

# **United Utilities PLC**

## **Annual Report and Financial Statements**

31 March 2021

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## Directors, advisers and other information

### Directors

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RJ Lee  
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### Secretary

SR Gardiner

### Auditor

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

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

## **Strategic report**

### **Our approach as a responsible business**

The way we act as a business has a profound influence on the social, economic and environmental wellbeing of the region.

#### **Responsible business is in our DNA**

We have a strong track record leading on environmental, social and governance (ESG) matters. Over the past 20 years we have measured ourselves against national and international benchmarks of responsible business practice, often breaking new ground in the way the water sector approaches challenges such as catchment management schemes and support for vulnerable customers.

This long-standing commitment to responsible business has provided a solid foundation upon which to evolve existing programmes, develop new initiatives, and respond to the changing world in which we operate.

#### **What is our approach?**

We will only deliver our purpose of providing great water and more for the North West, and create and maintain value for our stakeholders, if we act in a responsible manner. This comes from understanding what matters most to our stakeholders and balancing these different perspectives in our decision-making.

Our approach isn't just about what we do, but how we do it. A key strength is our commitment to open, honest and transparent reporting about the continuity of our approach, underpinned by a clear purpose and strategic objectives.

Increasingly, stakeholders assess how companies approach responsible business through the lens of ESG. We believe there is a close relationship between ESG performance and investor value.

#### **Demonstrating how we act responsibly and create value**

Being a purpose-led business it is up to us to provide the evidence that we are providing great water and more for the North West. Our stakeholders are ultimately the ones who will judge whether we are delivering on our purpose.

Having tangible, externally recognised measures of our behaviour and performance helps retain the trust of those who take an interest in the way we do business. It enables us to demonstrate that we are operating in our stakeholders' interests. We collate, monitor and report on a wide range of performance measures, linked to what stakeholders tell us matter most, and align ourselves to recognised management standards and accreditations to give confidence in the way we are operating. We report these publicly so stakeholders can assess our progress.

Alongside this we actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges.

As responsible business practice evolves we look constantly at how we can improve. For instance, we are currently exploring whether embedding multi-capital thinking (manufactured, financial, natural, social, human and intellectual capital) into business processes will add value and better inform our decision-making processes. This includes how we might report publicly against these capitals.

### **Reporting responsible business performance**

#### **Evolving market expectations**

The way we report on environmental, social and governance (ESG) issues is evolving as stakeholder interest grows.

There is increasing interest in how companies respond to sustainability challenges and growing expectations on how they disclose relevant information and data on their responsible business activities.

## Strategic report

For example, there is more interest in the disclosure of the ESG performance of companies and, last year, we published an investor guide to ESG at United Utilities in response to that trend.

[unitedutilities.com/globalassets/documents/pdf/united-utilities-esg-booklet-2020.pdf](https://unitedutilities.com/globalassets/documents/pdf/united-utilities-esg-booklet-2020.pdf)

The way in which we report has evolved over the past ten years to incorporate more ESG information and data through such action as moving to integrated reporting. We have looked to do this without making this report unnecessarily lengthy or difficult to read. Rather than adopt one specific framework, our approach is to use the framework of our purpose-led approach to disclose performance and data for each of the stakeholders we create value for. Many of the ESG indices in which we participate (see pages 58 to 59) draw their data from this report.

However, we do recognise that some stakeholders prefer to have specific data provided in one place. The following indicates where further information on certain frameworks can be found:

### **World Economic Forum (WEF) International Business Council (IBC)**

The WEF IBC has proposed a set of common metrics for the consistent reporting of sustainable value creation in mainstream annual reports. We already integrate many of these metrics in our annual report and to make this easier for those searching for the information we have collated them into one place on our website.

[unitedutilities.com/wef](https://unitedutilities.com/wef)

### **Sustainability Accounting Standards Board (SASB)**

SASB standards aim to standardise disclosure of material sustainability information mainly for companies based in the United States. As many of UUG's shareholders are located in North America we are publishing comparable SASB data on our corporate website. This covers the main SASB data points for the water utilities industry of which we are part.

