priority Services scheme
- Data management and data sharing
- Non-regulated operation governance

### Top five event-based business risks (\*most significant group risks)

- Cash collection
- Customer experience
- Wholesale revenue collection
- Failure to maintain meters

## Strategic Report

- NAV market obligations

### 4 Supply chain and programme delivery (risk exposure – stable)

#### Strategic priority

Spend customers' money wisely

#### Sponsor(s)

Capital delivery, engineering and commercial director

#### Principal risk description

The potential ineffective delivery of capital, operational or functional processes/programmes including change.

#### Causal themes (Drivers/influences)

- Economic conditions
- Legal and regulatory change
- Technology

#### Consequence themes and stakeholder groups

- Communities
- Customers
- Environment
- Investors
- Suppliers

#### Appetite and tolerance

Supply chain - Prudent

Programme delivery - Moderate

#### Control/mitigation

- Category management
- Supplier relationship management
- Capital, change and operational programme management
- Engineering technical specifications
- Portfolio, programme and project risk management

#### Top five event-based business risks (\*most significant group risks)

- Security of the supply chain
- Price volatility
- Unfunded developer programmes
- Dispute with supplier
- Delivery partner failure



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## Strategic Report

### 5 Resource (risk exposure – stable)

#### Strategic priority

Spend customers' money wisely

#### Sponsor(s)

- People director
- Health, safety and wellbeing and estate services director
- Chief operating officer

#### Principal risk description

The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.

#### Causal themes (Drivers/influences)

- Asset health
- Culture
- Economic conditions
- Extreme weather/climate change
- Legal and regulatory change
- Technology

#### Consequence themes and stakeholder groups

- Colleagues
- Customers
- Investors

#### Appetite and tolerance

Resource - Moderate

#### Control/mitigation

- Adoption of effective technology
- Multiple communication channels
- Training and personal development
- Talent, apprentice and graduate schemes
- Change programmes and innovative strategies
- Maintenance, replacement or renovation of assets

#### Top five event-based business risks (\*most significant group risks)

- Failure of digital systems
- Employee relations
- Quality of critical data
- Land management
- Digital licensing

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## Strategic Report

### 6 Finance (risk exposure – increased)

#### Strategic priority

Spend customers' money wisely

#### Sponsor(s)

Chief financial officer

#### Principal risk description

The potential inability to finance the business appropriately.

#### Causal themes (Drivers/influences)

- Asset health
- Demographic change
- Economic conditions
- Legal and regulatory change
- Technology

#### Consequence themes and stakeholder groups

- Colleagues
- Customers
- Investors

#### Appetite and tolerance

Finance - Prudent

#### Control/mitigation

- Long-term refinancing
- Liquidity reserves
- Counterparty credit exposure and settlement limits
- Hedging strategies
- Sensitivity analysis
- Monitoring of the markets

#### Top five event-based business risks (\*most significant group risks)

- Totex efficiency challenge\*
- Credit ratings\*
- Erosion of pension scheme surplus\*
- Financial outperformance\*
- Unavoidable additional taxes

### 7 Health, safety and environmental (risk exposure – stable)

#### Strategic priorities

- Create a greener future
- Provide a safe and great place to work

#### Sponsor(s)

- Environment, planning and innovation director
- Health, safety and wellbeing and estate services director

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## Strategic Report

### Principal risk description

The potential harm to colleagues, contractors, the public or the environment.

### Causal themes (Drivers/influences)

- Asset health
- Culture
- Extreme weather/climate change

### Consequence themes and stakeholder groups

- Colleagues
- Communities
- Environment
- Investors
- Suppliers

### Appetite and tolerance

Health, safety and wellbeing - Averse

Environment - Averse

### Control/mitigation

- Strong governance and management systems
- Certification to ISO 45001 and ISO 14001
- Benchmarking, auditing and inspections
- Targeted engagement and improvement programmes
- Carbon reduction initiatives
- Self-generation of energy

### Top five event-based business risks (\*most significant group risks)

- Carbon commitments\*
- Disease pandemic\*
- Occupational health exposure
- Process safety
- Minor injuries

## 8 Security (risk exposure – stable)

### Strategic priority

Provide a safe and great place to work

### Sponsor(s)

General counsel and company secretary

### Principal risk description

The potential for malicious activity (physical or technological) against people, assets or operations.

### Causal themes (Drivers/influences)

- Asset health
- Culture

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## Strategic Report

- Economic conditions
- Technology

### Consequence themes and stakeholder groups

- Colleagues
- Communities
- Customers
- Investors
- Suppliers

### Appetite and tolerance

CNI and SEMD - Averse

Other - Prudent

### Control/mitigation

- Physical and technological security measures
- Strong governance, inspections and audits
- Security authority liaison and NIS compliance
- System and network integration
- Business continuity and disaster recovery
- Incident support service

### Top five event-based business risks (\*most significant group risks)

- Cyber\*
- Terrorism\*
- Criminality
- Fraud
- Data protection

## 9 Conduct and compliance (risk exposure – stable)

### Strategic priority

Contribute to our communities

### Sponsor(s)

- Corporate affairs director
- General counsel and company secretary

### Principal risk description

The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities.

### Causal themes (Drivers/influences)

- Asset health
- Culture
- Demographic change
- Economic conditions
- Extreme weather/climate change
- Legal and regulatory change

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## Strategic Report

### Consequence themes and stakeholder groups

- Colleagues
- Communities
- Customers
- Environment
- Investors
- Suppliers

### Appetite and tolerance

Legislation - Averse

Other - Prudent

### Control/mitigation

- Ethical supply chain, diversity and inclusivity policies
- Data classification and levels of authorisation
- Stakeholder engagement activities
- Audits and peer reviews
- Governance, risk assessment and horizon scanning
- Brand comparisons and dashboard of culture metrics
- Regulatory reporting

### Top five event-based business risks (\*most significant group risks)

- Procurement compliance
- Bribery risk
- Corporate governance

## 10 Political and regulatory (risk exposure – increased)

### Strategic priority

Contribute to our communities

### Sponsor(s)

- Corporate affairs director
- General counsel and company secretary
- Strategy, policy and regulation director

### Principal risk description

Developments connected with the political, regulatory and legislative environment

### Causal themes (Drivers/influences)

- Economic conditions
- Legal and regulatory change

### Consequence themes and stakeholder groups

- Colleagues
- Customers
- Environment
- Investors

## Strategic Report

### Appetite and tolerance

- Appetite or tolerance cannot be determined due to no genuine choice or control

### Control/mitigation

- Consultation with government and regulators
- Communication with customers
- Governance, risk assessment and horizon scanning
- Development of regulatory policy and strategy

### Top five event-based business risks (\*most significant group risks)

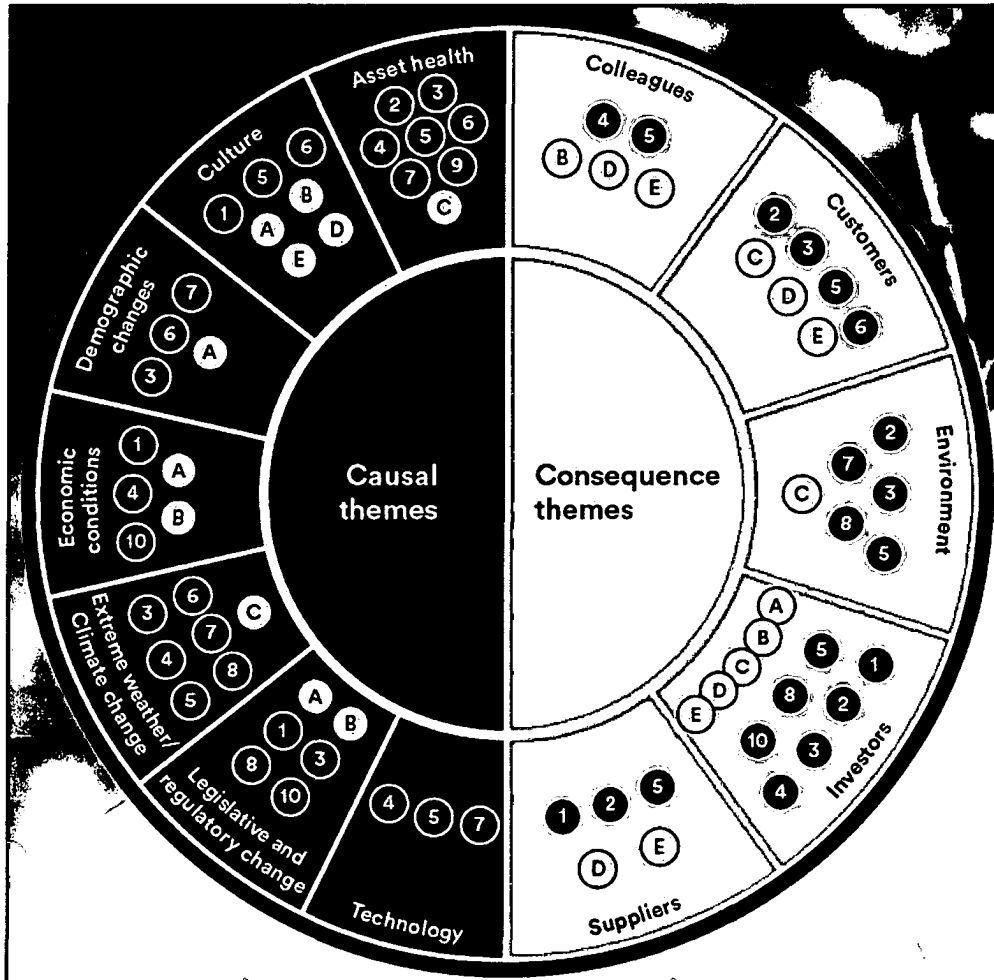
- Price Review 2024 outcome\*
- Upstream competition (bioresources)
- DPC delivery of HARP
- ASHE index
- Upstream competition (water resource)

# Strategic Report

## The company's most significant event-based risks

### Mapping of common themes to the most significant group risks

The diagram below illustrates how the common themes (causal and consequence) relate to the company's most significant event-based risks, demonstrating how new and emerging circumstances can not only influence the risk exposure, but also focus attention for control and mitigation.



**Most significant event-based risks**

- 1. Price Review 2024 outcome
- 2. Failure of the Haweswater Aqueduct
- 3. Wastewater network failure
- 4. Totex efficiency challenge
- 6. Cyber
- 6. Water sufficiency
- 7. Carbon commitments
- 8. Recycling of biosolids to agriculture
- 9. Failure to treat sludge
- 10. Credit ratings

- A. Erosion of pension scheme surplus
- B. Financial outperformance
- C. Dam failure
- D. Disease pandemic
- E. Terrorism

**Key**

- Top ten ranking risks relative to likelihood and impact
- High impact, low likelihood risks

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## Strategic Report

The most significant event-based risks represent the ten highest-ranked risks by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact) and those risks which have been assessed as having a significantly high impact, but low likelihood. Depending on the circumstances, financial impacts will include loss of revenue, additional or extra cost, fines, regulatory penalties and compensation. Reputational impact relative to our multiple stakeholders and the five non-financial capitals is also assessed, reported and considered as part of the mitigation.

Summarised below are the top ten ranking risks (1–10), and those assessed as having high impact, but low likelihood (A–F):

### 1. Price Review 2024 outcome

**Risk exposure:** The capacity and capability to develop a business plan that creates value for customers, communities, and the environment that is sustainable and resilient for the long term relative to the unique characteristics of the region we serve, in light of multiple influencing factors – notably changing demographics, climate change and asset health.

**Control/mitigation:** We have established cross-cutting work streams and theme owners to identify the products and evidence required for the submission and we will maintain a close dialogue with Ofwat throughout the process.

**Assurance:** Extensive customer research and several external providers have been commissioned for technical optioneering. Second line assurance is provided through a dedicated price review team and a PR24 programme board. There is a blend of internal audit and external assurance focused on the quality of the submission.

### 2. Failure of the Haweswater Aqueduct

**Risk exposure:** The Haweswater Aqueduct is a key asset with current low resilience due to deterioration, with failure potentially resulting in water quality issues and/or supply interruptions to a large proportion of the United Utilities customer base.

**Control/mitigation:** capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP).

**Assurance:** Technical and geological advice and modelling have been sought throughout the programme development, with second line assurance including engineering technical governance. Independent assurance is provided by internal audits and external assurance over the HARP procurement process.

### 3. Wastewater network failure

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

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

**Assurance:** Second line assurance provided by wholesale assurance, engineering technical governance and flood review panel. Subject to regular internal audits and external assurance of regulatory reporting.

### 4. Totex efficiency challenge

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



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## Strategic Report

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

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

### 5. Cyber

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

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

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

### 6. Water sufficiency

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

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

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

### 7. Carbon commitments

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

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

**Assurance:** First line assurance by carbon team using water industry team for technical support and guidance. Climate change mitigation steering group and corporate risk framework provide second line assurance. Our science based targets, energy and carbon reporting are subject to external assurance and verification.

### 8. Recycling of biosolids to agriculture

**Risk exposure:** Represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. The risk considers the Environment Agency's

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## Strategic Report

interpretation of the Farming Rules for Water regulations and the increasing threat to recycling a large proportion of biosolid to land.

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

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

### 9. Failure to treat sludge

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

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

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

### 10. Credit rating

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

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

**Assurance:** Second line assurance provided by financial control and quarterly business reviews, with oversight provided by the treasury committee. The treasury function is subject to regular internal audits.

#### A. Erosion of pension scheme surplus

**Risk exposure:** The potential for the pension scheme funding to increase because of life expectancy rates leading to additional contributions.

**Control/mitigation:** Constant monitoring combined with hedging against interest rates, inflation and growth asset risk.

**Assurance:** Policy and oversight is led by the pensions review management group, taking into account advice from accountancy and law firms. Pension governance is subject to periodic internal audits.

#### B. Financial outperformance

**Risk exposure:** Failure to achieve financial outperformance due to macro-economic conditions and efficiency challenges, impacting the cost of debt and delivery of the company business plan.

**Control/mitigation:** Interest rate and inflation management, ongoing monitoring of markets and regulatory developments, and sensitivity testing as part of our company business planning process

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## Strategic Report

relative to assumed periods of low inflation both in isolation and in conjunction with the realisation of severe but plausible risks.

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

### C. Dam failure

**Risk exposure:** Uncontrolled release of a significant volume of water from reservoirs due to flood damage, overtopping, earthquake or erosion leading to catastrophic impacts downstream.

**Control/mitigation:** Each reservoir is regularly inspected by engineers. Where appropriate, risk reduction interventions are implemented through a prioritised investment programme.

**Assurance:** Various sources of second line assurance, including supervising engineers, dam safety group, wholesale assurance and regular board reviews. Independent assurance is provided by panel engineers and internal audit.

### D. Disease pandemic

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

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

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

### E. Terrorism

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

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

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

## New and emerging risks and opportunities

We define new risks as those which have not previously been apparent and are expected to have long-term implications for the group and/or sector. We consider emerging risks to be those which are growing, developing, becoming more apparent or prominent. The emerging status of a risk can therefore relate to either newly established or existing risks.

Horizon scanning activity is a key feature of the risk and resilience framework. It is undertaken routinely as part of external research and benchmarking, the assessment of event-based risks, and through dedicated forums such as the New and Emerging Risk forum and the Compliance Working Group.

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## Strategic Report

Where there are high levels of uncertainty, or the circumstances are too complex to quantify, we classify and retain new and emerging risks as watching briefs. Where there is more understanding, assumptions can be applied to the assessment of causal factors (drivers/influencers), consequences (immediate, knock-on and cascading outcomes), and control effectiveness (strengths, weaknesses or gaps) which will be reflected in the quantification of the likelihood and/or impact.

**Economic conditions:** continue to be a challenge due to high inflation and scarcity of critical resources.

- **National scarcity of resource:** The AMP8 capital programme is expected to be significantly larger than in AMP7 across the whole water sector, which, compounded by investment programmes in other industries (i.e. nuclear and rail), may result in high levels of competition for resources with implications to delivery.
- **Price volatility:** Although there has been stabilisation over the last 12 months, inflationary pressure over multiple commodities continues to be a factor with energy the most volatile.
- **Security of the supply chain:** In addition to the increase in competition for resource and geopolitical tensions, scarcity of some critical goods and services in the supply chain continues to be a challenge.
- **Supplier viability:** The medium and long-term sustainability of suppliers is an emerging risk due to ongoing inflationary pressures combined with increasing scarcity across the supply chain.
- **Credit rating:** While underlying credit quality is not a concern, the impact of high inflation on finance expense results in the potential for credit agency thresholds to be breached when combined with other factors such as additional investment spend to meet environmental and service improvements over and above price review allowances.
- **Cash collection:** Inflationary pressure is having a significant impact on the cost of living, which may affect customers' ability to pay bills.

**Geopolitical:** in addition to influencing economic conditions, geopolitic tensions continue to have an emerging effect on the security of critical national infrastructure and energy resilience.

- **Cyber:** The rising tensions between Russia and the West have been reflected in the quantification of the cyber risk. As a result, increased security measures have been applied which include security operations teams on extended high alert and the rapid deployment of technical blocking of critical indicators of compromise.
- **Energy resilience:** There is an increasing external threat of planned and unplanned outages, and voltage quality from national grid that could effect technological and operational assets.

**Legislative/regulatory change:** Increased public and political interest in the water sector and changes to societal expectations is leading to a number of developments.

- **Storm overflow activations:** Overflow activations are subject to the environmental permitting regime, however we understand and share the increased public and political interest in water quality and the focus on the impact of activations. We are therefore committed to addressing the situation and have already reduced overflows over the last two years. We are initially tackling those assets with the highest frequency of activations, and have received draft approval from Ofwat to accelerate funding to deliver further improvements faster. We have also introduced new river rangers to help with these important improvements and we are in the final stages of planning for further significant activation reductions in AMP8. However, the scale and complexity of changing the design, configuration and operation of process and network assets is significant and will pose new and emerging risks in their own right.

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## Strategic Report

- **Pollution risks:** In April 2023, Defra issued a consultation with regards to variable monetarised penalties which includes a potential significant increase in the penalty cap.
- **Recycling of biosolids to land:** A total ban on recycling biosolids to agricultural land already exists in some European countries. Adoption of this approach by the UK Government would result in significant change of assets and operations.
- **Plastics and forever chemicals:** There is increased attention on single-use plastic, microplastic (plastics less than 5mm) and perfluoroalkyl and polyfluoroalkyl substances (PFAS) commonly known as 'forever chemicals', with their presence in the environment being linked to the water cycle.

### Material litigation

The group robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provisions and seeking recovery wherever possible. Litigation of a material nature is regularly reported to the group board. While our directors remain of the opinion that the likelihood of a material adverse impact on the group's financial position is remote, based on the facts currently known to us and the provisions in our statement of financial position, the following three cases are worthy of note:

- In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal in 2022 and the main additional points raised by MSCC were dismissed, although MSCC were granted leave to appeal to the Supreme Court. The final appeal was heard in early March 2023 and the Court's decision is awaited. This may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses; and
- A Letter Before Action was received by U UW in February 2023 in respect of potential collective proceedings before the Competition Appeal Tribunal. We are informed that the Proposed Class Representative (PCR) is intending to bring a claim on behalf of a class comprising consumers of U UW (on an opt-out basis) who have allegedly been overcharged for sewerage services as a result of an alleged abuse of a dominant position. We have been informed that the PCR also intends to bring the claim against United Utilities Group PLC, as the ultimate parent company of U UW. Proceedings have not yet been issued.

## Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 2023.

### Business model

A description of the company's business model can be found within the strategic report on pages 8 to 10.

United Utilities PLC ("UUPLC") is a subsidiary of United Utilities Group PLC ("UUG"), which is the ultimate parent of the United Utilities group.

### Profit and dividends

The results for the year, set out in the consolidated income statement on page 121 show that the profit for the year after tax was £250.2 million (2022: loss after tax of £39.9 million).

The directors have not recommended a final ordinary dividend (2022: £nil). Interim ordinary dividends of £301.1 million (2022: £295.5 million).

### Principal activity and review of business

The company is a public limited company registered in England and Wales.

The company is the intermediate holding company of a group which owns and operates water and wastewater assets in the North West of England. There have not been any significant changes in the company's principal activity in the year under review and no changes are currently planned.

The company's principal subsidiary undertakings, and joint ventures in which the group participates, are listed in note A8 to the consolidated financial statements.

The ultimate parent company of United Utilities PLC is United Utilities Group PLC.

### Share capital

At 31 March 2023, the issued ordinary share capital of the company was £881.8 million (2022: £881.8 million) divided into 881,787,478 ordinary shares of £1.00 each and one deferred A share of £1.00.

The company has one class of ordinary shares which carry no right to fixed income. The deferred A share carries no voting rights nor a right to fixed income.

### Events after the reporting period

Details of events occurring after the reporting period are included in note 24 of the financial statements.

### Going concern basis of accounting

The directors consider it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph on page 127.

### Directors

The directors who held office during the year and to date are given below:

PA Aspin  
GL Baron  
RJ Lee  
SL Mogford  
BF Murphy  
L Beardmore

## Directors' report

### Directors' indemnities and insurance

We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company maintains an appropriate level of directors' and officers' liability insurance.

### Employees

Our policies on employee consultation and on equal opportunities for all colleagues can be found on pages 35 and 100 of the UUG 2023 Annual report and financial statements. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening colleagues' engagement (see page 97 of the UUG 2023 Annual report and financial statements). The effect of our regard towards colleagues in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 58 to 59 of the UUG 2023 Annual report and financial statements. Colleagues are encouraged to own shares in the company through the operation of an all employee share incentive plan (ShareBuy). Information on our average number of employees during the year can be found in note 3 on page 133.

### Political donations

It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities that form part of the necessary relationship between the group and our political stakeholders. This can include promoting United Utilities' activities at the main political parties' annual conferences, as well as occasional stakeholder engagement in Westminster. The UUG group incurred expenditure of £11,465 (2021/22): £15,834; 2020/21: £5,801) as part of this process. At the 2022 UUG AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2023 UUG AGM to authorise the company and its subsidiaries to make such expenditure.

Relationships with regional MPs is very important to United Utilities, and as the provider of an essential service to seven million people across the North West, customers do raise issues with their constituency MP. In 2022/23, we received 482 such MP contacts covering a wide range of topics, particularly as we face challenging times from an economic, environmental and social perspective. Our approach is to always have an open door policy with our MPs and members of their offices, to meet with us, visit our sites or land at any time. We are readily available to discuss topics, whether that is about service, climate change, environmental performance, flooding or quality, and regularly meet our MPs face to face.

We engage regularly with the two devolved administrations in the North West – the Greater Manchester Combined Authority (GMCA) and the Liverpool City Region (LCR) – as well as the region's local authorities, on a range of topics of shared interest, such as tackling flooding risk and enhancing the North West's natural capital. Our sponsorship of the All Party Political Groups for GMCA and LCR helps bring MPs and peers of all parties together with key leaders to help maximise future investment in these areas for the benefit of local communities.

In addition, the company's activities to engage with political stakeholders on matters relevant to the water industry and its operating footprint of North West England extend to its membership of trade associations. This is described in the section below.

## Directors' report

### Trade associations

We are members of a small number of trade associations. Some have a national focus, such as Water UK, the representative body of the UK water industry. Others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is a member of regional bodies, such as the North West Business Leadership Team, which encourages engagement across the public and private sectors. The total UUG group contribution to these associations in 2022/23 was £418,561 (2021/22 £408,441; 2020/21:£420,403).

Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as Select Committees and Chairs of specific committees, to provide information on a range of topics. In the past twelve months, we have worked closely with Water UK to share data in our storm. Overflow performance and what this means for river water quality in the North West. On behalf of the sector, we were pleased to host its first Pollution Summit to share best practice on measures being taken by companies to reduce the frequency of pollution events. Water UK convened a session on the emerging pollution roadmap for the sector.

Through our membership with the North West Business Leadership Team, we have engaged with regional MPs and political stakeholders, such as local authorities and metro mayors, to explore how the business community can work more effectively with the public sector to drive economic growth in the region and tackle some of the North West's pressing social issues. For example, we participated in discussions on unlocking regional growth/levelling up agenda, and colleague resilience and wellbeing. We were pleased to sponsor its North West parliamentary reception, providing a platform to update regional MPs on our efforts to improve river water quality.

### Approach to technology development

We are committed to using innovative, cost effective and practical solutions for providing high-quality services and we recognise the importance of ensuring that we focus our investment on the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and we continue to be alert to emerging technological opportunities.

### Environmental, social and community matters

Details of our approach, as a responsible business, is set out in the strategic report, in particular where we describe our approach to our purpose and strategic themes on page 38 of the UUG 2023 Annual report and financial statements, and our core values on page 50 of the UUG 2023 Annual report and financial statements, and how we create value for stakeholders on page 76 to 77 of the UUG 2023 Annual report and financial statements. Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 56 to 57 of the UUG 2023 Annual report and financial statements. Further information is available on our website at [unitedutilities.com/corporate/responsibility](https://unitedutilities.com/corporate/responsibility) The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 58 to 59 of the UUG 2023 Annual report and financial statements.

Our slavery and human trafficking statement can be found on our website at: [unitedutilities.com/human-rights](https://unitedutilities.com/human-rights).

### Customers and suppliers and key stakeholders

Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 56 to 57 of the UUG 2023 Annual report and financial statements. The effect of our regard towards customers, suppliers, regulators and other key stakeholders in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 23 to 25. Our United Supply



## Directors' report

Chain approach sets out how we work with our suppliers, which can be found on our website at [unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain](https://unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain) We are a signatory to the Prompt Payment Code. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 March 2023, our average time taken to pay invoices was 11 days; in the previous six months it was 12 days.

### Energy and Carbon

Our energy and carbon report can be found on page 95 of the UUG 2023 Annual report and financial statements and is hereby incorporated by reference into this directors' report.

### Financial instruments

Our risk management objectives and policies in relation to the use of financial instruments can be found in note A4 on page 162.

### Internal controls and risk management

A description of the main features of our risk management and internal control systems in relation to the financial reporting process which forms part of this directors' report are set out on pages 166 to 167 of the UUG 2023 Annual report and financial statements.

### Disclosure of information to the auditor

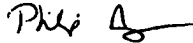
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given, and should be interpreted, in accordance with the provisions of s418 of the Companies Act 2006.

### Reappointment of the auditor

Our board is proposing that our shareholders reappoint KPMG LLP as our auditor at the forthcoming AGM and authorises the audit committee of the board to set the auditor's remuneration.

Approved by the board on 27 June 2023 and signed on its behalf by:



**Phil Aspin**  
Chief Financial Officer

## **Statement of directors' responsibilities in respect of the annual report, the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

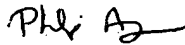
## Statement of directors' responsibilities in respect of the annual report, the strategic report, the directors' report and the financial statements

### Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' reports include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the board on 27 June 2023 and signed on its behalf by:



**Phil Aspin**  
Chief Financial Officer

## Independent auditor's report

to the members of United Utilities PLC

### 1. Our opinion is unmodified

We have audited the financial statements of United Utilities PLC ("the Company") for the year ended 31 March 2023 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and company statements of financial position, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated and company statements of cash flows, and the related notes, including the accounting policies on pages 128 to 131 and 187 to 197.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 22 July 2011. The period of total uninterrupted engagement is for the 12 financial years ended 31 March 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

## Independent auditor's report

to the members of United Utilities PLC

<p><b>Provisions for household customer debt</b></p> <p>Provision for customer debts: £81.5m (2022: £78.3m)</p> <p><i>Refer to pages 128 to 130 and 192 (accounting policy) and pages 146 to 147 (financial disclosures).</i></p>	
<p><b>The risk</b></p> <p>At each balance sheet date assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables. Key assumptions include current and forecast cash collection rates. Please see the accounting policies on pages 128 to 130 and 192 for more detail on the key assumptions.</p> <p>As part of our risk assessment, we determined that the recoverability of trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p> <p>We continue to perform procedures over revenue recognition. However, due to the consistency of the balance in recent years and low estimation uncertainty, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.</p>	<p>We performed the tests below rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> <li>— <b>Methodology choice:</b> assessed the appropriateness of the customer debt provisioning policy based on historical cash collections, credits, re-bills and write-off information, and estimates of future economic scenarios and their impact on credit losses;</li> <li>— <b>Recalculation:</b> performed a recalculation of the provision, and verifying input data to the billing system;</li> <li>— <b>Tests of detail:</b> we obtained evidence for actual cash collections in FY23;</li> <li>— <b>Sensitivity analysis:</b> considered the sensitivity of future performance compared to historic cash collection rates; and</li> <li>— <b>Assessing transparency:</b> assessed the adequacy of the Group's disclosures of its customer debt provisioning policy, including the estimation uncertainty of the doubtful debts provision.</li> </ul> <p><b>Our results</b></p> <p>Based on the risk identified and the procedures that we performed, we found the provisions for household customer debt and the related disclosures to be acceptable (FY22: acceptable).</p>

<p><b>Capitalisation of costs relating to the capital programme</b></p> <p>Property, plant &amp; equipment additions: £869.1m (2022: £728.5m)</p> <p><i>Refer to pages 130 and 189 to 190 (accounting policy) and pages 141 to 143 (financial disclosures).</i></p>	
<p><b>The risk</b></p>	<p><b>Our response</b></p>

## Independent auditor's report

to the members of United Utilities PLC

<p><b>Subjective classification</b></p> <p>The Group has a substantial capital programme which has been agreed with the Water Services Regulation Authority (Ofwat) and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.</p> <p>The determination of in year project costs as capital or operating expenditure is inherently judgemental, particularly for certain projects where projects contain both capital and operating expenditure elements. Under IAS 16 expenditure is capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. We determined that the costs capitalised has a high degree of judgement, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p>	<p>We performed the detailed tests below rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> <li>— <b>Accounting analysis:</b> assessed the Group's capitalisation policy for compliance with relevant accounting standards;</li> <li>— <b>Tests of details:</b> critically assessed the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspend, forecast cost to complete;</li> <li>— <b>Assessing transparency:</b> assessed the adequacy of the Group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital.</li> </ul> <p><b>Our results</b></p> <p>Based on the risk identified and the procedures that we performed, we found the capitalisation of costs relating to the capital programme and the related disclosures to be acceptable (FY22: acceptable).</p>
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<p><b>Valuation of retirement benefit obligations</b></p> <p>£2,330.6m (2022: £3,018.9m)</p> <p><i>Refer to pages 128 and 194 and 195 (accounting policy) and pages 149 to 150 and 176 to 184 (financial disclosures).</i></p>	
<p><b>The risk</b></p> <p>The valuation of the retirement benefit obligations depends on a number of estimates, including the discount rates used to calculate the current value of the future payments to pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, and the life expectancy of pension scheme members.</p>	<p><b>Our response</b></p> <p>We performed the tests below rather than seeking to rely on the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p>

## Independent auditor's report

to the members of United Utilities PLC

<p>There is a considerable amount of estimation uncertainty involved in setting the above assumptions and a small change in the assumptions and estimates may have a significant impact on the retirement benefit obligations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<ul style="list-style-type: none"> <li>— <b>Our actuarial expertise:</b> used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the retirement benefit obligations; and perform a comparison of key assumptions against our own benchmark ranges derived from externally-available data and against those used by other companies reporting on the same period;</li> <li>— <b>Methodology assessment:</b> used our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions;</li> <li>— <b>Assessing external actuary's credentials:</b> assessed competence and independence of the external actuary engaged by the Group; and</li> <li>— <b>Assessing transparency:</b> considered the adequacy of the Group's disclosure in respect of retirement benefits, in particular the gross defined benefit obligation and the assumptions used and sensitivities disclosed, which are set out in notes 18 and A5 to the financial statements.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>— Based on the risk identified and procedures performed, we found the valuation of the retirement benefit obligations to be acceptable (FY22: acceptable).</li> </ul>
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<p><b>Recoverability of parent Company's investment in United Utilities North West Limited</b></p> <p>Investment in United Utilities North West Limited – £3,907.1m (2022: £3,907.1m)</p> <p><i>Refer to page 191 (accounting policy) and page 145 (financial disclosures).</i></p>	
<p><b>The risk</b></p> <p>The carrying amount of the parent company's investment in United Utilities North West Limited represents 55% (FY22: 57%) of the company's total</p>	<p><b>Our response</b></p> <p>We performed the tests below rather than seeking to rely on any of the company's controls because testing for recoverability through detailed</p>

## Independent auditor's report

to the members of United Utilities PLC

<p>assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p>	<p>testing is inherently the most effective means of obtaining audit evidence.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> <li>— <b>Tests of detail:</b> compared the carrying amount of the investment with the expected value of the business based on the regulatory capital value (a recognised method of valuation within the industry).</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>— Based on the risk identified and procedures performed, we concluded that the recognition of no impairment was appropriate (FY22: no impairment).</li> </ul>
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### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £16.4m (FY22: £16.4m). This was determined with reference to a range of benchmarks of revenue (0.9%), total assets (0.1%) and operating profit (3.7%). Last year we determined our materiality to be £16.5m based on a primary benchmark of normalised profit before tax, of which it represented 5.2%.

Materiality for the parent Company financial statements as a whole was set at £8.0m (2022: £8.5m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.1% (2022: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

We have considered performance materiality at a level of 75% (FY22: 75%) of materiality for United Utilities PLC Group financial statements as a whole to be appropriate. The Parent Company performance materiality was set at £6.0m (FY22: £6.3m), which equates to 75% (FY22: 75%) of materiality for the Parent Company financial statements as a whole. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.5m (2022: £0.5m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 32 (2022: 33) reporting components, we subjected 3 (2022: 4) to full scope audits for group purposes and 0 (2022: 0) to specified risk-focused audit procedures.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £8m to £16.2m (2022: £6.0m to £15.8m), having regard to the mix of size and risk profile of the Group across the components.



## Independent auditor's report

### to the members of United Utilities PLC

The work on all components, including the audit of the parent Company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

#### 4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period related to a one off total expenditure impact.

We considered whether the risk could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test). We also assessed the completeness of the going concern disclosure.

Accordingly, based on those procedures, we found the directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

#### Our conclusions

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- We have nothing material to add or draw attention to in relation to the directors' statement in the basis of preparation section of the accounting policies note to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period, and we found the going concern disclosure in the basis of preparation section of the accounting policies note to be acceptable.

## Independent auditor's report

to the members of United Utilities PLC

### 5. Fraud and breaches of laws and regulation – ability to detect

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit and inspection of policy documentation relating to the ultimate parent, United Utilities Group PLC, as to the Group’s high level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- reading Board and Audit Committee minutes relating to the ultimate parent, United Utilities Group PLC; and
- considering remuneration incentive schemes and performance targets for directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular: the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as provisions for household customer debt and capitalisation of costs relating to the capital programme. Further detail in respect of the above accounting estimates and judgements is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue, capitalised costs and treasury posted to unexpected or unrelated accounts; and
- assessing significant accounting estimates for bias.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

## Independent auditor's report

### to the members of United Utilities PLC

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: Ofwat, Environment Agency, Drinking Water Inspectorate, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **6 We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### *Strategic report and directors' report*

Based solely on our work on the other information described above we report to you as follows:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **7 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

## Independent auditor's report

### to the members of United Utilities PLC

- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

#### **8 Respective responsibilities**

##### *Directors' responsibilities*

As explained more fully in their statement set out on page 111, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

##### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

#### **9 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

United Utilities PLC

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## Independent auditor's report

to the members of United Utilities PLC



**Ian Griffiths (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 St. Peter's Square  
Manchester  
M2 3AE  
28 June 2023

## Consolidated income statement

for the years ended 31 March

	Note	2023 £m	2022 £m
<b>Revenue</b>	2	1,824.4	1,862.7
Staff costs	3	(192.2)	(184.3)
Other operating costs	4	(556.4)	(461.7)
Allowance for expected credit losses – trade and other receivables	4	(22.7)	(23.4)
Other income	4	4.8	4.4
Depreciation and amortisation expense	4	(423.6)	(418.2)
Infrastructure renewals expenditure		(193.5)	(169.5)
<b>Total operating expenses</b>		<b>(1,383.6)</b>	<b>(1,252.7)</b>
<b>Operating profit</b>		<b>440.8</b>	<b>610.0</b>
Investment income	5	102.9	40.3
Finance expense	6	(262.7)	(187.8)
Allowance for expected credit losses – loans to joint ventures		-	0.1
<b>Investment income and finance expense</b>		<b>(159.8)</b>	<b>(147.4)</b>
Share of losses of joint ventures	12	-	(1.8)
Profit on disposal of subsidiary	7	31.2	-
<b>Profit before tax</b>		<b>312.2</b>	<b>460.8</b>
Current tax credit	8	14.6	61.8
Deferred tax charge	8	(76.6)	(562.5)
<b>Tax</b>	8	<b>(62.0)</b>	<b>(500.7)</b>
<b>Profit/(loss) after tax</b>		<b>250.2</b>	<b>(39.9)</b>

All of the results shown above relate to continuing operations.