[unitedutilities.com/sasb](https://unitedutilities.com/sasb)

### **Taskforce for climate-related financial disclosures (TCFD)**

TCFD sets out a framework for companies to provide stakeholders with an assessment of the financial implications of climate change and what this means for governance, strategy, risk and metrics. For the second year, we have included a TCFD section in our annual report. Read more on pages 60 to 79.

### **Sustainable Development Goals (SDGs)**

We have identified six SDGs that are material to our business. More details can be found on pages 59 to 60.

We also complete a variety of issue and stakeholder-specific rankings and benchmarks such as the Workforce Disclosure Initiative (WDI). Disclosure of these performance scores can be found on our website.

[unitedutilities.com/corporate/responsibility/our-approach/cr-performance](https://unitedutilities.com/corporate/responsibility/our-approach/cr-performance)

## **Strategic report**

### **Our purpose, vision, strategy and values**

Our strategic themes define the way we operate so we can deliver our purpose and work towards our vision, and our core values provide the cultural framework within which we operate.

#### **Our purpose – why we exist**

To provide great water and more for the North West.

We are a purpose-led organisation and this drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact.

#### **Our vision**

To be the best UK water and wastewater company.

This is what motivates us to improve our services and deliver more. To achieve this vision, our strategy has three themes – the best service to customers, at the lowest sustainable cost, in a responsible manner.

### **How we deliver our purpose and vision**

#### **The best service to customers**

We put customers at the heart of everything we do. As well as delivering a reliable service of great-tasting water and removing wastewater, we proactively keep customers informed about any work we are doing in their area and communicate with them in ways that meet their individual needs; for example, we now use ‘push texts’ to send updates and alerts to customers within a specified location. The best service to customers means being available when they need to contact us, always interacting in a friendly and helpful manner, and offering tailored support and assistance for customers when they need it. As well as these day-to-day interactions, it means consulting on what matters to them. This shapes what we do; for example, we redesigned our bills based on customer research and feedback.

#### **At the lowest sustainable cost**

In order to run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep them down in the long term without compromising on resilience or the quality of service we deliver. When we develop our plans and assess different options for consideration, we look to minimise the whole-life cost through a holistic approach. This fits with the total expenditure (totex) model, because the most cost-effective option can vary between traditional operating expenditure (opex) or capital expenditure (capex) solutions. Our Systems Thinking approach helps us look holistically at all options, and operating our entire network as a system rather than discrete assets opens up new avenues that would otherwise not have been available.

#### **In a responsible manner**

Our purpose drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact. This means protecting and enhancing the natural environment, using natural solutions where possible and reducing our carbon footprint and waste. It means promoting a safe, healthy and engaging workplace for our employees, supporting their physical and mental health. It drives us to support local communities on issues that matter to them, and to work with local schools and training facilities to promote skills for the future. Above all it means we are open, honest and transparent in our dealings and in reporting our performance.

## Strategic report

### Our core values

#### Customer focused

Customers are at the heart of everything we do, and we aim to provide a great and resilient service at the most efficient cost.

#### Innovative

We continually look for new ways to make our services better, safer, faster and cheaper.

#### Trustworthy

We make promises knowingly and keep them, behaving responsibly towards all of our stakeholders.

### How we operate

#### Delivering clean water

We depend on water that we collect from the natural environment in rivers, lakes, open reservoirs and boreholes, but we need to do a lot of work before this water is safe and clean for customers to drink. We maintain covered reservoirs, water treatment works and thousands of kilometres of water pipes across the region in order to collect, treat, store and deliver billions of litres of reliable, clean drinking water to millions of customers 24 hours a day.

#### Removing wastewater

Once the water goes down customers' drains, or surface water flows into the sewers, our job begins again as it requires separation and treatment before it is clean enough to return to the natural environment. We maintain wastewater treatment works and thousands of kilometres of wastewater pipes in order to collect, transport, treat and return water to begin the cycle again. We waste nothing, turning sludge by-product into compost for farmers and capturing gas to generate renewable energy.

#### Household retail

We deal with new connections, metering and billing for millions of household customers, and help vulnerable customers with our Priority Services and other assistance schemes.

#### Wholesale

For non-domestic customers in the North West, such as businesses, we provide a wholesale service to water retailers. Our wholesale activities include interactions with new appointments and variations, known as NAVs.