## Consolidated statement of comprehensive income

for the years ended 31 March

	Note	2023 £m	2022 £m
<b>Profit/(loss) after tax</b>		<u>250.2</u>	<u>(39.9)</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Cash flow hedge effectiveness - effective portion of fair value movements		(50.6)	106.7
Tax on items that may be reclassified to profit or loss	8	12.7	(26.8)
Reclassification of items taken directly to equity		(36.6)	-
Tax reclassified to income statement		7.0	-
<b>Other comprehensive income that may be reclassified to profit or loss</b>		<u>(80.2)</u>	<u>79.9</u>
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement (losses)/gains on defined benefit pension schemes	18	(445.3)	313.6
Change in credit assumptions for debt reported at fair value through profit or loss		5.0	(4.1)
Cost of hedging – cross-currency basis spread adjustment		6.3	-
Tax on items taken directly to equity	8	151.5	(109.4)
<b>Other comprehensive income that will not be reclassified to profit or loss</b>		<u>(269.8)</u>	<u>200.1</u>
<b>Total comprehensive income</b>		<u><u>(99.8)</u></u>	<u><u>240.1</u></u>

## Consolidated and company statement of financial position

for the years ended 31 March

		Group		Company	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	10	12,570.7	12,147.5	2.1	2.5
Intangible assets	11	142.4	160.8	-	-
Interests in joint ventures	12	16.5	16.5	16.5	16.5
Other investments	13	-	0.1	3,943.6	3,944.0
Inventories	14	1.2	0.4	-	-
Trade and other receivables	15	1,940.5	1,881.5	1,940.4	1,880.2
Retirement benefit surplus	18	600.8	1,016.8	158.7	245.6
Derivative financial instruments	A4	428.6	399.4	-	-
		<u>15,700.7</u>	<u>15,623.0</u>	<u>6,061.3</u>	<u>6,088.8</u>
<b>Current assets</b>					
Inventories	14	13.1	17.8	-	-
Trade and other receivables	15	192.5	232.1	911.2	760.8
Current tax asset		98.9	74.4	-	-
Cash and short-term deposits	16	340.4	240.9	102.4	57.5
Derivative financial instruments	A4	48.5	58.0	-	-
		<u>693.4</u>	<u>623.2</u>	<u>1,013.6</u>	<u>818.3</u>
<b>Total assets</b>		<u>16,394.1</u>	<u>16,246.2</u>	<u>7,074.9</u>	<u>6,907.1</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Trade and other payables	20	(892.4)	(835.2)	-	-
Borrowings	17	(8,334.0)	(7,746.0)	(399.1)	(379.7)
Deferred tax liabilities	8	(2,048.1)	(2,148.1)	(55.9)	(86.3)
Derivative financial instruments	A4	(243.1)	(136.7)	-	-
		<u>(11,517.6)</u>	<u>(10,866.0)</u>	<u>(455.0)</u>	<u>(466.0)</u>
<b>Current liabilities</b>					
Trade and other payables	20	(385.5)	(373.0)	(100.8)	(108.4)
Borrowings	17	(194.3)	(318.2)	(18.1)	(9.7)
Provisions	19	(13.1)	(13.5)	-	-
Derivative financial instruments	A4	(9.6)	(0.5)	-	-
		<u>(602.5)</u>	<u>(705.2)</u>	<u>(118.9)</u>	<u>(118.1)</u>
<b>Total liabilities</b>		<u>(12,120.1)</u>	<u>(11,571.2)</u>	<u>(573.9)</u>	<u>(584.1)</u>
<b>Total net assets</b>		<u>4,274.0</u>	<u>4,675.0</u>	<u>6,501.0</u>	<u>6,323.0</u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the company</b>					
Share capital	22	881.8	881.8	881.8	881.8
Share premium account		1,430.0	1,430.0	1,430.0	1,430.0
Other reserves	21	23.7	86.5	-	-
Retained earnings		<u>1,938.5</u>	<u>2,276.7</u>	<u>4,189.2</u>	<u>4,011.2</u>
<b>Shareholders' equity</b>		<u>4,274.0</u>	<u>4,675.0</u>	<u>6,501.0</u>	<u>6,323.0</u>

These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors and authorised for issue on 27 June 2023, and signed on its behalf by:

*Phil Aspin*

**Phil Aspin**  
Chief Financial Officer



## Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
<b>Group</b>					
At 1 April 2022	881.8	1,430.0	86.5	2,276.7	4,675.0
Profit after tax	-	-	-	250.2	250.2
<b>Other comprehensive income</b>					
Remeasurement losses on defined benefit pension schemes (see note 18)	-	-	-	(445.3)	(445.3)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	4.9	4.9
Cash flow hedge effectiveness - effective portion of fair value movements	-	-	(50.6)	-	(50.6)
Cost of hedging - cross currency basis spread Adjustment	-	-	6.3	-	6.3
Tax on items taken directly to equity (see note 8)	-	-	11.1	153.1	164.2
Reclassification of items taken directly to equity	-	-	(36.6)	-	(36.6)
Tax reclassified to income statement (see note 8)	-	-	7.0	-	7.0
<b>Total comprehensive expense</b>	-	-	(62.8)	(37.1)	(99.9)
Dividends (see note 9)	-	-	-	(301.1)	(301.1)
<b>At 31 March 2023</b>	<b>881.8</b>	<b>1,430.0</b>	<b>23.7</b>	<b>1,938.5</b>	<b>4,274.0</b>

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
<b>Group</b>					
At 1 April 2021	881.8	1,430.0	6.6	2,412.0	4,730.4
Loss after tax	-	-	-	(39.9)	(39.9)
<b>Other comprehensive income</b>					
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	-	313.6	313.6
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	(4.1)	(4.1)
Cash flow hedge effectiveness - effective portion of fair value movements	-	-	106.7	-	106.7
Tax on items taken directly to equity (see note 8)	-	-	(26.8)	(109.4)	(136.2)
<b>Total comprehensive income</b>	-	-	79.9	160.2	240.1
Dividends (see note 9)	-	-	-	(295.5)	(295.5)
<b>At 31 March 2022</b>	<b>881.8</b>	<b>1,430.0</b>	<b>86.5</b>	<b>2,276.7</b>	<b>4,675.0</b>

\*Other reserves comprise the group's cost of hedging reserve and cash flow hedging reserve. A reconciliation of movements in these reserves is included in note 22.

## Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
<b>Company</b>				
At 1 April 2022	881.8	1,430.0	4,011.2	6,323.0
Profit after tax	-	-	540.5	540.5
<b>Other comprehensive income</b>				
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	(93.4)	(93.4)
Tax on items taken directly to equity (see note 8)	-	-	32.0	32.0
<b>Total comprehensive income</b>	-	-	479.1	479.1
Dividends (see note 9)	-	-	(301.1)	(301.1)
<b>At 31 March 2023</b>	<b>881.8</b>	<b>1,430.0</b>	<b>4,189.2</b>	<b>6,501.0</b>

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The results of the company for the financial year was a profit after tax of £540.5 million (2022: £379.1 million).

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
<b>Company</b>				
At 1 April 2021	881.8	1,430.0	3,873.0	6,184.8
Profit after tax	-	-	379.1	379.1
<b>Other comprehensive income</b>				
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	85.0	85.0
Tax on items taken directly to equity (see note 8)	-	-	(30.4)	(30.4)
<b>Total comprehensive income</b>	-	-	433.7	433.7
Dividends (see note 9)	-	-	(295.5)	(295.5)
<b>At 31 March 2022</b>	<b>881.8</b>	<b>1,430.0</b>	<b>4,011.2</b>	<b>6,323.0</b>

## Consolidated and company statement of cash flows

for the years ended 31 March

	Note	2023 £m	Group 2022 £m	2023 £m	Company 2022 £m
<b>Operating activities</b>					
Cash generated from operations	A1	804.3	1,036.6	285.8	467.2
Interest paid		(118.2)	(128.3)	(23.9)	(22.6)
Interest received and similar income		78.7	29.6	8.1	4.4
Tax paid		(10.8)	(8.9)	(19.9)	(7.7)
Tax received		17.6	-	-	15.6
<b>Net cash generated from operating activities</b>		<b>771.6</b>	<b>929.0</b>	<b>250.1</b>	<b>456.9</b>
<b>Investing activities</b>					
Net cash (used in)/generated from (purchase)/sale of PPE		(675.9)	(609.0)	0.4	-
Purchase of intangible assets		(18.1)	(19.5)	-	-
Grants and contributions received	20	5.4	1.8	-	-
Repayment/(Extension) of loans to joint ventures	A6	5.0	(13.0)	5.0	(13.0)
Proceeds from disposal of business	7	90.5	-	90.5	-
<b>Net cash (used in)/ derived from investing activities</b>		<b>(593.1)</b>	<b>(639.7)</b>	<b>95.9</b>	<b>(13.0)</b>
<b>Financing activities</b>					
Proceeds from borrowings net of issuance costs		509.3	173.0	-	-
Repayment of borrowings		(278.2)	(681.8)	-	(100.0)
Dividends paid to equity holders of the company	9	(301.1)	(295.5)	(301.1)	(295.5)
<b>Net cash (used in)/ derived from financing activities</b>		<b>(70.0)</b>	<b>(804.3)</b>	<b>(301.1)</b>	<b>(395.5)</b>
Effects of exchange rate changes		(0.7)	1.5	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>107.8</b>	<b>(513.5)</b>	<b>44.9</b>	<b>48.4</b>
Cash and cash equivalents at beginning of the year		220.1	733.6	57.5	9.1
Cash and cash equivalents at end of the year	16	327.9	220.1	102.4	57.5

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## Notes to the financial statements

The principal accounting policies adopted in the preparation of these financial statements are set out below. Further detail can be found in note A7.

### **Basis of preparation**

The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and with UK-adopted international accounting standards. They have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers, and the revaluation of infrastructure assets to fair value on transition to IFRS.

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results, ultimately, may differ from these estimates.

The financial statements have been prepared on the going concern basis as the directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed facilities as well as consideration of the group's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe, but plausible, downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact of £500 million arising in the assessment period; elevated levels of bad debt of £15 million per annum; outcome delivery incentive penalties equivalent to 1.0 per cent of RoRE per annum; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but plausible downside scenarios indicate that the group will be able to operate within the amounts and terms (including relevant covenants) of existing facilities. The financial statements have therefore been prepared on a going concern basis.

### **Adoption of new and revised standards**

There were no new standards, interpretations and amendments, effective for the year ended 31 March 2023, that were relevant to the group or would have a material impact on the group's financial statements, or that were not early adopted in previous years.

### **Future accounting developments**

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2023 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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## Notes to the financial statements

### **Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying its accounting policies set out in note A7, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates, judgements and assumptions could have a material effect on the financial statements.

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. As estimates carry with them an inherent level of uncertainty, the group performs sensitivity analysis where this is practicable and where, in management's opinion, it provides useful and meaningful information. This sensitivity analysis is performed to understand a range of outcomes that could be considered reasonably possible based on experience and the facts and circumstances associated with individual areas of the financial statements that are subject to estimates. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

The following paragraphs detail the critical accounting judgements and key sources of estimation uncertainty. In determining which of these are significant, the group has considered the extent to which the estimation gives rise to a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Considered in this context, the group considers the accounting estimates for retirement benefits to be the significant area of estimation uncertainty in preparing the financial statements.

#### **Retirement benefits**

*Accounting estimate\** – The group operates two defined benefit pension schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note A5.

*Accounting estimate\** – Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 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 2023. 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.

#### **Revenue recognition and allowance for doubtful receivables**

*Accounting estimate\*\** – The group recognises revenue generally at the time of delivery and when collection of the resulting receivable has been deemed probable. In estimating the amount of revenue to recognise, where the group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is deemed probable. There are two criteria whereby management does not recognise revenue for amounts which have been billed to those customers on the basis that collectability is not probable. These are as follows:

- The customer has not paid their bills for a period of at least two years; or
- The customer has paid their bills in the preceding two years, but has previously had bills de-recognised and has more than their current year debt outstanding.

## Notes to the financial statements

This two-criteria approach resulted in a £29.5 million (2022: £26.6million) reduction in revenue compared with what would have been recognised had no adjustment been made for amounts where collectability is not probable. Had management made an alternative judgement that where customers have paid in the preceding two years, and have more than their current year debt outstanding, the recoverability of the entirety of their debt was deemed to be probable (i.e. the second criteria were disappplied), the required adjustment to revenue would have been £18.6 million (2022: £12.4 million) lower.

*Accounting estimate\*\** – In accordance with IFRS 15 ‘Revenue from contracts with customers’, revenue is only recognised where it is deemed probable of recovery. Any gross debt that is not expected to be recovered through future cash collection must be provided against through either an allowance for expected credit losses (non-collection) or credit note provision (incorrectly billed).

For any period, the credit note provision in respect of non-household customers is built up across two types of loss, which can be incurred against non-household revenue: allowances pending payment and future allowances that we could expect to receive in relation to periods from April 2017 to March 2023. The allowances relate to data changes following the final bill issued for a period (received approximately 16 months after the initial estimate for the period).

At 31 March 2023, the credit note provision in respect of non-household revenue was £24.0 million, compared with £23.8 million at 31 March 2022.

To forecast future allowances, historic information has been used. Determining the ageing analysis of allowances raised since the opening of the non-household market is not straightforward, and work is ongoing between wholesalers and retailers to improve the quality of market data. It is therefore reasonable to expect that the value of allowances relating to final bills for a period (referred to as ‘RF’ within the market mechanisms and received around 16 months after the initial estimate) to reduce over time, as data for more recent periods since the opening of the water retail market should not be subject to the same legacy issues as earlier periods. Had it been assumed that future average daily allowances continue at the current daily average, the credit note provision recorded at 31 March 2023 would have been £2.0 million higher than that recorded.

*Accounting estimate\*\** – At each reporting date, the company and each of its subsidiaries evaluate the estimated recoverability of trade receivables and record allowances for expected credit losses (‘ECL’) based on experience. Estimates associated with these allowances are based on, among other things, a consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At 31 March 2023, an allowance for expected credit losses relating to household customer debt of £81.5 million (2022: £78.3 million) was supported by a six-year cash collection projection. Based on a five-year or seven-year cash collection projection the allowance for doubtful receivables would have increased by £2.2 million (2022: £1.1 million) or reduced by £0.2 million (2022: £0.5 million), respectively.

In determining the allowance for expected credit losses, we have applied the group’s provisioning percentages, which are derived from historic experience, to the aged debt bandings to calculate the bad debt charge and the expected credit loss position. The adequacy of the ECL allowance is then evaluated using analysis against the average collection over the last three years, which is considered to give a reasonable forecast of cash collection for use in the forward-looking ECL assessment.

We have also considered the higher level of uncertainty around how economic conditions may impact the recoverability of household receivables for a significant proportion of the group’s customer base. A range of scenarios have been used to inform a probability based assessment of the allowance for expected credit losses. These take account of cash collection rates in the current year as well as in recent years incorporating the current levels of economic uncertainty in order to provide a range of views as to how recoverability of household receivables may be impacted by different conditions.

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

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## Notes to the financial statements

Had future cash collection been assessed based on the average cash collection rates for the current year only, the allowance for expected credit losses charged to the income statement would have been 1.8 per cent of household revenue resulting in an increase in the charge of £0.1 million, with similar results based on using average cash collection from the last two or the last four years. At 31 March 2023, a charge of 1.8 per cent is considered to be appropriate given prevailing levels of uncertainty and recognising the level of estimation uncertainty associated with the assumptions made in forecasting the year end debt position upon which the allowance for expected credit losses is based.

*Accounting estimate\*\** – United Utilities Water Limited raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For household water and wastewater customers with water meters, the receivable billed is dependent on the volume supplied, including the sales value of an estimate of the units supplied between the dates of the last water meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined.

Revenue recognised for unbilled amounts for these customers at 31 March 2023 was £141.0 million (2022: £145.8 million). Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £4.7million (2022: £5.0 million) higher or lower respectively. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property as assessed by an independent rating officer.

### Property, plant and equipment

*Accounting judgement\*\** - The group recognises property, plant and equipment (PP&E) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period as incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 52 per cent of total spend in relation to infrastructure assets during the year. A change of +/- 1 per cent would have resulted in £4.0 million (2022: £3.9 million) less/more expenditure being charged to the income statement during the period. In addition, management capitalises time and resources incurred by the group's support functions on capital programmes, which requires accounting judgements to be made in relation to the appropriate capitalisation rates. Support costs allocated to PP&E represent 40 per cent of total support costs. A change in allocation of +/- 5 per cent would have resulted in £2.5 million (2022: £2.3 million) less/more expenditure being charged to the income statement during the period.

*Accounting estimate\*\** - The estimated useful economic lives of PP&E and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PP&E and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £423.6 million (2022: £418.2 million). A 10 per cent increase in average asset lives would have resulted in a £41.4 million (2022: £38.2 million) reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £39.0 million (2022: £41.6 million) increase in this figure.

### Derivative financial instruments

*Accounting estimate\*\** - The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted

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## Notes to the financial statements

for management's estimate of counterparty and own credit risk, where appropriate. Sensitivities relating to the impact of financial risks on profit before tax and equity, driven in part by derivative financial instruments, are included in note A4.

### Climate change

The group is continually developing its assessment of the impact that climate change has on the assets and liabilities recognised and presented in its financial statements.

The natural environment within which the group operates is constantly changing, and this influences how its water and wastewater services are to be delivered in the future. In addition, the group has embedded ambitious climate-related targets within its own operations, with this affecting the portfolio of assets required to deliver such services.

The impact of climate change has been considered in the preparation of these financial statements and the measurement bases of the assets and liabilities across a number of areas, predominantly in respect of the valuation of the property, plant and equipment held by the group.

Asset life reviews are undertaken regularly for facilities impacted by climate change, environmental legislation or the group's decarbonisation measures. This can result in the acceleration of depreciation or be an indication of potential impairment of assets that are deemed to be commercially obsolete or for which no further use is planned, in part as a result of the group's decarbonisation strategy. In recent years this has resulted in material accelerations in respect of bioresources facilities impacted by changes in environmental legislative requirements. No further material accelerations were required in the current financial year, however this is subject to continuous assessment.

The group is exposed to potential asset write-downs following flooding resulting from extreme weather events, the frequency of which are expected to increase as the effects of climate change become more apparent. Following large-scale flooding, items are identified that have been damaged beyond repair and require immediate accounting write-downs. No such charges were required in the current financial year.

In addition to the risks posed by an increased likelihood of large-scale flooding events in future years, climate change also presents challenges relating to prolonged periods of hot and dry weather, the frequency of which is expected to increase. This could potentially impact the viability of certain types of assets in future years such as those associated with the intake of water from the natural environment, or require a strategic reconfiguration of assets to respond to such challenges. It is expected that if any such impact were to materialise this would be over a longer period of time rather than within a single financial year, and no financial impact has been identified in the current year.

In recent years the group has sought to further enhance the accuracy of its useful life assessments through the introduction of more forward-looking information in asset life reviews. This includes the use of disposal data to identify trends that may inform the group's view of useful lives into the future. This information is used alongside other decommissioning data and data from strategic asset planning systems to inform useful asset lives.

The group mitigates the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios, climate change mitigation pledges, and long-term climate projections. The group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets. The group further mitigates the financial exposure arising from climate-related risks through the use of insurance policies which insure against costs incurred as a result of major environmental incidents.

*\*Judgements/estimates that could reasonably give rise to a material adjustment to the carrying value of assets or liabilities in the short term.*

*\*\*Other judgements/estimates considered less likely to give rise to a material adjustment to the carrying value of assets or liabilities in the short term.*



## Notes to the financial statements

### 1. Segmental reporting

The board is provided with information on a single segment basis for the purposes of assessing performance and allocating resources and as such, 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 arises from the provision of services within the United Kingdom.

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

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

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

Other revenues comprise a number of smaller non-core income streams including those relating to energy generation and export, 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

	2023	2022
	£m	£m
Salaries	2.0	1.6
Benefits	0.4	0.3
Bonus	0.8	0.9
Share-based payment charge	1.9	1.9
	<u>5.1</u>	<u>4.7</u>

Included within the above are aggregate emoluments of £2.5 million (2022: £2.2 million) in respect of the highest paid director.

No directors accrued benefits under defined benefit schemes during the current year (2022: no directors). Three directors opted for a cash allowance in lieu of their company pension scheme entitlement (2022: three directors).

## Notes to the financial statements

### 3. Directors and employees (continued)

Six directors (2022: five directors) received shares in United Utilities Group PLC in respect of qualifying services. Six directors (2022: five directors) had long-term incentive plans which vested during the year. Aggregate amounts receivable relating to long-term incentive plans of £2.5 million (2022: £1.9 million) were recognised during the year. Details of the employee Sharebuy scheme and the executive share scheme operated by United Utilities Group PLC are given in the UUG 2023 Annual report and financial statements.

#### Remuneration of key management personnel

	2023 £m	2022 £m
Salaries and short-term employee benefits	6.3	6.8
Share-based payment charge	3.4	2.7
	<u>9.7</u>	<u>9.5</u>

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

#### Staff costs (including directors)

Group	2023 £m	2022 £m
Wages and salaries <sup>(1)</sup>	317.4	302.9
Employee related taxes and levies	30.7	28.2
Restructuring costs	(0.2)	0.4
Post-employment benefits:		
Defined benefit pension expense (see note 18)	8.5	9.6
Defined contribution pension expense (see note 18)	29.2	26.1
	<u>385.6</u>	<u>367.2</u>
Charged to other areas including regulatory capital schemes	(193.4)	(182.9)
<b>Staff costs</b>	<u>192.2</u>	<u>184.3</u>

Notes:

<sup>(1)</sup> Wages and salaries excluding non-permanent staff was £274.7 million (2022: £260.3 million).

Included within employee benefits expense there were credits of £0.2 million (2022: £0.4 million expense) in respect of restructuring costs. This relates to the release of restructuring costs for which a provision was recognised in previous years that is no longer required.

Conditional share awards in relation to shares of the ultimate parent undertaking, United Utilities Group PLC, have been granted to employees of the group under various schemes. Details of the terms and conditions of each scheme are given in the UUG 2023 Annual Report and financial statements. Included within wages and salaries is an expense of £5.1 million (2022: £4.8 million) relating to a recharge of share-based payment costs from the ultimate parent undertaking.

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

Group	2023	2022
Average number of employees during the year	<u>5,975</u>	<u>5,728</u>

#### Company

The average number of employees during the year was 156 (2022: 170). These employees were engaged in the provision of services to United Utilities Water Limited, and as such employee costs of £16.6 million (2022: £15.9 million) in relation to these employees have been incurred directly by that company during the year.

## Notes to the financial statements

### 4. Operating profit

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

	2023 £m	2022 £m
<b>Other operating costs</b>		
Materials	132.7	90.8
Power	130.8	99.6
Hired and contracted services	103.7	95.4
Property rates	87.1	90.5
Regulatory fees	36.7	28.4
Insurance	19.7	16.9
Loss on disposal of property, plant and equipment	4.2	3.9
Accrued innovation costs	6.1	5.9
Cost of properties disposed	1.4	3.0
Other expenses	34.0	27.3
	<u>556.4</u>	<u>461.7</u>
<b>Allowance for expected credit losses – trade and other receivables</b>		
Allowance for expected credit losses – trade and other receivables (see note 15)	22.7	23.4
	<u>22.7</u>	<u>23.4</u>
<b>Other income</b>		
Other income	(4.8)	(4.4)
	<u>(4.8)</u>	<u>(4.4)</u>
<b>Depreciation and amortisation expense</b>		
Depreciation of property, plant and equipment (see note 10)	385.5	377.0
Amortisation of intangible assets (see note 11)	38.1	41.2
	<u>423.6</u>	<u>418.2</u>

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

Research and development expenditure for the year ended 31 March 2023, was £1.2 million (2022: £1.2 million). In addition, £6.1 million (2022: £5.9 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset amounts recognised in revenue during each year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

## Notes to the financial statements

### 4. Operating profit (continued)

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

	2023 £000	2022 £000
<b>Audit services:</b>		
Statutory audit - group and company	125	90
Statutory audit - subsidiaries	467	436
	<u>592</u>	<u>526</u>
<b>Non-audit services:</b>		
Regulatory audit services provided by the statutory auditor	75	64
Other non-audit services	159	116
	<u>826</u>	<u>706</u>

### 5. Investment income

	2023 £m	2022 £m
Interest receivable on short-term bank deposits held at amortised cost	13.6	2.2
Interest receivable on loan to joint ventures held at amortised cost (see note A6)	4.7	2.8
Net pension interest income (see note 18)	28.7	14.3
Interest receivable from ultimate parent undertaking (see note A6)	55.9	21.0
	<u>102.9</u>	<u>40.3</u>

### 6. Finance expense

	2023 £m	2022 £m
<b>Interest payable</b>		
Interest payable on borrowings held at amortised cost <sup>(1)</sup>	497.7	330.7
	<u>497.7</u>	<u>330.7</u>
<b>Fair value losses/(gains) on debt and derivative instruments</b>		
Fair value hedge relationships:		
Borrowings <sup>(2)</sup>	(213.1)	(199.4)
Designated swaps <sup>(2) (3)</sup>	224.7	194.0
	<u>11.6</u>	<u>(5.4)</u>
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss <sup>(4)</sup>	(4.2)	(7.9)
Associated swaps <sup>(5) (6)</sup>	0.4	9.7
	<u>(3.8)</u>	<u>1.8</u>
Fixed interest rate swaps <sup>(5)</sup>	(146.0)	(139.7)
Net receipts on swaps and debt under fair value option	(32.8)	(31.5)
Inflation swaps <sup>(5)</sup>	(62.2)	29.7
Other	(1.8)	2.2
	<u>(242.8)</u>	<u>(139.3)</u>
Net fair value (gains)/ losses on debt and derivative instruments <sup>(6)</sup>	<u>(235.0)</u>	<u>(142.9)</u>
	<u>262.7</u>	<u>187.8</u>

## Notes to the financial statements

### 6. Finance expense (continued)

Notes:

- (1) Includes a £463.5 million (2022: £227.9 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.5 million (2022: £1.6 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
- (2) Includes foreign exchange losses of £20.6 million (2022: £4.3 million losses). These gains/losses are largely offset by fair value losses/gains on derivatives.
- (3) Under the provisions of IFRS 9 'Financial Instruments', a £6.3 million gain (2022: £1.8 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 £4.8 million gain (2022: nil) due to changes in 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 £31.8 million income (2022: £33.2 million) due to net interest on derivatives and debt under fair value option and £56.2 million expense (2022: £28.3 million expense) due to non-cash inflation uplift on index-linked derivatives.

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

### 7. Profit on disposal of subsidiary

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

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

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

Management does not consider UURE to meet the definition of a discontinued operation as set out in IFRS 5 'Non-current assets held for sale and discontinued operations' as it was not considered a separate major line of business for the group, UURE accounted for around £3.5 million of external revenue included in the group's consolidated financial statements for the period from 1 April 2022 to 29 September 2022 when the disposal occurred (year ended 31 March 2022: £3.5 million), with the majority of UURE's revenue relating to a long-term power purchase agreement with UUW that continues in place following the disposal. As such, no separate disclosures relating to discontinued operations have been included in the group's income statement or the notes to the financial statements.

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

## Notes to the financial statements

### 7. Profit on disposal of subsidiary (continued)

	2023 £m
Total consideration received	98.5
Cash and cash equivalents held by UURE disposed of	(4.5)
Fees and transaction costs	(3.5)
<b>Net cash income on disposal of subsidiary</b>	<b>90.5</b>

### 8. Tax

	2023 £m	2022 £m
<b>Current tax</b>		
UK corporation tax	10.6	10.7
Adjustments in respect of prior years	(25.2)	(72.5)
Total current tax credit for the year	(14.6)	(61.8)
<b>Deferred tax</b>		
Current year	44.1	92.9
Adjustments in respect of prior years	32.5	66.9
	76.6	159.8
Change in tax rate	-	402.7
Total deferred tax charge for the year	76.6	562.5
Total tax charge for the year	62.0	500.7

The deferred tax charge of £402.7 million in the prior year reflects the increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023.

The current tax adjustments in respect of prior years' of £25.2 million mainly relate to optimising the utilisation of losses, which were previously being carried forward.

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

	2023 £m	2023 %	2022 £m	2022 %
Profit before tax	312.2		460.8	
Tax at the UK corporation tax rate	59.3	19.0	87.6	19.0
Deferred tax rate adjustment	-	-	22.3	4.8
Adjustments in respect of prior years	7.3	2.3	(5.6)	(1.2)
Change in tax rate	-	-	402.7	87.4
Net income not taxable	(4.6)	(1.5)	(6.3)	(1.4)
Total tax charge and effective tax rate for the year	62.0	19.8	500.7	108.6

## Notes to the financial statements

### 8. Tax (Continued)

The deferred tax rate adjustment reflects the fact that the current year deferred tax charge is at the future tax rate of 25 per cent, rather than the 19 per cent current year rate.

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

	2023	2022
	£m	£m
Profit before tax	312.2	460.8
Profit before tax multiplied by the standard rate of UK corporation tax of 19%	59.3	87.6
Relief for capital allowances in place of depreciation	(107.5)	(108.0)
Disallowance of depreciation charged in the accounts	69.8	68.8
Financial transactions timing differences	(48.9)	(26.9)
Pension timing differences	(6.0)	(3.9)
Relief for capitalised interest	(24.2)	(10.0)
Other timing differences	2.6	2.0
Adjustments to tax charge in respect of prior years	(25.2)	(72.5)
Joint venture net losses	-	0.3
Profit on disposal of joint venture	(5.9)	-
Income not taxable	(12.0)	(9.1)
Depreciation charged on non-qualifying assets	2.6	2.5
Current year tax losses carry forward	80.8	7.4
Current tax credit for the year	<u>(14.6)</u>	<u>(61.8)</u>

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.

The current year net timing differences in relation to capital spend, i.e. capital allowances less depreciation, was higher than the prior year mainly due to the temporary super-deductions introduced in 2021.

The adjustments to tax charge in respect of prior years of £25.2 million mainly relates to the utilisation of tax losses, which were previously being carried forward. The £72.5 million in the prior year mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure, for multiple prior years.

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 relief for capitalised interest relates to amounts which are immediately deductible under the UK tax rules notwithstanding the amounts being capitalised for accounting purposes. The year-on-year amount will depend on the amount capitalised.

Other timing differences includes a range of small value items where there is a timing difference between the accounting and tax recognition.

The income not taxable is mainly due to the additional 30 per cent element of the temporary capital allowances super-deductions introduced in 2021.

## Notes to the financial statements

### 8. Tax (Continued)

Depreciation charged on non-qualifying assets relates to accounting depreciation where there is no corresponding tax deduction.

#### Tax on items taken directly to equity

	2023	2022
Group	£m	£m
<b>Deferred tax</b>		
On remeasurement (losses)/gains on defined benefit pension schemes	(152.8)	111.1
On net fair value (losses)/gains on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	(19.1)	26.1
Share-based payments	0.7	(1.0)
<b>Total tax charge on items taken directly to equity</b>	<b>(171.2)</b>	<b>136.2</b>

	2023	2022
Company	£m	£m
<b>Deferred tax</b>		
On remeasurement (losses)/gains on defined benefit pension schemes	(32.0)	30.4
<b>Total tax (credit)/charge on items taken directly to equity</b>	<b>(32.0)</b>	<b>30.4</b>

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's defined benefit pension schemes. 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).

#### Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the group and company, 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 2021	1,226.6	241.2	(18.3)	1,449.5
Charges to the income statement	149.3	3.5	6.9	159.7
Change in tax rate	414.7	-	(12.0)	402.7
Charged to equity	-	111.1	25.1	136.2
At 31 March 2022	1,790.6	355.8	1.7	2,148.1
Charges to the income statement	78.7	7.3	(9.4)	76.6
Charged to equity	-	(152.8)	(18.4)	(171.2)
Disposal of deferred tax liability	(5.4)	-	-	(5.4)
<b>At 31 March 2023</b>	<b>1,863.9</b>	<b>210.3</b>	<b>(26.1)</b>	<b>2,048.1</b>



## Notes to the financial statements

### 8. Tax (Continued)

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2021	(0.1)	55.3	(0.6)	54.6
Charged to the income statement	-	0.7	0.8	1.5
Change in tax rate	-	-	(0.2)	(0.2)
Charged to equity	-	30.4	-	30.4
At 31 March 2022	(0.1)	86.4	-	86.3
Charged to the income statement	-	1.6	-	1.6
Charged to equity	-	(32.0)	-	(32.0)
<b>At 31 March 2023</b>	<b>(0.1)</b>	<b>56.0</b>	<b>-</b>	<b>55.9</b>

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

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 relates 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, is not expected to be significant for the medium term.

### 9. Dividends

Amounts recognised as distributions to equity holders of the company in the year comprise:

	2023 £m	2022 £m
<b>Ordinary shares</b>		
Interim dividend for the year ended 31 March 2023 at 29.00 pence per share (2021: 28.83 pence)	197.7	196.6
Interim dividend for the year ended 31 March 2023 at 15.17 pence per share (2022: 14.50 pence)	103.4	98.9
	<u>301.1</u>	<u>295.5</u>

## Notes to the financial statements

### 10. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2023 £m	2022 £m
Property, plant and equipment – owned	12,513.8	12,087.7
Right of use assets – leased	56.9	59.8
<b>Net book value</b>	<b>12,570.7</b>	<b>12,147.5</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 2021	363.7	5,897.8	8,074.7	515.9	1,488.5	16,340.6
Additions	2.5	84.8	181.2	7.6	452.4	728.5
Transfers	6.4	48.8	241.9	4.7	(300.9)	0.9
Disposals	(0.3)	(0.1)	(136.1)	(14.5)	(0.1)	(151.1)
At 31 March 2022	372.3	6,031.3	8,361.7	513.7	1,639.9	16,918.9
Additions	1.1	88.7	243.5	2.9	530.7	866.9
Transfers	1.3	129.1	99.0	7.1	(222.6)	13.9
Disposals	(7.2)	(10.7)	(199.7)	(19.1)	-	(236.7)
At 31 March 2023	367.5	6,238.4	8,504.5	504.6	1,948.0	17,563.0
<b>Accumulated depreciation</b>						
At 1 April 2021	128.9	477.1	3,593.6	401.3	-	4,600.9
Charge for the year	8.4	45.0	294.7	26.5	-	374.6
Transfers	-	0.2	(0.1)	-	-	0.1
Disposals	(0.2)	-	(130.1)	(14.1)	-	(144.4)
At 31 March 2022	137.1	522.3	3,758.1	413.7	-	4,831.2
Charge for the year	8.5	47.9	305.5	21.6	-	383.5
Transfers	-	0.4	2.9	-	-	3.3
Disposals	(6.8)	(10.6)	(132.8)	(18.6)	-	(168.8)
At 31 March 2023	138.8	560.0	3,933.7	416.7	-	5,049.2
<b>Net book value</b>						
At 31 March 2022	235.2	5,509.0	4,603.6	100.0	1,639.9	12,087.7
At 31 March 2023	228.7	5,678.4	4,570.8	87.9	1,948.0	12,513.8

At 31 March 2023, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £322.6 million (2022: £280.8 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.

## Notes to the financial statements

### 10. Property, plant and equipment (Continued)

Following a review of inventories carried out during the year, the group has opted to reclassify spare parts previously recognised within inventories to property, plant and equipment in order to better reflect the expected consumption pattern of these items. This has resulted in £14.6 million being transferred to property, plant and equipment (cost) and £3.3 million being transferred to accumulated depreciation, giving a net transfer of £11.3 million. Depreciation of these spare parts is expected to commence at the point where they are ready to be installed, with the annual depreciation charge of the assets transferred expected to be around £0.6 million.

#### 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 2021	55.1	7.8	0.2	63.1
Additions	2.1	0.7	-	2.8
Disposals	(0.3)	(1.4)	-	(1.7)
At 31 March 2022	56.9	7.1	0.2	64.2
Additions	0.3	0.7	-	1.0
Disposals	(1.4)	(1.1)	-	(2.5)
At 31 March 2023	55.8	6.7	0.2	62.7
<b>Accumulated depreciation</b>				
At 1 April 2021	2.1	1.7	-	3.8
Charge for the year	1.5	0.9	-	2.4
Disposals	(0.4)	(1.4)	-	(1.8)
At 31 March 2022	3.2	1.2	-	4.4
Charge for the year	1.4	0.6	-	2.0
Disposals	-	(0.6)	-	(0.6)
At 31 March 2023	4.6	1.2	-	5.8
<b>Net book value</b>				
At 31 March 2022	53.7	5.9	0.2	59.8
At 31 March 2023	51.2	5.5	0.2	56.9

In order 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.

## Notes to the financial statements

### 10. Property, plant and equipment (Continued)

#### Company

#### Right of use assets – leased

	Land and buildings £m
<b>Cost</b>	
At 1 April 2021	3.2
At 31 March 2022	3.2
Disposals	(0.2)
At 31 March 2023	3.0
<b>Accumulated depreciation</b>	
At 1 April 2021	0.5
Charge for the year	0.2
At 31 March 2022	0.7
Charge for the year	0.2
Disposals	-
At 31 March 2023	0.9
<b>Net book value</b>	
At 31 March 2022	2.5
At 31 March 2023	2.1

The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2023 or 31 March 2022.

### 11. Intangible assets

	Total £m
<b>Group</b>	
<b>Cost</b>	
At 1 April 2021	425.1
Additions	20.1
Disposals	(13.2)
Transfers	0.9
At 31 March 2022	432.9
Additions	19.0
Transfers	0.6
<b>At 31 March 2023</b>	<b>452.5</b>

## Notes to the financial statements

### 11. Intangible assets (Continued)

<b>Accumulated amortisation</b>	
At 1 April 2021	244.0
Charge for the year	41.2
Disposals	(13.1)
	272.1
At 31 March 2022	38.1
	310.2
<b>At 31 March 2023</b>	<b>160.8</b>
Net book value at 31 March 2022	160.8
	142.4
<b>Net book value at 31 March 2023</b>	<b>142.4</b>

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

At 31 March 2023, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £2.8 million (2022: £1.8 million).

#### Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2023 or 31 March 2022.

### 12. Investment in joint ventures

Group and Company	Total £m
At 1 April 2021	
Additions <sup>(1)</sup>	18.3
Share of profit/(losses) of joint ventures	(1.8)
	16.5
At 31 March 2022	-
Share of losses of joint ventures	-
	16.5
<b>At 31 March 2023</b>	<b>16.5</b>

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

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

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

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

## Notes to the financial statements

### 13. Other investments

<b>Group and Company</b>	Total £m
At 1 April 2021	0.1
Change in fair value	-
At 31 March 2022	0.1
Disposals	(0.1)
<b>At 31 March 2023</b>	<b>-</b>

<b>Company</b>	Shares in subsidiary undertakings £m
At 1 April 2022 and 31 March 2023	3,944.0
Impairment	(0.4)
<b>Net book value at 31 March 2023</b>	<b>3,943.6</b>

During the year, an impairment of £0.4 million was recognised in relation to the company's investment in United Utilities (Tallinn) B.V.

### 14. Inventories

<b>Group</b>	2023 £m	2022 £m
Properties held for resale	4.5	1.6
Other inventories	9.8	16.6
	<u>14.3</u>	<u>18.2</u>

Included within other inventories are £1.2 million (2022: £0.4 million) of assets that are held for sale in the ordinary course of business, but where sales are not expected to occur within 12 months of the reporting date. These items are therefore classified within non-current assets in the statement of financial position.