#### Collecting and treating water

**56,000** hectares of land

**165** reservoirs

**88** water treatment works

#### Delivering water to customers

**42,000** kilometres of water pipes

**1.8 billion** litres of clean water every day

**7.3 million** customers served 24 hours a day

## Strategic report

### Cleaning and returning wastewater

**567** wastewater treatment works

**7,000** kilometres of rivers

**1,300** kilometres of coastline

### Removing wastewater and generating energy

**78,000** kilometres of wastewater pipes

**198,000** tonnes of sewage sludge every year

**35** renewable energy facilities

### We serve the North West

We are committed to understanding the key factors that make our region unique.

#### Economic factors

We are building resilience to continue serving our growing population and support jobs and the tourism industry.

- **7.3 million** population expected to grow significantly in the next 25 years
- **22,700** jobs actively supported by our work, with over 5,000 direct employees
- **Tourism** relied on by Lake District, Liverpool and coastal area

#### Social factors

We are leading the sector on affordability and vulnerability.

- **41 per cent** of the most deprived areas in the country
- **47 per cent** of households have less than £100 savings to cope with unexpected bills
- **18 per cent** of households are affected by water poverty, 20 per cent higher than the national average

#### Environmental factors

We have a large coastline, protected rural areas and dense urban areas, all of which create different demands.

- **30 per cent** of land is National Park or Area of Outstanding Natural Beauty or Sites of Special Scientific Interest
- **29** designated bathing waters
- **830mm** higher than average UK rainfall each year

### Engaging with our stakeholders

We actively engage with stakeholders to understand what matters most to them through strong and constructive relationships.

To create longer-term value for all it is essential that we identify and engage with our stakeholders to understand what matters most to them.

We do not operate in isolation and it is not for us alone to determine what the region needs us to deliver. Engaging with stakeholders across the North West enables us to identify shared solutions to shared challenges. We value the diverse perspectives that a broad range of stakeholders, representing different and often competing interests, can bring to our decision-making.

## Strategic report

Understanding what matters to stakeholders will only be achieved by building strong, constructive relationships and engaging regularly. This is important to building and maintaining trust. These relationships are subject to robust governance to ensure the insights generated are taken into account in decision-making at executive and board level. The UUG board's corporate responsibility committee meets four times a year, with stakeholder engagement as one of its standing agenda items, and the chair of the independent customer challenge group (YourVoice) regularly attends board meetings to provide its perspective.

The following pages detail how we engage with, and are influenced by, each of our key stakeholder groups. 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 material issues matrix on page 14.

As shown below, there are eight key stakeholder groups that influence our planning and activities, and five of these groups benefit from the value we create.

### **Influence what we do and benefit from the value we create:**

- Communities
- Customers
- Employees
- Environment
- Investors
- Suppliers

### **Influence what we do:**

- Media
- Politicians
- Regulators

Our approach to engagement extends across all of our stakeholders, from those who influence what we do and benefit from the value we create, to those who just influence what we do.

### ***Communities***

#### **Why we engage**

Our work puts us at the heart of local communities, places where customers and employees live and work. We seek to support communities to be stronger based on mutual trust, respect and understanding the impact and contribution our work has on everyday life. We play a constructive role in tackling issues through engagement and investment, and by identifying what matters most to communities we can develop collaborative solutions.

#### **How we engage**

Much of our engagement is face-to-face, although over the past year we have adapted to using more digital means of engagement, such as our online consultation as part of the Haweswater Aqueduct Resilience Programme, alongside traditional methods, such as attending parish council meetings.

We engage through facilitated workshops and community partnerships, such as involving those communities affected by our construction work.

Issues raised by communities can present opportunities to improve what we do or to help others, while some can be complex and difficult to handle, especially where competing interests between different stakeholder groups are present, and require time and effort to work through.

## Strategic report

### Top three material issues

- Land management and access
- Community investment
- Trust, transparency and legitimacy

### *Customers*

#### Why we engage

To provide a great service in a way that customers value, we need to listen and engage with them to understand both short-term issues, and longer-term expectations of us as their water company. We are always interested to know what domestic and wholesale customers think about us so we can make our services better and address the issues that matter. As customer expectations change, we need to evolve our own services to ensure we meet those expectations.