#### Company

The company had no inventories at 31 March 2023 or 31 March 2022.

### 15. Trade and other receivables

	2023 £m	Group 2022 £m	2023 £m	Company 2022 £m
Trade receivables	47.8	61.7	3.6	1.2
Amounts owed by subsidiary undertakings	-	-	905.6	750.1
Amounts owed by ultimate parent undertaking (see note A6)	1,866.8	1,809.4	1,866.8	1,809.4
Amounts owed by other related parties (see note A6)	102.2	116.4	75.6	80.3
Other debtors and prepayments	43.1	37.5	-	-
Accrued income	73.1	88.6	-	-
	<u>2,133.0</u>	<u>2,113.6</u>	<u>2,851.6</u>	<u>2,641.0</u>

## Notes to the financial statements

### 15. Trade and other receivables (continued)

At 31 March 2023, the group had £1,940.5 million (2022: £1,881.5 million) of trade and other receivables classified as non-current, all of which was owed by related parties.

Amounts owed by subsidiary undertakings, all of which are expected to be settled within 12 months, represents the sum of all subsidiary balances where the total of intercompany tax, debt, interest and trade balances is in a net receivable position. The recoverability of these balances has been assessed at the year end, and, except for the allowance for doubtful receivables detailed below, the balances are deemed fully recoverable.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2023 and 31 March 2022.

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

<b>Group</b>	2023 £m	2022 £m
At the start of the year	84.6	80.4
Amounts charged to operating expenses (see note 4)	22.7	23.4
Trade receivables written off	(21.0)	(19.2)
Amounts charged to deferred income	(0.6)	-
<b>At the end of the year</b>	<u>85.7</u>	<u>84.6</u>

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.

At 31 March 2023 and 31 March 2022, the group had no trade receivables that were past due and not individually impaired.

In the company, gross amounts owed by subsidiary undertakings relating to non-trading subsidiary undertakings are stated net of allowances for doubtful receivables, an analysis of which is as follows:

<b>Company</b>	2023 £m	2022 £m
At the start of the year	4.8	98.1
Amounts charged to operating expenses	0.3	-
Utilisation of provision	-	(93.3)
<b>At the end of the year</b>	<u>5.1</u>	<u>4.8</u>

At each reporting date, the company evaluates the recoverability of amounts owed by subsidiary undertakings and records allowances for doubtful receivables based on an assessment of the company's ability to pay.

## Notes to the financial statements

### 15. Trade and other receivables (continued)

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

Group	Aged			Carrying value £m
	Aged less than one year £m	between one year and two years £m	Aged greater than two years £m	
<b>At 31 March 2023</b>				
Gross trade receivables	51.6	31.7	50.2	133.5
Allowance for expected credit losses	(20.2)	(16.7)	(48.8)	(85.7)
<b>Net trade receivables</b>	<b>31.4</b>	<b>15.0</b>	<b>1.4</b>	<b>47.8</b>
	Aged			Carrying value £m
	Aged less than one year £m	between one year and two years £m	Aged greater than two years £m	
<b>At 31 March 2022</b>				
Gross trade receivables	68.7	26.1	51.4	146.2
Allowance for expected credit losses	(20.3)	(13.1)	(51.2)	(84.6)
<b>Net trade receivables</b>	<b>48.4</b>	<b>13.0</b>	<b>0.2</b>	<b>61.6</b>

At 31 March 2023, the group had £0.3 million (2022: £0.1 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 2023 and 31 March 2022, 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 2023 and 31 March 2022, the company had no trade receivables that were past due.

### 16. Cash and cash equivalents

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash at bank and in hand	2.6	9.9	0.1	0.1
Short-term bank deposits	337.8	231.0	102.2	57.4
<b>Cash and short-term deposits</b>	<b>340.4</b>	<b>240.9</b>	<b>102.3</b>	<b>57.5</b>
Book overdrafts (included in borrowings, see note 17)	(12.5)	(20.8)	(0.1)	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>327.9</b>	<b>220.1</b>	<b>102.2</b>	<b>57.5</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 cash management practices, represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.



## Notes to the financial statements

### 17. Borrowings

Group	2023 £m	2022 £m
<b>Non-current liabilities</b>		
Bonds	6,378.8	6,168.4
Bank and other term borrowings	1,825.0	1,445.0
Lease liabilities	55.2	57.6
Amounts owed to ultimate parent undertaking	75.0	75.0
	<u>8,334.0</u>	<u>7,746.0</u>
<b>Current liabilities</b>		
Bank and other term borrowings	160.8	284.7
Book overdrafts (see note 16)	12.5	20.8
Lease liabilities	3.1	3.3
Amounts owed to ultimate parent undertaking	17.9	9.4
	<u>194.3</u>	<u>318.2</u>
	<u>8,528.3</u>	<u>8,064.2</u>

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

Company	2023 £m	2022 £m
<b>Non-current liabilities</b>		
Bonds	322.0	302.4
Amounts owed to ultimate parent undertaking	75.0	75.0
Lease liabilities	2.1	2.3
	<u>399.1</u>	<u>379.7</u>
<b>Current liabilities</b>		
Book overdrafts (see note 16)	0.1	-
Lease liabilities	0.1	0.3
Amounts owed to ultimate parent undertaking	17.9	9.4
	<u>18.1</u>	<u>9.7</u>
	<u>417.2</u>	<u>389.4</u>

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

During the year an exercise was performed to reassess the nature of the intercompany payable balances owed by the company to United Utilities Group PLC. As a result, both parties executed an agreement to split the existing intercompany payable balance owed to United Utilities Group PLC, which had been classified as a current liability in prior years, into an intercompany loan of £75.0 million that is repayable at 31 March 2027 with the remaining amount continuing to form part of the intercompany cash pooling arrangements presented within current liabilities.

## Notes to the financial statements

### 18. Retirement benefits

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) – as well as a defined contribution scheme which is part of the UUPS, and a series of historic unfunded, unregistered retirement benefit schemes operated for the benefit of certain former employees.

Both defined benefit schemes are closed to new employees, and since 1 April 2018 the majority of active members in the defined benefit section of the UUPS have been part of a hybrid section comprising both defined benefit and defined contribution elements in order to reduce the overall costs and risk to the group resulting from increases in future service costs, while balancing the interests of employees by maintaining an element of defined benefit pension provision.

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

#### Defined benefit schemes

As similar financial and demographic assumptions are used in accounting for both of the group's defined benefit pension schemes, and given they have similar risk profiles, the information below and further detail provided in note A5 is presented on an aggregated basis unless otherwise stated.

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

	Group		Company	
	2023	2022	2023	2022
	£m	£m	£m	£m
Current service cost	6.0	7.5	0.4	0.4
Curtailments/settlements	-	-	-	-
Administrative expenses	2.5	2.1	1.0	1.0
<b>Pension expense charged to operating profit</b>	<b>8.5</b>	<b>9.6</b>	<b>1.4</b>	<b>1.4</b>
Net pension interest income credited to investment income (see note 5)	(28.7)	(14.3)	(6.9)	(3.2)
<b>Net pension income credited to the income statement before tax</b>	<b>(20.2)</b>	<b>(4.7)</b>	<b>(5.5)</b>	<b>(1.8)</b>

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £8.5 million (2022: £9.6 million) for the group and £1.4 million (2022: £1.4 million) for the company comprising current service costs and administrative expenses.

Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £37.7 million (2022: £35.7 million) for the group and £1.4 million (2022: £1.4 million) for the company comprise the defined benefit costs described above of £8.5 million (2022: £9.6 million) for the group and £1.4 million (2022: £1.4 million) for the company and defined contribution costs of £29.2 million (2022: £26.1 million) for the group and £nil (2022: £nil) for the company (see note 3).

## Notes to the financial statements

### 18. Retirement benefits (Continued)

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

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
At the start of the year	1,016.8	689.0	245.6	158.0
Income recognised in the income statement	20.2	4.7	5.5	1.8
Contributions	9.1	9.5	1.0	0.8
Remeasurement (losses)/gains gross of tax	(445.3)	313.6	(93.4)	85.0
<b>At the end of the year</b>	<b>600.8</b>	<b>1016.8</b>	<b>158.7</b>	<b>245.6</b>

Included in the contributions paid of £9.1 million (2022: £9.5 million) and company contributions paid of £1.0 million (2022: £0.8 million), which are included as cash outflows in arriving at net cash generated from operations in the consolidated statement of cash flows, enhancements to benefits provided on redundancy of £nil (2022: £0.5 million) for the group and for the company of £nil (2022: £0.2 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.6 million (2022: £2.5 million) for the group and £nil (2022: £nil) for the company, and administration expenses of £2.5 million (2022: £2.1 million) for the group and for the company of £1.0 million (2022: £1.0 million).

Contributions in relation to current service cost remained broadly stable at £6.0 million (2022: £6.1 million) for the group and £0.4 million (2022: £0.4 million) for the company.

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

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
The return on plan assets, excluding amounts included in interest	(1,087.8)	102.2	(235.5)	23.7
Actuarial gains arising from changes in financial assumptions	950.0	164.0	249.2	41.4
Actuarial (losses)/gains arising from changes in demographic assumptions	(60.7)	52.4	(10.4)	13.2
Actuarial (losses) arising from experience	(246.8)	(5.0)	(96.5)	6.7
Remeasurement (losses)/gains on defined benefit pension schemes	(445.3)	313.6	(93.2)	85.0

Deferred tax on the movement in the defined benefit surplus during the year has been recognised at a rate of 35 per cent, being the rate applicable to refunds from a trust, reflecting the most likely method by which the defined benefit surplus would be realised (see note 7).

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 £29.2 million (2022: £26.1 million) of contributions and the company made £nil (2022: £nil) of contributions to defined contribution schemes which are included in employee benefits expense in the consolidated income statement (see note 3), and as cash outflows in arriving at net cash generated from operating activities in the consolidated statement of cash flows.

## Notes to the financial statements

### 19. Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 2021	1.6	9.5	11.1
Charged to the income statement	0.3	4.7	5.0
Utilised in the year	(0.7)	(1.9)	(2.6)
At 31 March 2022	1.2	12.3	13.5
Charged/(credited) to the income statement	(0.3)	0.8	0.5
Utilised in the year	(0.5)	(0.4)	(0.9)
<b>At 31 March 2023</b>	<b>0.4</b>	<b>12.7</b>	<b>13.1</b>

The group had no provisions classed as non-current at 31 March 2023 or 31 March 2022.

The severance provision as at 31 March 2023 and 31 March 2022 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 2023 or 31 March 2022.

### 20. Trade and other payables

	2023 £m	Group 2022 £m	2023 £m	Company 2022 £m
<b>Non-current</b>				
Deferred grants and contributions	873.3	818.2	-	-
Other creditors	19.1	17.0	-	-
	<u>892.4</u>	<u>835.2</u>	<u>-</u>	<u>-</u>
<b>Current</b>				
Trade payables	26.4	28.3	0.1	0.3
Amounts owed to ultimate parent undertaking	12.4	10.7	10.6	8.6
Amounts owed to subsidiary undertakings	-	-	84.8	81.7
Other tax and social security	6.9	6.6	-	-
Deferred grants and contributions	16.6	16.0	-	-
Accruals and other creditors	269.2	263.3	5.3	17.8
Deferred income	54.0	48.1	-	-
	<u>385.5</u>	<u>373.0</u>	<u>100.8</u>	<u>108.4</u>

The average credit period taken for trade purchases for the group is 11 days (2022: 13 days) and for the company is nil days (2022: nil days).

The carrying amounts of trade and other payables approximate their fair value at 31 March 2023 and 31 March 2022.

## Notes to the financial statements

### 20. Trade and other payables (Continued)

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

	2023 £m	2022 £m
<b>Group</b>		
At the start of the year	834.2	795.8
Amounts capitalised during the year	5.4	1.8
Transfers of assets from customers	66.2	52.4
Credited to income statement – revenue	(16.2)	(15.4)
Credited to the income statement – other operating costs	(0.3)	(0.4)
Debited to allowance for bad and doubtful receivables	0.6	-
<b>At the end of the year</b>	<u>889.9</u>	<u>834.2</u>

### 21. Other reserves

	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2022	0.4	86.1	86.5
<b>Other comprehensive income</b>			
Change in fair value recognised in other comprehensive income	6.3	(50.6)	(44.3)
Amounts reclassified from other comprehensive income to profit or loss	-	(36.6)	(36.6)
Tax on hedge effectiveness taken directly to equity	(1.6)	12.7	11.1
Tax on reclassification to consolidated income Statement	-	7.0	7.0
<b>At 31 March 2023</b>	<u>5.1</u>	<u>18.6</u>	<u>23.7</u>

	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2021	0.4	6.2	6.6
<b>Other comprehensive income</b>			
Change in fair value recognised in other comprehensive income	-	106.7	106.7
Amounts reclassified from other comprehensive income to profit or loss	-	(26.8)	(26.8)
Tax on items taken directly to equity	-	-	-
Foreign exchange adjustments	-	-	-
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	-	-	-
<b>At 31 March 2022</b>	<u>0.4</u>	<u>86.1</u>	<u>86.5</u>

## Notes to the financial statements

### 21. Other reserves (Continued)

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 in order to give a more representative view of operating costs. Fair value movements relating to the effective part of these swaps are recognised in other comprehensive income and accumulated in the cash flow hedging reserve.

#### Company

The company had no other reserves at 31 March 2023, or 31 March 2022.

### 22. Share capital

Group and Company	2023 number	2023 £	2022 number	2022 £
<b>Issued, called up and fully paid</b>				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	<u>881,787,479</u>	<u>881,787,479</u>	<u>881,787,479</u>	<u>881,787,479</u>

The company has one class of ordinary shares which carry no right to fixed income. The deferred A share carries no voting rights nor a right to fixed income.

### 23. Contingent liabilities

At 31 March 2023, there were commitments for future capital expenditure and infrastructure renewals expenditure contracted but not provided for of £339.0 million (2022: £292.8 million).

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

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no contingent liabilities to be disclosed in this regard (2022: none).

The company has not entered into performance guarantees as at 31 March 2023 or 31 March 2022.

## Notes to the financial statements

### 24. Events after the reporting period

With the exception of the new borrowings described in note A3, there were no significant events after the reporting period requiring disclosure or any adjustments to the financial position, financial performance, or cash flows reported as at 31 March 2023.

### 25. Ultimate parent undertaking

The company's immediate and ultimate parent undertaking and controlling party is United Utilities Group PLC, a company incorporated and registered in England and Wales.

The smallest group in which the results of the company are consolidated is that headed by United Utilities PLC.

The largest group in which the results of the company are consolidated is that headed by United Utilities Group PLC. The consolidated accounts of this group are available to the public and may be obtained from: The Company Secretary, United Utilities Group PLC, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.

## Notes to the financial statements

### A1. Cash generated from operations

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Profit before tax	312.2	460.8	555.3	380.5
Adjustment for investment income and finance expense (see notes 5, 6 and A6)	159.8	147.4	(74.6)	(36.0)
Adjustment for share of losses of joint ventures (see note 12)	-	1.8	-	-
Adjustment for profit on disposal of joint business	(31.2)	-	(35.3)	-
Adjustment for non-cash impairment write-down	-	-	0.7	70.9
Operating profit	440.8	610.0	446.1	415.4
Adjustments for:				
Depreciation of property, plant and equipment (see note 10)	385.5	377.0	0.2	0.3
Amortisation of intangible assets (see note 11)	38.1	41.2	-	-
Loss on disposal of property, plant and equipment (see note 4)	4.2	3.9	-	-
Amortisation of deferred grants and contributions (see note 20)	(16.5)	(15.8)	-	-
Changes in working capital:				
Increase in inventories (see note 14)	3.9	0.1	-	-
(Increase)/decrease in trade and other receivables	(52.2)	(6.7)	(346.0)	758.7
Increase/(decrease) in trade and other payables	0.5	24.4	185.0	(707.8)
Decrease in provisions (see note 19)	(0.4)	2.4	-	-
Pension contributions paid less pension expense charged to operating profit	0.4	0.1	0.5	0.6
<b>Cash generated from operations</b>	<b>804.3</b>	<b>1,036.6</b>	<b>285.8</b>	<b>467.2</b>

The group has received property, plant and equipment of £66.2 million (2022: £52.4 million) in exchange for the provision of future goods and services (see notes 20 and A7).

### Owned property, plant and equipment<sup>(1)</sup>

Group	2023 £m	2022 £m
<b>Purchase of property, plant and equipment in statement of cash flows</b>	<b>675.9</b>	<b>609.0</b>
Non-cash additions:		
Transfers of assets from customers (see note 20)	66.2	52.4
IAS 23 capitalised borrowing costs (see note 6)	126.0	52.1
Net book value transfers to intangible assets	0.6	-
Transfers of spare parts from inventories (see note 10)	(11.3)	-
Timing differences on cash paid <sup>(2)</sup>	9.5	15.0
<b>Property, plant and equipment additions</b>	<b>866.9</b>	<b>728.5</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 20).



## Notes to the financial statements

### A1. Cash generated from operations (continued)

Intangible assets	2023	2022
Group	£m	£m
<b>Purchase of intangibles assets in statement of cash flows</b>	<b>18.1</b>	<b>19.5</b>
IAS 23 capitalised borrowing costs (see note 6)	1.5	0.6
Net book value transfers from property, plant and equipment	(0.6)	-
<b>Intangible asset additions</b>	<b>19.0</b>	<b>20.1</b>

The company had no property, plant and equipment or intangible asset additions during the years ended 31 March 2023 and 31 March 2022.

### 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.

In the below tables, 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 a fair value hedge relationship) 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.

Fair value movements includes the indexation expense relating to the group's inflation swap portfolio of £85.3 million (2022: a swap portfolio of £29.9 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

## Notes to the financial statements

### A2. Net Debt (continued)

	Borrowings				Derivatives		Total liabilities from financing activities	Cash and cash equivalents	Adjustments in calculating net debt <sup>(2)</sup>	Net debt
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss				
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2022	(6,168.4)	(1,729.9)	(60.8)	(84.4)	68.9	140.3	(7,834.3)	220.1	(40.0)	(7,654.2)
<b>Non-cash movements</b>										
Inflation uplift on index-linked debt	(325.4)	(138.0)	-	-	-	-	(463.4)	-	-	(463.4)
Fair value movements	239.2	3.3	-	-	(220.0)	209.5	232.0	-	(264.2)	(32.2)
Foreign exchange	(22.3)	1.7	-	-	-	-	(20.6)	-	-	(20.6)
Other	1.1	0.3	(2.3)	-	-	-	(0.9)	-	-	(0.9)
<b>Cash flows used in financing activities:</b>										
Receipts in respect of borrowings and derivatives	(103.0)	(397.9)	-	(8.3)	-	-	(509.2)	509.2	-	-
Payments in respect of borrowings and derivatives	-	274.7	3.3	-	0.1	-	278.1	(278.1)	-	-
<b>Changes arising from financing activities</b>	<b>(210.3)</b>	<b>(255.9)</b>	<b>1.0</b>	<b>(8.3)</b>	<b>(219.9)</b>	<b>209.5</b>	<b>(484.0)</b>	<b>(70.0)</b>	<b>(264.2)</b>	<b>(818.2)</b>
Cash flows used in investing activities	-	-	-	-	-	-	-	(593.1)	-	(593.1)
Cash flows generated from operating activities	-	-	1.5	-	-	-	1.5	771.6	-	773.1
Effects of exchange rate changes	-	-	-	-	-	-	-	(0.7)	-	(0.7)
<b>At 31 March 2023</b>	<b>(6,378.7)</b>	<b>(1,985.8)</b>	<b>(58.3)</b>	<b>(92.7)</b>	<b>(151.0)</b>	<b>349.8</b>	<b>(8,316.8)</b>	<b>327.9</b>	<b>(304.2)</b>	<b>(8,293.1)</b>

## Notes to the financial statements

## A2. Net Debt (continued)

	Borrowings				Derivatives		Total liabilities from financing activities	Cash and cash equivalents	Adjustments in calculating net debt <sup>(2)</sup>	Net debt
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss				
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2021	(6,418.4)	(1,962.9)	(60.0)	(85.1)	263.0	40.5	(8,222.9)	733.6	98.4	(7,390.9)
<b>Non-cash movements</b>										
Inflation uplift on index-linked debt	(150.4)	(78.2)	-	-	-	-	(228.6)	-	-	(228.6)
Fair value movements	203.3	5.1	-	-	(194.1)	99.8	114.1	-	(138.4)	(24.3)
Foreign exchange	(5.6)	1.3	-	-	-	-	(4.3)	-	-	(4.3)
Other	1.4	-	(4.5)	-	-	-	(3.1)	-	-	(3.1)
<b>Cash flows used in financing activities:</b>										
Receipts in respect of borrowings and derivatives	(173.7)	-	-	-	-	-	(173.7)	173.7	-	-
Payments in respect of borrowings and derivatives	375.0	304.8	2.1	0.7	-	-	682.6	(682.6)	-	-
Dividends paid	-	-	-	-	-	-	-	(295.5)	-	(295.5)
Other	-	-	-	-	-	-	-	1.6	-	1.6
<b>Changes arising from financing activities</b>	<b>250.0</b>	<b>233.0</b>	<b>(2.4)</b>	<b>0.7</b>	<b>(194.1)</b>	<b>99.8</b>	<b>462.0</b>	<b>(802.8)</b>	<b>(138.4)</b>	<b>(554.2)</b>
Cash flows used in investing activities	-	-	-	-	-	-	-	(639.7)	-	(639.7)
Cash flows generated from operating activities	-	-	1.6	-	-	-	1.6	929.0	-	930.6
At 31 March 2022	(6,168.4)	(1,729.9)	(60.8)	(84.4)	68.9	140.3	(7,834.3)	220.1	(40.0)	(7,654.2)

## Notes to the financial statements

### 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:

Group	Currency	Year of final repayment	Fair value 2023 £m	Carrying value 2023 £m	Fair value 2022 £m	Carrying value 2022 £m
<b>Borrowings in fair value hedge relationships</b>			<b>2,310.1</b>	<b>2,332.3</b>	<b>2,511.5</b>	<b>2,494.0</b>
2.0% 450m bond	GBP	2025	427.8	427.8	450.1	441.2
2.867% 320m bond	HKD	2026	31.5	32.6	30.8	31.3
2.92% 739m bond	HKD	2026	72.6	75.4	71.0	72.4
1.129% 52m bond	EUR	2027	42.1	41.5	43.4	43.2
2.37% 830m bond	HKD	2027	80.2	82.2	77.0	80.4
5.625% 300m bond	GBP	2027	315.5	308.2	356.4	347.6
1.43% 100m bond	GBP	2028	84.6	85.8	95.4	94.1
5.02% JPY 10bn dual currency loan	JPY/USD	2029	74.3	79.0	80.9	83.9
0.875% 300m bond	GBP	2029	234.7	246.5	269.0	274.6
0.175% 11bn bond	JPY	2030	23.4	23.2	64.5	67.6
2.058% 30m bond	EUR	2030	63.5	64.6	26.4	25.7
2.625% 350m bond	GBP	2031	365.7	358.4	428.5	407.8
1.641% 30m bond	EUR	2031	23.6	22.0	25.6	24.5
2.9% 600m bond	HKD	2031	57.4	55.4	58.4	55.1
1.474% 35m bond	USD	2031	22.5	22.5	22.4	22.8
1.707% 28m bond	EUR	2032	20.3	21.2	23.8	24.0
1.653% 26m bond	EUR	2032	18.6	19.3	21.0	21.9
1.70% 30m bond	EUR	2033	21.4	22.7	25.3	25.7
2.0% 50m bond	GBP	2033	78.1	78.6	94.8	91.7
5.0% 200m bond	GBP	2035	199.8	213.4	246.8	258.5
1.45% 8.5bn bond	JPY	2037	52.5	52.0	-	-
<b>Borrowings designated at fair value through profit or loss</b>			<b>361.0</b>	<b>361.0</b>	<b>369.9</b>	<b>369.9</b>
6.875% 400m bond	USD	2028	361.0	361.0	369.9	369.9
<b>Borrowings measured at amortised cost</b>			<b>5,492.9</b>	<b>5,835.0</b>	<b>6,368.1</b>	<b>5,200.3</b>
0.47% + RPI 100m IL loan	GBP	2023	-	-	132.3	129.1
Short-term bank borrowings - fixed	GBP	2024	45.8	45.8	49.2	49.2
0.49% + RPI 100m IL loan	GBP	2025	138.9	140.8	134.3	124.2
0.013% + RPI 25m IL bond	GBP	2025	34.6	35.1	33.2	31.0
0.1275% + RPI 100m IL loan	GBP	2026	135.3	138.9	133.3	122.5
0.01% + RPI 20m IL bond	GBP	2028	26.3	28.4	26.6	25.3
1.23% + RPI 50m EIB (amortising) IL loan	GBP	2029	33.6	33.7	37.6	34.7
0.288% + CPI 100m IL loan	GBP	2029	108.0	118.4	117.0	107.6
1.29% + RPI 50m EIB (amortising) IL loan	GBP	2029	36.4	36.3	40.2	36.9
1.12% + RPI 50m EIB (amortising) IL loan	GBP	2029	35.9	36.0	39.7	36.6
1.10% + RPI 50m EIB (amortising) IL loan	GBP	2029	35.9	36.0	39.7	36.6
0.75% + RPI 50m EIB (amortising) IL loan	GBP	2029	37.4	37.9	41.2	38.2
0.76% + RPI 50m EIB (amortising) IL loan	GBP	2030	37.2	37.8	41.1	38.1
1.15% + RPI 50m EIB (amortising) IL loan	GBP	2030	37.4	37.6	41.5	37.9
1.11% + RPI 50m EIB (amortising) IL loan	GBP	2030	37.5	37.8	41.6	38.0
0.780%+SONIA 100m loan	GBP	2030	97.2	99.8	-	-
0.178% + RPI 35m IL bond	GBP	2030	46.1	49.2	49.7	43.3

## Notes to the financial statements

## A3. Borrowings (continued)

	Currency	Year of final repayment	Fair value 2023 £m	Carrying value 2023 £m	Fair value 2022 £m	Carrying value 2022 £m
<b>Borrowings measured at amortised cost (continued)</b>						
0.970%+SONIA 135m loan	GBP	2030	132.1	134.7	-	-
0.245% + CPI 20m IL bond	GBP	2031	21.8	25.0	24.5	22.7
0.01% + RPI 38m IL bond	GBP	2031	50.5	53.5	50.8	47.6
3.375% + RPI 50m IL bond	GBP	2032	120.8	97.1	142.2	86.4
0.986% + SONIA 100m EIB (amortising) loan <sup>(1)</sup>	GBP	2032	55.3	56.3	61.6	62.5
0.940%+SONIA 150m loan	GBP	2032	147.0	149.7	-	-
0.968% + SONIA 150m EIB (amortising) loan <sup>(1)</sup>	GBP	2032	87.3	89.1	96.8	98.4
0.850% + SONIA 100m EIB (amortising) loan <sup>(1)</sup>	GBP	2033	60.2	62.5	67.1	68.8
0.788% + SONIA 150m EIB (amortising) loan <sup>(1)</sup>	GBP	2033	97.2	98.4	104.9	107.8
2.0% 250m bond(1)	GBP	2033	195.3	245.6	236.9	245.6
0.01% + RPI 100m EIB (amortising) IL loan	GBP	2033	89.7	95.4	97.6	91.8
0.01% + RPI 75m EIB (amortising) IL loan	GBP	2034	67.1	71.5	73.2	68.8
0.01% + RPI 75m EIB (amortising) IL loan	GBP	2034	69.7	74.4	76.0	71.3
0.01% + RPI 75m EIB (amortising) IL loan	GBP	2034	69.7	74.3	75.9	71.3
1.9799% + RPI 100m IL bond	GBP	2035	202.7	181.0	242.4	161.1
1.150%+SONIA 100m EIB (amortising) loan <sup>(1)</sup>	GBP	2035	77.4	78.1	83.5	84.4
1.117%+SONIA 75m EIB (amortising) loan <sup>(1)</sup>	GBP	2035	61.0	60.9	66.6	65.6
0.01% + RPI 26.5m IL bond(1)	GBP	2036	31.3	39.1	36.3	35.1
0.379% + CPI 20m IL bond(1)	GBP	2036	20.8	25.0	25.4	22.7
0.01% + RPI 29m IL bond(1)	GBP	2036	33.7	41.1	39.5	36.6
0.093% + CPI 60m IL bond(1)	GBP	2037	59.9	74.4	73.2	67.6
1.66% + RPI 35m IL bond	GBP	2037	62.5	60.7	70.6	53.5
1.75% 250m bond(1)	GBP	2038	215.4	300.4	215.0	248.2
2.40% + RPI 70m IL bond	GBP	2039	127.3	118.5	152.2	104.4
1.7829% + RPI 100m IL bond	GBP	2040	192.8	179.1	255.2	159.4
0.01% + CPI 125m IL bond(1)	GBP	2040	106.9	163.5	143.9	151.3
1.3258% + RPI 50m IL bond	GBP	2041	87.8	89.4	120.1	79.6
1.5802% + RPI 100m IL bond	GBP	2042	184.9	178.6	248.9	158.9
1.875% 300m bond(1)	GBP	2042	187.3	295.6	257.1	295.5
1.5366% + RPI 50m IL bond	GBP	2043	36.8	35.6	51.1	31.7
1.397% + RPI 50m IL bond	GBP	2046	87.9	89.3	126.0	79.5
0.359% + CPI 32m IL bond	GBP	2048	26.9	39.2	40.7	35.6
1.7937% + RPI 50m IL bond	GBP	2049	94.1	88.9	143.8	79.1
Commission for New Towns (amortising) loan – fixed	GBP	2053	37.3	24.7	46.3	25.5
1.847% + RPI 100m IL bond	GBP	2056	187.9	183.1	252.7	161.5
1.815% + RPI 100m IL bond	GBP	2056	185.3	182.4	250.8	160.8
1.662% + RPI 100m IL bond	GBP	2056	181.3	182.0	244.6	160.5
1.5865% + RPI 50m IL bond	GBP	2056	88.8	90.9	120.1	80.2
1.591% + RPI 25m IL bond	GBP	2056	44.0	45.4	60.7	40.0
1.556% + RPI 50m IL bond	GBP	2056	88.5	90.5	122.2	79.8
1.435% + RPI 50m IL bond	GBP	2056	86.5	90.2	119.1	79.5
1.3805% + RPI 35m IL bond	GBP	2056	60.0	63.1	81.7	55.7
1.585% + RPI 100m IL bond	GBP	2057	171.0	175.2	241.2	154.5
0.387% + CPI 33m IL bond	GBP	2057	25.4	40.1	42.6	36.4
1.702% + RPI 50m IL bond	GBP	2057	88.6	88.3	122.8	77.9
Amounts owed to ultimate parent undertaking	GBP	2021	92.9	92.9	84.4	84.4
Book overdrafts (see note 15)	GBP	2021	12.5	12.5	20.8	20.8
Lease liabilities	GBP	various	58.3	58.3	60.9	60.9
			<b>8,164.0</b>	<b>8,528.3</b>	<b>9,249.5</b>	<b>8,064.2</b>

## Notes to the financial statements

### A3. Borrowings (continued)

Notes:

<sup>(1)</sup> Rates on these loans have been affected by the IBOR transition. The LIBOR/SONIA credit adjustment spread, finalised as a spread adjustment at 27.66bps in each instance, has been added to the fixed rate component referenced in the table to reflect the underlying fixed interest payable post IBOR reform. The loans all referenced LIBOR as the floating rate in the prior year. See accounting policies ('Phase II' – IBOR Reform) and note A4 (Interest rate benchmark reform) for further details of the financial and accounting impacts of the IBOR rate reform.

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 currencies is swapped to sterling to match funding costs to income and assets.

After the reporting period, the group has raised the following new borrowings:

- £300 million fixed rate notes, raised in April 2023 and due October 2038;
- £350 million fixed rate notes, raised in June 2023 and due June 2036; and
- £100 million loan facility entered into directly by the company in April 2023 and due April 2032.

The £350 million fixed rate notes were swapped on inception to form part of a fair value hedge relationship, hedging interest rate risk.

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

Company	Currency	Year of final repayment	Fair value 2023 £m	Carrying value 2023 £m	Fair value 2022 £m	Carrying value 2022 £m
<b>Borrowings measured at amortised cost</b>						
Amounts owed to ultimate parent undertaking	GBP	2023	92.9	92.9	84.4	84.4
6.875% 400m bond	USD	2028	361.0	322.0	369.9	302.4
Lease liabilities	GBP	Various	2.2	2.2	2.6	2.6
			<b>456.1</b>	<b>417.1</b>	<b>456.9</b>	<b>389.4</b>

Borrowings are unsecured. Funding raised in currencies other than sterling is swapped to sterling to match funding costs to income and assets.

#### Group and company – lease liabilities

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

	2023 £m	Group 2022 £m	2023 £m	Company 2022 £m
Less than 1 year	3.2	3.3	0.3	0.3
1 to 5 years	9.0	10.4	1.1	1.1
5 to 10 years	7.8	8.1	1.1	1.1
10 to 25 years	25.0	25.5	0.1	0.3
25 to 50 years	41.3	42.0	-	-
50 to 100 years	81.5	81.5	-	-
100 to 500 years	105.3	106.9	-	-
Longer than 500 years	3.2	3.2	-	-
<b>Total undiscounted cash payments</b>	<b>276.3</b>	<b>280.9</b>	<b>2.6</b>	<b>2.8</b>
Effect of discounting	(218.0)	(220.0)	(0.1)	(0.2)
<b>Present value of cash payments</b>	<b>58.3</b>	<b>60.9</b>	<b>2.5</b>	<b>2.6</b>

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## Notes to the financial statements

### A3. Borrowings (continued)

During the year ended 31 March 2023, £1.5 million (2022: £1.6 million) of interest expense on the group's lease liabilities was recognised, representing the unwinding of the discounting applied to future lease payments (see note 6). The interest expense on the company's lease liabilities was negligible and has been rounded down to £nil in the financial statements for both the years ended 31 March 2023 and 31 March 2022.

The total cash outflow for leases for the year ended 31 March 2023 was £3.3 million (2022: £3.7 million) for the group and £0.3 million (£0.3 million) for the company. Of this, for the group £1.5 million was payment of interest (2022: £1.6 million) and £1.8 million was payment of principal (2022: £2.1 million), and for the company £0.3 million (2022: £0.3 million) was payment of principal, with the payment of interest being negligible and therefore rounded down to £nil in the financial statements for both the years ended 31 March 2023 and 31 March 2022.

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.

### A4. Financial risk management

#### Risk management

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

The treasury committee, a subcommittee of the UUG 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 UUG 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 2023, the group had £1,190.4 million (2022: £1,040.9 million) of available liquidity, which comprised £340.4 million (2022: £240.9 million) of cash and short-term deposits and £850.0 million (2022: £800.0 million) of undrawn committed borrowing facilities. Short-term deposits mature within three months.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Liquidity risk (continued)

The group and company had available committed borrowing facilities as follows:

	Group		Company	
	2023	2022	2023	2022
	£m	£m	£m	£m
Expiring within one year	150.0	100.0	35.0	45.0
Expiring after one year but in less than two years	50.0	150.0	10.0	35.0
Expiring after more than two years	650.0	550.0	210.0	225.0
Total borrowing facilities	850.0	800.0	255.0	305.0
Facilities drawn	-	-	-	-
Undrawn borrowing facilities	850.0	800.0	255.0	305.0

Note:

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.

#### 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 group and company'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.

More

	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	than 5 years
Group	£m	£m	£m	£m	£m	£m	£m	£m
<b>At 31 March 2023</b>								
Bonds	12,650.3	-	166.7	617.9	306.7	155.8	591.3	10,811.9
Bank and other term borrowings	1,877.3	-	162.2	298.1	297.7	144.8	144.3	830.2
Amounts owed to ultimate parent undertaking	92.9	-	92.9	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	(6,150.5)	(6,150.5)	-	-	-	-	-	-
<b>Borrowings</b>	<b>8,470.0</b>	<b>(6,150.5)</b>	<b>421.8</b>	<b>916.0</b>	<b>604.4</b>	<b>300.6</b>	<b>735.6</b>	<b>11,642.1</b>
Derivatives:								
Payable	2,404.4	-	111.2	112.9	205.0	92.1	198.3	1,684.9
Receivable	(2,120.5)	-	(182.4)	(170.0)	(249.2)	(126.3)	(249.5)	(1,143.1)
Adjustment to carrying value <sup>(2)</sup>	(508.2)	(508.2)	-	-	-	-	-	-
<b>Derivatives – net assets</b>	<b>(224.3)</b>	<b>(508.2)</b>	<b>(71.2)</b>	<b>(57.1)</b>	<b>(44.2)</b>	<b>(34.2)</b>	<b>(51.2)</b>	<b>541.8</b>



## Notes to the financial statements

## A4. Financial risk management (continued)

## Maturity analysis (continued)

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 2022</b>								
Bonds	11,289.3	-	137.6	138.6	589.7	267.2	130.0	10,026.2
Bank and other term borrowings	2,050.6	-	341.7	133.4	268.9	269.5	131.4	905.7
Amounts owed to ultimate parent undertaking	9.4	-	9.4	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	(13,454.9)	(13,454.9)	-	-	-	-	-	-
<b>Borrowings</b>	<b>(105.6)</b>	<b>(13,454.9)</b>	<b>488.7</b>	<b>272.0</b>	<b>858.6</b>	<b>536.7</b>	<b>261.4</b>	<b>10,931.9</b>
Derivatives:								
Payable	1,209.5	-	42.5	59.5	58.9	146.3	41.1	861.2
Receivable	(1,756.0)	-	(123.0)	(141.7)	(122.2)	193.5)	(86.5)	(1,089.1)
Adjustment to carrying value <sup>(2)</sup>	226.3	226.3	-	-	-	-	-	-
<b>Derivatives – net assets</b>	<b>(320.2)</b>	<b>226.3</b>	<b>(80.5)</b>	<b>(82.2)</b>	<b>(63.3)</b>	<b>(47.2)</b>	<b>(45.4)</b>	<b>(227.9)</b>

## Notes:

<sup>(1)</sup> 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 three per cent and CPI will be two per cent over the life of each instrument.

<sup>(2)</sup> 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 £58.3 million (2022: £60.9 million) of lease liabilities.

Company	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 2023</b>								
Bonds	450.3	-	22.2	22.3	22.4	22.5	22.5	338.4
Bank and other term borrowings	-	-	-	-	-	-	-	-
Amounts owed to ultimate parent undertaking	92.9	-	92.9	-	-	-	-	-
Amounts owed to subsidiary undertakings	-	-	-	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	(128.3)	(128.3)	-	-	-	-	-	-
<b>Borrowings</b>	<b>414.9</b>	<b>(128.3)</b>	<b>115.1</b>	<b>22.3</b>	<b>22.4</b>	<b>22.5</b>	<b>22.5</b>	<b>338.4</b>
Derivatives:								
Payable	-	-	-	-	-	-	-	-
Receivable	-	-	-	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	-	-	-	-	-	-	-	-
<b>Derivatives – net liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Maturity analysis (continued)

Company	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 2022</b>								
Bonds	427.1	-	20.9	20.8	20.7	20.5	20.4	323.8
Bank and other term borrowings	-	-	-	-	-	-	-	-
Amounts owed to ultimate parent undertaking	9.4	-	9.4	-	-	-	-	-
Amounts owed to subsidiary undertakings	-	-	-	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	(124.7)	(124.7)	-	-	-	-	-	-
<b>Borrowings</b>	<b>311.8</b>	<b>(124.7)</b>	<b>30.3</b>	<b>20.8</b>	<b>20.7</b>	<b>20.5</b>	<b>20.4</b>	<b>323.8</b>
Derivatives:								
Payable	-	-	-	-	-	-	-	-
Receivable	-	-	-	-	-	-	-	-
Adjustment to carrying value <sup>(2)</sup>	-	-	-	-	-	-	-	-
<b>Derivatives – net liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Notes:

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 £2.2 million (2022: £2.6 million) of lease liabilities.

#### 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 2022, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £26.7 million (2022: £28.6 million). During the year, sales to Water Plus in relation to wholesale services were £335.1 million (2022: £363.1 million). Details of transactions with Water Plus can be found in note A6.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Credit risk (continued)

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 15).

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.

At 31 March 2023 and 31 March 2022, 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	
	2023	2022	2023	2022
	£m	£m	£m	£m
Cash and short-term deposits (see note 16)	340.4	240.9	102.4	57.5
Trade and other receivables (see note 15)	2,133.0	2,113.6	2,851.6	2,631.0
Investments (see note 13)	0.1	0.1	-	-
Derivative financial instruments	477.1	457.4	-	-
	<u>2,950.6</u>	<u>2,812.0</u>	<u>2,954.0</u>	<u>2,688.5</u>

Included within trade and other receivables for the group are amounts owed by the ultimate parent undertaking of £1,866.8 million (2022: £1,809.4 million), and £75.8 million (2022: £80.2 million) of amounts owed by joint ventures in respect of borrowings, further details of which can be found in note A6.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2023 the group held £45.8 million (2022: £49.2 million) and the company held £nil million (2022: £nil) 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, in order to manage the exposure to these risks.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### 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. These weightings are consistent with the prior financial year.

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 will continue 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 £4,407.1 million at 31 March 2023 (2022: £4,220.4 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 hedging aspect of the group's regulatory assets and post-retirement obligations.

<b>Group</b>	2023	2022
	£m	£m
<b>Increase/(decrease) in profit before tax and equity</b>		
1 per cent increase in RPI/CPI	(40.1)	(37.0)
1 per cent decrease in RPI/CPI	40.1	37.0

The sensitivity analysis assumes a one per cent change in RPI and CPI having a corresponding one 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 2023 or 31 March 2022.

## Notes to the financial statements

### 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.

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	
	2023	2022	2023	2022
	£m	£m	£m	£m
<b>Increase/(decrease) in profit before tax and equity</b>				
1 per cent increase in interest rate	90.1	89.4	0.2	(1.2)
1 per cent decrease in interest rate	(119.2)	(94.2)	(3.5)	1.1

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 the 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.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Interest rate risk (continued)

##### 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	-	450.0	300.0	1,125.0
Average contracted fixed interest rate %	-	1.0	4.7	1.5

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

	Interest rate risk on borrowings
	£m
Nominal amount of hedging instruments	1,875.0
Carrying amount of hedging instruments	(164.2)
Accumulated fair value (gains)/losses on hedged items	(156.2)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023 <sup>(1)</sup> :	
Hedged items	(197.1)
Hedging instrument	198.6
Hedge ineffectiveness recognised in the income statement	1.5
Nominal amount of hedging instruments directly impacted by the IBOR reform	1,300.0

Note:

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

#### 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	-	-	216.2	377.7
Average contracted fixed interest rate %	-	-	1.36	0.97

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.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Currency risk (continued)

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

#### Risk exposure

	Foreign currency and interest rate risk on borrowings
	£m
Nominal amount of hedging instruments	593.9
Carrying amount of hedging instruments	3.3
Accumulated fair value (gains)/losses on hedged items	15.7
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023 <sup>(1)</sup> :	
Hedged items	(16.0)
Hedging instrument	16.0
Hedge ineffectiveness recognised in the income statement	-
Nominal amount of hedging instruments directly impacted by the IBOR reform	442.8

Note:

<sup>(1)</sup> The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in 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 rates (RFRs).

The only benchmark reference rate that the group was exposed to was GBP LIBOR, which ceased on 31 December 2021. In the run up to 31 December 2021, the group fully transitioned all of its financial instruments away from GBP LIBOR.

Floating rate loans payable were re-documented to replace references to GBP LIBOR with appropriate sterling risk free rates or, where the maturity date was sufficiently short, repaid early to avoid re-documentation. Derivatives were transitioned away from GBP LIBOR by the group and all of its counterparties adhering to the ISDA 2020 IBOR fall-backs protocol, which has automatically replaced references in derivatives to GBP LIBOR with risk free rates, and systems were upgraded to enable accurate recording and valuation of transitioned financial instruments. Inter-company loans and loans receivable with the group's principal joint venture have also been restructured to reference the Bank of England Base Rate.

The group is not exposed to any other benchmark reference rate and so its activities in relation to interest rate benchmark reform are now complete.

In August 2020, the IASB issued Interest Rate Benchmark Reform Phase II, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase II Amendments), and the group has applied all relevant amendments when accounting for the impact of the IBOR transition in the year.

Applying the ISDA fall-back provisions in transitioning the group's derivative portfolio has maintained economic equivalence across the financial instruments held in fair value hedges and, as a result, immaterial hedge ineffectiveness was recorded in the group's income statement in the year.

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Interest rate benchmark reform (continued)

The amount of financial instruments that transitioned to alternative benchmarks is set out below. Non-derivative financial instruments are presented at their carrying value, with the derivatives at their nominal value, in order to give the fairest representation of the magnitude of instruments that transitioned to RFRs. In addition to the below, the group held £800 million of undrawn committed facilities as at 31 December 2021 that transitioned away from referencing LIBOR to reference sterling risk free rates.

Type of financial instrument	Amounts transitioned to RFR	
	£m	
Non-derivative financial liabilities (pay GBP LIBOR)	501.6	
Derivative instruments (pay GBP LIBOR)*	2,343.9	
Derivative instruments (receive GBP LIBOR)*	(2,822.1)	
Net position	23.4	

#### 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 £m	1 year	1-2	2-3	3-4	4-5	More
		or less £m	years £m	years £m	years £m	years £m	than 5 years £m
<b>At 31 March 2023</b>							
<b>Borrowings in fair value hedge relationships</b>							
Fixed rate instruments	2,332.3	-	427.8	108.0	-	431.9	1,364.6
Effect of swaps	-	2,332.3	(427.8)	(108.0)	-	(431.9)	(1,364.6)
	<u>2,332.3</u>	<u>2,332.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	361.0	-	-	-	-	-	361.0
Effect of swaps	-	361.0	-	-	-	-	(361.0)
	<u>361.0</u>	<u>361.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	970.4	46.8	1.2	1.5	2.7	1.7	916.5
Floating rate instruments	842.0	842.0	-	-	-	-	-
Index-linked instruments	3,929.7	3,929.7	-	-	-	-	-
	<u>5,742.1</u>	<u>4,818.5</u>	<u>1.2</u>	<u>1.5</u>	<u>2.7</u>	<u>1.7</u>	<u>916.5</u>
Effect of fixed interest rate swaps	-	(2,027.8)	200.0	200.0	389.8	99.5	1,138.5
<b>Total external borrowings</b>	<u>8,435.4</u>	<u>5,484.0</u>	<u>201.2</u>	<u>201.5</u>	<u>392.5</u>	<u>101.2</u>	<u>2,055.0</u>
Amounts owed to ultimate parent undertaking	92.9	92.9	-	-	-	-	-
<b>Total borrowings</b>	<u>8,528.3</u>	<u>5,576.9</u>	<u>201.2</u>	<u>201.5</u>	<u>392.5</u>	<u>101.2</u>	<u>2,055.0</u>
Cash and short-term deposits	(340.4)	(340.4)	-	-	-	-	-
<b>Net borrowings</b>	<u>8,187.9</u>	<u>5,236.5</u>	<u>201.2</u>	<u>201.5</u>	<u>392.5</u>	<u>101.2</u>	<u>2,055.0</u>



## Notes to the financial statements

### A4. Financial risk management (continued)

#### Repricing analysis (continued)

Group	Total £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 2022</b>							
<b>Borrowings in fair value hedge relationships</b>							
Fixed rate instruments	2,494.0	-	-	441.2	103.7	-	1,949.1
Effect of swaps	-	2,494.0	-	(441.2)	(103.7)	-	(1,949.1)
	<u>2,494.0</u>	<u>2,494.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Borrowings designated at fair value through profit or loss</b>							
Fixed rate instruments	369.9	-	-	-	-	-	369.9
Effect of swaps	-	369.9	-	-	-	-	(369.9)
	<u>369.9</u>	<u>369.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	924.9	50.1	1.1	1.9	3.2	1.4	867.2
Floating rate instruments	508.3	508.3	-	-	-	-	-
Index-linked instruments	3,682.7	3,682.7	-	-	-	-	-
	<u>5,115.9</u>	<u>4,241.1</u>	<u>1.1</u>	<u>1.9</u>	<u>3.2</u>	<u>1.4</u>	<u>867.2</u>
Effect of fixed interest rate swaps	-	(2,267.8)	575.0	350.0	200.0	-	1,142.8
<b>Total external borrowings</b>	<u>7,979.8</u>	<u>4,837.2</u>	<u>576.1</u>	<u>351.9</u>	<u>203.2</u>	<u>1.4</u>	<u>2,010.0</u>
Amounts owed to ultimate parent undertaking	84.4	84.4	-	-	-	-	-
<b>Total borrowings</b>	<u>8,064.2</u>	<u>4,921.6</u>	<u>576.1</u>	<u>351.9</u>	<u>203.2</u>	<u>1.4</u>	<u>2,010.0</u>
Cash and short-term deposits	(240.9)	(240.9)	-	-	-	-	-
<b>Net borrowings</b>	<u>7,823.3</u>	<u>4,680.7</u>	<u>576.1</u>	<u>351.9</u>	<u>203.2</u>	<u>1.4</u>	<u>2,010.0</u>
<b>At 31 March 2023</b>							
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	324.2	-	-	-	-	-	324.2
<b>Total external borrowings</b>	<u>324.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324.2</u>
Amounts owed to ultimate parent undertaking	92.9	92.9	-	-	-	-	-
<b>Total borrowings</b>	<u>417.1</u>	<u>92.9</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324.2</u>
Cash and short-term deposits	(102.5)	(102.5)	-	-	-	-	-
<b>Net borrowings</b>	<u>314.6</u>	<u>(9.6)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>324.2</u>

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Repricing analysis (continued)

Company	Total £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 2022</b>							
<b>Borrowings measured at amortised cost</b>							
Fixed rate instruments	305.0	-	-	-	-	-	305.0
<b>Total external borrowings</b>	<b>305.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>305.0</b>
Amounts owed to ultimate parent undertaking	84.4	84.4	-	-	-	-	-
<b>Total borrowings</b>	<b>389.4</b>	<b>84.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash and short-term deposits	(57.5)	(57.5)	-	-	-	-	-
<b>Net borrowings</b>	<b>331.9</b>	<b>26.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>305.0</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 on a rolling four-year basis, partially through entering into electricity swap contracts. The company has no exposure to electricity price risk.

#### 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:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional amount MWh	373,320	394,080	65,760	-
Average contracted fixed interest rate %	83.19	80.80	359.50	-

#### Risk exposure

	Electricity price risk
Nominal amount of hedging instruments	105.0
Carrying amount of hedging instruments	25.5
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2023 <sup>(1)</sup> :	87.3
Hedge ineffectiveness recognised in the income statement	-
Cash flow hedge reserve excluding effects of tax	17.5
Amount reclassified from the cash flow hedge reserve to the income statement	(36.6)

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Electricity price risk (continued)

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 U UW, within a target range of 55 per cent to 65 per cent. As at 31 March 2023, RCV gearing was within the range at 58 per cent (2022: 59 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 U UW of at least A3 with Moody's Investors Service (Moody's) and BBB+ with S&P Global (S&P) and a senior unsecured debt rating for U UW of at least A- with Fitch Ratings (Fitch). Debt issued by U UW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by U UW and is therefore rated in line with U UW.

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), Funds from Operations (FFO) to debt, and debt to EBITDA) 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.

#### 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	Level 1	Level 2	Level 3	Total
2023	£m	£m	£m	£m
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets – fair value hedge	-	65.4	-	65.4
Derivative financial assets – held for trading <sup>(1)</sup>	-	352.0	-	352.0
Derivative financial assets – cash flow hedge	-	59.7	-	59.7
Investments	-	0.1	-	0.1
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – fair value hedge	-	(215.3)	-	(215.3)
Derivative financial liabilities – held for trading <sup>(1)</sup>	-	(3.4)	-	(3.4)
Derivative financial assets – cash flow hedge	-	(34.1)	-	(34.1)
Financial liabilities designated as fair value through profit or loss	-	(361.0)	-	(361.0)
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	(1,936.1)	(374.0)	-	(2,310.1)
Other financial liabilities at amortised cost	(2,541.3)	(2,951.6)	-	(5,492.9)
	<b>(4,477.4)</b>	<b>(3,462.2)</b>	-	<b>(7,939.6)</b>

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Fair values (continued)

Group	Level 1	Level 2	Level 3	Total
2022	£m	£m	£m	£m
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets – fair value hedge	-	156.3	-	156.3
Derivative financial assets – held for trading <sup>(1)</sup>	-	190.1	-	190.1
Derivative financial assets – cash flow hedge	-	111.0	-	111.0
Investments	-	0.1	-	0.1
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – fair value hedge	-	(87.4)	-	(87.4)
Derivative financial liabilities – held for trading <sup>(1)</sup>	-	(49.8)	-	(49.8)
Derivative financial assets – cash flow hedge	-	-	-	-
Financial liabilities designated as fair value through profit or loss	-	(369.9)	-	(369.9)
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	(2,206.6)	(304.9)	-	(2,511.5)
Other financial liabilities at amortised cost	(2,383.8)	(3,984.3)	-	(6,368.1)
	<b>(4,590.4)</b>	<b>(4,338.8)</b>	-	<b>(8,929.2)</b>

Note:

<sup>(1)</sup> 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 £133.9 million (2022: £130.1 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).

Company	Level 1	Level 2	Level 3	Total
2023	£m	£m	£m	£m
<b>Financial assets at fair value through profit or loss</b>				
Derivative financial assets – held for trading <sup>(1)</sup>	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – held for trading <sup>(1)</sup>	-	-	-	-
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	-	-	-	-
Other financial liabilities at amortised cost	-	(456.1)	-	(456.1)
	-	<b>(456.1)</b>	-	<b>(456.1)</b>

## Notes to the financial statements

### A4. Financial risk management (continued)

#### Fair values (continued)

Company 2022	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 – held for trading <sup>(1)</sup>	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative financial liabilities – held for trading <sup>(1)</sup>	-	-	-	-
<b>Financial instruments for which fair value has been disclosed</b>				
Financial liabilities in fair value hedge relationships	-	-	-	-
Other financial liabilities at amortised cost	-	(456.9)	-	(456.9)
	<u>-</u>	<u>(456.9)</u>	<u>-</u>	<u>(456.9)</u>

Note:

<sup>(1)</sup> These derivatives form economic hedges and, as such, management intends to hold these through to maturity.

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £4,477.4 million (2022: £4,590.4 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 £113.0 million decrease (2022: £497.2 million decrease) in level 1 fair value measurements primarily reflects the rise in interest rates during the year.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £20.6 million loss (2022: £0.4 million loss). Included within this was a £4.7 million gain (2022: £4.2 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £35.2 million profit (2022: £39.9 million profit). The carrying amount is £134.9 million (202: £143.8 million) higher than the amount contracted to settle on maturity.

### A5. Retirement benefits

#### Defined benefit schemes

Under the group's defined benefit pension schemes – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) – 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.

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, who are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regards to the assets plus the day-to-day administration of the benefits.

## Notes to the financial statements

### A5. Retirement benefits (continued)

As at 31 March, the total fair value of the schemes' assets, and the present value of the defined benefit obligations, and therefore the value of the net retirement benefit surplus included in the consolidated statement of financial position, was as follows:

	2023	Group 2022	2023	Company 2022
	£m	£m	£m	£m
Total fair value of schemes' assets	2,931.3	4,035.7	795.1	1,031.9
Present value of defined benefit obligations	(2,330.5)	(3,018.9)	(636.4)	(786.3)
<b>Net retirement benefit surplus</b>	<b>600.8</b>	<b>1,016.8</b>	<b>158.7</b>	<b>245.6</b>

### Estimated future benefits payable

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

	2023	Group 2022	2023	Company 2022
	£m	£m	£m	£m
Total value of current employees benefits	362.7	504.7	30.8	42.8
Deferred members benefits	436.4	602.1	193.3	266.7
Pensioner members benefits	1,531.4	1,912.1	412.3	476.8
<b>Total defined benefit obligation</b>	<b>2,330.5</b>	<b>3,018.9</b>	<b>636.4</b>	<b>786.3</b>

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

	Group 2023	2022	Company 2023	2022
	£m	£m	£m	£m
At the start of the year	(3,018.9)	(3,295.7)	(786.3)	(860.4)
Interest cost on schemes' obligations	(82.7)	(66.5)	(21.5)	(17.2)
Actuarial gains arising from changes in financial assumptions	950.0	164.0	249.2	41.4
Actuarial (losses)/gains arising from changes in demographic assumptions	(60.7)	52.4	(10.4)	13.2
Actuarial (losses)/gains arising from experience	(246.8)	(5.0)	(96.5)	6.7
Member contributions	(2.3)	(2.3)	(0.1)	(0.1)
Benefits paid	136.9	141.7	29.6	30.5
Current service cost	(6.0)	(7.5)	(0.4)	(0.4)
<b>At the end of the year</b>	<b>(2,330.5)</b>	<b>(3,018.9)</b>	<b>(636.4)</b>	<b>(786.3)</b>

The duration of the combined schemes is around 14 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.

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## Notes to the financial statements

### A5. Retirement benefits (continued)

#### Funding of future benefits payable

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The defined benefit schemes are subject to funding valuations carried out by independent qualified actuaries, in conjunction with the schemes' trustees, on a triennial basis. These valuations inform the level of future contributions to be made by the group in order to ensure that the schemes are appropriately funded and therefore that benefits can be paid. The latest finalised funding valuation was carried out as at 31 March 2021, and determined that the schemes were fully funded on a low-dependency basis without any funding deficit that requires additional contributions from the company over and above those related to current service and expenses.

The schemes' funding plans are reviewed regularly, including between funding valuations. The group expects to make further contributions of £8.9 million in the year ending 31 March 2023, £7.8 million in respect of current service contributions and £1.1 million in respect of expenses. Annual contributions are expected to be broadly similar to this until at least the point at which the next triennial valuation (due as at 31 March 2024), is finalised, which is expected to be towards the end of the year ending 31 March 2025. At this point a detailed re-evaluation of the level of annual contributions, and the basis on which these are made, will take place.

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. Both the UUPS and ESPS schemes 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 'Schemes' assets' section of this appendix.

In addition to the strategies implemented to date, the group and trustees are committed to exploring further de-risking options that may be implemented in the future, including in relation to longevity risk.

The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19 'Employee Benefits', 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.

A retirement benefit surplus was recognised as an asset in the consolidated statement of financial position at both 31 March 2023 and 31 March 2022 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the gradual settlement of plan liabilities over time until all members have left the plans.

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## Notes to the financial statements

### A5. Retirement benefits (continued)

#### 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 using 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 spreads have not been hedged primarily due to difficulties in doing so over long durations. In contrast, the schemes' specific funding bases are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied.

Changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term, though the group and scheme trustees are committed to exploring options to de-risk changes in mortality, or pension longevity, in future periods, as outlined above.

Pension benefits under the defined benefit element of the UUPS hybrid section, which represents a relatively small proportion of total defined benefit obligations, are linked to CPI rather than RPI.

In the year ended 31 March 2023, the discount rate increased by 1.9 per cent (2022: 0.75 per cent increase), which includes a 2.05 per cent increase in gilt yields over the year and a 0.15 per cent reduction in credit spreads. The IAS 19 remeasurement loss of £445.3 million (2022: £313.6 million gain) reported in note 18 has largely resulted from the schemes being more than 100 per cent hedged on an IAS 19 basis, which has resulted in a greater reduction of the schemes' assets than the defined benefit obligations as a result of yield rises.

The fall in value of the schemes' assets is largely a result of the changes in financial conditions seen over the period. The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions, and are therefore more than 100 per cent hedged on an IAS 19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS 19 liabilities. The increase in credit spreads during the year is partially offset by an RPI inflation assumption reduction of 0.35 per cent (2022: 0.40 per cent increase).

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.

While longer term expectations for inflation have started to fall, in the shorter term high inflation has resulted in greater than expected pension increases.



## Notes to the financial statements

### A5. Retirement benefits (continued)

#### Reporting and assumptions

The results of the latest funding valuation at 31 March 2021 have been used to inform the group's best estimate assumptions to use in calculating the defined benefit pension position reported on an IAS 19 basis at 31 March 2022. The results of the funding valuation have been adjusted to take 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 2021 for both UUPS and ESPS. As part of each actuarial valuation and, more frequently, as required by the trustees, member data is reassessed for completeness and accuracy and to ensure it reflects any relevant changes to benefits entitled by each member.

#### 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:

	2023	2022
Group and Company	% p.a.	% p.a.
Discount rate	4.70	2.80
Pension increases	3.40	3.75
Pensionable salary growth (pre-2018 service):		
ESPS	3.40	3.75
UUPS	3.40	3.75
Pensionable salary growth (post-2018 service):		
ESPS	3.40	3.75
UUPS	2.85	3.20
Price inflation - RPI	3.40	3.75
Price inflation - CPI <sup>(1)</sup>	2.85	3.20

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

The discount rate is consistent with a high-quality corporate bond rate, with 4.70 per cent being equivalent to gilts plus 0.95 basis points (31 March 2022: 2.80 per cent being equivalent to gilts plus 1.10 basis points). The corporate bond population used in deriving this rate comprises corporate bonds rated at least AA by one or more credit rating agencies.

In accordance with the scheme rules, pensionable salary growth is linked to RPI for UUPS for service pre-2018 and CPI for service post-2018, for ESPS the growth is linked to RPI.

Assumed pension increases are aligned to the RPI price inflation assumption as the vast majority of benefits across the schemes have a direct RPI linkage. In September 2019, the Chancellor of the Exchequer highlighted the UK Statistic Authority's proposals to change RPI to align with CPIH (Consumer Prices Index, including housing costs).

Plans to reform RPI and bring it in line with CPIH from 2030 were confirmed on 25 November 2020, though this is subject to judicial review. Broadly CPIH increases are expected to average around 1 per cent per annum below RPI in the long-term (about the same as CPI), so this change could have a significant impact on many pension schemes.

## Notes to the financial statements

### A5. Retirement benefits (continued)

#### Demographic assumptions

The Continuous Mortality Investigation's (CMI) 2022 tables are not expected to be released until June 2023 and therefore not available in time for the 31 March 2023 year-end accounting figures. There remains considerable uncertainty around the long-term impact and the choice of appropriate adjustment remains subjective and is limited to the available parameters within the CMI model. As such, in arriving at mortality assumptions for 31 March 2023, the group has retained the same assumptions as used for 31 March 2022. The base tables used for the mortality in retirement assumption are the CMI S3PA (2022: S3PA) year of birth tables, with a scaling factor of 109 per cent (2022: 109 per cent) and 115 per cent (2022: 115 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2022: 110 per cent) and 111 per cent (2022: 111 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. At 31 March 2023, future improvements in mortality are based on the extended CMI 2021 (2022: CMI 2021) projection model, with a long-term annual rate of improvement of 1.25 per cent (2022: 1.25 per cent).

Although the long-term impacts of the COVID-19 pandemic are not yet fully known, mortality over 2022 and the early part of 2023 has remained above pre-pandemic levels. This suggests that the general level of mortality in the population will be higher than had previously been projected pre-pandemic. Accordingly, the group has retained its COVID-19 adjustment of a 2021 parameter of 10 per cent within the CMI 2021 projections. The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

	2023	2022
Group and Company	years	years
Retired member - male	25.9	25.9
Non-retired member - male	26.6	26.5
Retired member - female	28.0	27.9
Non-retired member - female	29.1	29.0

#### Sensitivity of the key scheme assumptions

The assumptions used in measuring the group's defined benefit surplus reflect management's best estimates as at the reporting date. These estimates inherently involve judgement, and the measurement of the defined benefit surplus is sensitive to changes in these key assumptions. These sensitivities, together with further information on the judgements involved and level of estimation uncertainty, are presented below. Sensitivity calculations 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, however it demonstrates how reasonably possible changes could impact on the measurement of the defined benefit surplus.

- **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 £78.2/£82.7 million (2022: £119.7/£127.7 million) decrease/increase in the schemes' liabilities at 31 March 2023, 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.

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## Notes to the financial statements

### A5. Retirement benefits (continued)

High quality corporate bonds are considered to be those that have a credit rating of AA or above with at least one rating agency. An alternative approach could be taken whereby only those bonds rated AA or higher by at least two rating agencies are used. While this alternative approach may provide additional comfort around the quality of these corporate bonds, management believes that the wider population of corporate bonds under a 'single agency' approach gives a more representative indication of high quality corporate bonds that are aligned to the schemes' liabilities, and therefore provides a more robust estimate.

- Price inflation – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £73.3/69.5 million (2022: £111.5/105.2 million) increase/decrease in the schemes' liabilities at 31 March 2023, 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 2023, 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. While inflation may be volatile in the near term, as has been the case during the year ended 31 March 2023, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature.
- Consistent with market practice, and reflecting the possibility that inflation may rise or fall more than expected in the future, in arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2022: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2023. The impact of this is a decrease in the defined benefit obligation of around £61.0 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. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.
- The assumption for CPI is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation this wedge has been estimated at 0.9 per cent per annum, reducing to 0.1 per cent per annum post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £7.0 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 per annum after 2030.
- 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 £16.5 million increase in the schemes' liabilities at 31 March 2023 (2022: £29.1 million increase in the schemes' liabilities).
- Life expectancy – An increase/decrease in life expectancy of one year would have resulted in a £83.9 million (2022: £135.0 million) increase/decrease in the schemes' liabilities at 31 March 2023. 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.

## Notes to the financial statements

### A5. Retirement benefits (continued)

#### Further reporting analysis

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

	Group				Company			
	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %
<b>At 31 March 2023</b>								
Non-equity growth assets	278.2	-	278.2	9.5	80.5	-	80.5	10.1
Gilts	1,822.3	(886.9)	935.4	31.9	399.0	(156.0)	243.0	30.6
Bonds	1,211.2	(2.5)	1,208.7	41.2	363.1	(12.8)	350.3	44.0
Other	422.8	86.2	509.0	17.4	87.3	34.0	121.3	15.3
<b>Total fair value of schemes' assets</b>	<b>3,734.5</b>	<b>(803.2)</b>	<b>2,931.3</b>	<b>100.0</b>	<b>929.9</b>	<b>(134.8)</b>	<b>795.1</b>	<b>100.0</b>
<b>At 31 March 2022</b>								
Non-equity growth assets	606.6	-	606.6	15.0	133.8	-	133.8	13.0
Gilts	2,839.1	(1,657.6)	1,181.5	29.3	624.8	(284.8)	340.0	32.9
Bonds	1,708.0	(3.7)	1,704.3	42.2	442.6	(2.1)	440.5	42.7
Other	423.0	120.3	543.3	13.5	82.0	35.6	117.6	11.4
<b>Total fair value of schemes' assets</b>	<b>5,576.7</b>	<b>(1,541.0)</b>	<b>4,035.7</b>	<b>100.0</b>	<b>1,283.2</b>	<b>(251.3)</b>	<b>1,031.9</b>	<b>100.0</b>

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £216.3 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 2023. 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 UUPS has entered into a variety of derivative transactions to change the return characteristics of the assets held to reduce undesirable market and liability risks. As such, the above breakdown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

The portfolio contains a proportion of assets set aside for collateral purposes linked to the derivative contracts entered into. 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). During the year ended 31 March 2023, no liquidity support or facilities were required by the company as a result of collateral calls.

## Notes to the financial statements

### A5. Retirement benefits (continued)

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

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
<b>Gilts</b>				
Repurchase agreements	(886.9)	(1,657.6)	(156.0)	(284.8)
	<u>(886.9)</u>	<u>(1,657.6)</u>	<u>(156.0)</u>	<u>(284.8)</u>
<b>Bond – hedging non-sterling exposure back to sterling</b>				
Currency forwards	13.8	(1.4)	2.4	(1.9)
Interest rate swaps	(16.3)	(2.3)	(15.2)	(0.2)
	<u>(2.5)</u>	<u>(3.7)</u>	<u>(12.8)</u>	<u>(2.1)</u>
<b>Other – managing liability risks targeting a high level of interest rate and inflation hedging</b>				
Asset swaps	(17.2)	(32.5)	(3.0)	(5.6)
Interest rate swaps	(13.2)	18.0	(0.7)	3.1
RPI inflation swaps	116.6	134.2	37.7	37.6
Total return swaps	-	0.6	-	0.5
	<u>86.2</u>	<u>120.3</u>	<u>34.0</u>	<u>35.6</u>
Total fair value of derivatives	<u>(803.2)</u>	<u>(1,541.0)</u>	<u>(134.8)</u>	<u>(251.3)</u>

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 £371.2 million (2022: £681.5 million) for the group and £125.8 million (2022: £167.2 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.

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

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
At the start of the year	4,035.7	3,984.7	1,031.9	1,018.4
Interest income on schemes' assets	111.4	80.8	28.4	20.4
The (loss)/return on plan assets, excluding amounts included in interest	(1,087.8)	102.2	(235.7)	23.6
Member contributions	2.3	2.3	0.1	0.1
Benefits paid	(136.9)	(141.7)	(29.6)	(30.5)
Administrative expenses	(2.5)	(2.1)	(1.0)	(1.0)
Company contributions	9.1	9.5	1.0	0.9
<b>At the end of the year</b>	<u>2,931.3</u>	<u>4,035.7</u>	<u>795.1</u>	<u>1,031.9</u>

## Notes to the financial statements

### A5. Retirement benefits (continued)

The actual return on the schemes' assets was a loss of £976.4 million (2022: £183.0 million gain) for the group and a loss of £207.1 million (2022: £44.1 million gain) for the company, largely as a result of the schemes' investment strategies hedging increases in the technical provisions due to change in financial conditions.

The trustees of both the ESPS and UUPS schemes publish a statement of investment principles, available via the United Utilities corporate website. The statements set out ESG principles, in particular, climate risk, behind the choice of investments.

### 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 during the period and amounts outstanding at the period end date were as follows:

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

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 market credit terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

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

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

## Notes to the financial statements

### A6. Related party transactions (continued)

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

- £74.4 million (2022: £79.4 million) outstanding on a £95.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2026, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £75.5 million outstanding, net of a £1.1 million allowance for expected credit losses (2022: £80.5 million net of a £1.1 million allowance for expected credit losses); and
- £1.4 million (2022: £1.0 million) receivable being the £11.0 million (2022: £10.6 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million (2022: £0.1 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2023 and 31 March 2022 of £12.5 million, comprising a £11.0 million (2022: £10.6 million) receivable representing the present value of the £12.5 million payable at maturity discounted using an appropriate market rate of interest at the inception of the loan, and £1.5 million (2022: £1.9 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

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

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £48.9 million, of which £26.0 million related to guarantees to United Utilities Water Limited.

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

The following transactions were carried out with the group's ultimate parent undertaking, United Utilities Group PLC:

	Interest receivable	
	2023	2022
	£m	£m
Ultimate parent undertaking	55.9	21.0

	Intercompany group tax relief payable	
	2023	2022
	£m	£m
Ultimate parent undertaking	10.6	8.6

	Amounts owed by related parties		Amounts owed to related parties	
	2023	2022	2023	2022
	£m	£m	£m	£m
Ultimate parent undertaking	1,866.8	1,809.4	92.9	93.0

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

## Notes to the financial statements

### A6. Related party transactions (continued)

#### Company

The company receives dividend income and pays and receives interest and recharges costs to and from subsidiary undertakings and its ultimate parent company in the normal course of business.

Total dividend income received during the year from subsidiary undertakings amounted to £454.2 million (2022: £339.2 million), comprising dividends totalling £454.2 (2022: £339.2 million) received from United Utilities North West.

Total net interest receivable during the year from subsidiary undertakings was £25.7 million (2022: £25.8 million), and total fair value gains during the year relating to balances with subsidiary undertakings were £19.2 million (2022: £17.4 million gains). In addition, total net interest receivable during the year from the ultimate parent company was £55.9 million (2022: £21.0 million). Amounts outstanding at 31 March 2023 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 15, 20 and A3.

An allowance for doubtful receivables of £5.1 million (2022: £4.8 million) has been made for amounts owed by subsidiary undertakings (see note 11). In the year ended 31 March 2023, a charge of £0.3 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2022: £0.8 million).

As at 31 March 2023, total guarantees given by the company to its related parties were £1,135.1 million (2022: £1,149.7 million). Included within these guarantees were the following amounts:

- £1,054.1 million (2022: £1,087.7 million) relating to United Utilities Water Limited's loans from the European Investment Bank;
- Guarantees with an aggregate limit of £48.9 million (2022: £54.1 million) relating to Water Plus in respect of certain amounts owed to wholesalers, of which £26.0 million (2022: £32.1 million) related to guarantees to United Utilities Water Limited; and
- Performance guarantees with an aggregate limit of £8.1 million (2022: £7.9 million) given to subsidiaries.



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## Notes to the financial statements

### 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 128 to 131.

#### Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries). The results of subsidiaries 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. In the parent company accounts, investments in joint ventures are held at cost less provision for impairment.

In the parent company separate financial statements, the company has elected to apply the equity method of accounting for joint ventures as described in IAS 28.

#### 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 96 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.

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## Notes to the financial statements

### **A7. Accounting policies (continued)**

The core water and wastewater services, which are deemed to be a distinct performance obligation under the contracts with customers, follow the same pattern of transfer to the customer who simultaneously receive 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 deemed probable.

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. 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, and also includes any adjustment to tax payable in respect of previous years.

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 also 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.

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## Notes to the financial statements

### 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 also dealt with in equity.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

### Property, plant and equipment

Property, plant and equipment 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 75 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.

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## Notes to the financial statements

### A7. Accounting policies (continued)

#### *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 to the operating capability and/or resilience of the network is treated as additions. Amounts incurred in maintaining the operating capability and/or resilience of the network in accordance with current 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 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 interpretation 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 also included in the acquisition statement of financial position at fair value.

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## Notes to the financial statements

### A7. Accounting policies (continued)

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.

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

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 on 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.

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## Notes to the financial statements

### **A7. Accounting policies (continued)**

#### ***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 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 on initial recognition. Trade receivables are held within a business model to collect contractual cash flows which comprise solely payments of principal and interest on the principal amount outstanding. After initial recognition, trade receivables are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. At each reporting date, the Group evaluates the estimated recoverability of trade receivables and record allowances for expected credit losses. An allowance is recognised where there is objective evidence the Group will be unable to collect all of the amount due. The receivable is recognised at the recoverable amount and the difference between the amortised cost and the recoverable amount is recorded as an expense within the profit and loss account.

The Group estimates the expected credit loss on trade receivables applying the simplified approach as permitted under IFRS 9. For trade receivables that are assessed as not impaired individually, the expected credit loss is estimated based on the Group's historical experience of cash collection and the incorporation of forward-looking information.

#### ***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.

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## Notes to the financial statements

### **A7. Accounting policies (continued)**

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. In order 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.

#### ***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.

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

#### ***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.

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.

## Notes to the financial statements

### A7. Accounting policies (continued)

#### *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.



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## Notes to the financial statements

### **A7. Accounting policies (continued)**

The defined benefit obligations in United Utilities Pension Scheme (UUPS) and United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) are split, in accordance with IAS19, by employer, between United Utilities PLC and United Utilities Water Limited. The methodology is consistently applied, using the actuarial funding liability basis and reviewed annually on a roll-forward basis.

In addition, the group also 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.

#### **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. In order to hedge its exposure to certain foreign exchange risks, the group enters into 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 ruling 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.

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.

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## Notes to the financial statements

### **A7. Accounting policies (continued)**

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.

The 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, which 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 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.

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## Notes to the financial statements

### A7. Accounting policies (continued)

#### *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.

### A8. Subsidiaries and other group undertakings

The subsidiary undertakings listed below are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act:

<b>Name of undertaking</b>	<b>Registered company number</b>
United Utilities Utility Solutions (Industrial) Limited	4204293
United Utilities Bioresources Limited	10419293
United Utilities Energy Limited	08641719
United Utilities Total Solutions Limited	2380133

## Notes to the financial statements

### A8. Subsidiaries and other group undertakings (continued)

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 notes 11 and 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 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) Pensions 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)

**Joint ventures** - all joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.

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 non-household retail services
Water Plus Select Limited <sup>(2)</sup>	Ordinary	50.0	Water and wastewater non-household 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