#### How we engage

We interact with customers every day through our operational call centres, water retailers and increasingly via social media channels. We also get direct feedback through schemes such as the WOW awards.

Enhancements to our service such as Priority Services have been developed through engagement with customers and groups representing vulnerable customers, such as Age Concern and Autism Together.

Our current business plan was shaped by unprecedented levels of customer engagement. YourVoice, the independent customer challenge group, provided critical support and challenge, as well as contributing to shape our plans to 2025.

### Top three material issues

- Customer service and operational performance
- Affordability and vulnerability
- Leakage and water efficiency

### *Employees*

#### Why we engage

It is essential we build productive relationships with our employees based on trust. Our employees are the face of the company and we simply could not deliver our services without them, including the 13,000 who form part of our supply chain in the North West. Employees know our business better than anyone, with a diverse range of views and experience, making them well placed to identify opportunities for improvement.

#### How we engage

Line managers play a vital role in supporting employees, with regular one-to-one meetings providing two-way engagement.

Every year our employee opinion survey provides an opportunity for employees to have a say about our company and to be open and honest with their views and opinions. The anonymous and confidential survey is managed by an independent consulting firm. Results are provided to all teams with more than ten members, or for combinations of smaller teams with more than ten members collectively, for them to take action accordingly.

Our Employee Voice panel, which is chaired by Alison Goligher, a non-executive director on the UUG board, consists of 24 members from across the company, providing a means by which employee perspectives are heard by the UUG board. We have several employee-led networks, including gender equality, multicultural and LGBT+ groups.

## Strategic report

### Top three material issues

- Health, safety and wellbeing
- Diverse and skilled workforce
- Employee relations

### *Environment*

#### Why we engage

We rely on the environment and play a key role in protecting and enhancing it across the region. Given the environment has no voice of its own, 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.

#### How we engage

We have formal discussions with both national and regional representatives of environmental regulators to identify priority issues and solutions.

We conduct facilitated workshops with environmental stakeholders to understand their priorities and have undertaken a large number of customer research projects.

We work with other companies, including within the water sector, landowners and local and national environmental groups to explore where we have common interests and opportunities to collaborate and deliver more together through pilots and partnerships.

### Top three material issues

- Resilience
- Environmental impacts
- Climate change

### *Investors*

#### Why we engage

It is important that investors have confidence in the company and how it is managed, given their investment in our business. We provide regular updates to debt and equity investors so they can be assured that the company is being managed responsibly. Increasingly, this includes environmental, social and governance updates alongside financial and performance data as investors take a broader view of value and risk.

#### How we engage

UUG's AGM provides a chance for any UUG shareholders to engage with its board of directors and hold them to account. As UUG's only direct subsidiary and holding company for the rest of the United Utilities group, this engagement between UUG shareholders and its board has a direct impact on the company.

Through the group's investor relations programme, we actively engage with shareholders and analysts who write reports on our company and industry. Regular engagement activities are supplemented by ad hoc events such as capital market days.

Our treasury team has regular dialogue with the group's relationship banks and the EIB and credit rating agencies. Updates are provided to credit investors through a programme of meetings and mailings.

## Strategic report

We supply information to several investor-led ratings and indices on ESG matters, such as the Dow Jones Sustainability Index.

### Top three material issues

- Customer service and operational performance
- Political and regulatory environment
- Financial risk management

### Suppliers

#### Why we engage

Good relationships with suppliers help ensure that we get projects delivered on time, to good quality, at efficient costs and can identify and realise innovative approaches and solutions. Awareness of issues throughout the supply chain means we can address them together and become more resilient. We rely on suppliers to deliver our services and create value for all.

#### How we engage

Existing suppliers have regular discussions with our commercial team as part of our supplier relationship management (SRM) process. This helps to identify issues and opportunities to make our relationship flow smoothly.

When re-tendering goods or services, we engage with the market directly and through supplier databases such as Achilles, to get a broad view of best practice and market opportunities.

Through our United Supply Chain (USC) approach we engage suppliers on sustainable and ethical issues and performance. Suppliers can join USC by committing to our responsible sourcing principles.

Through memberships of organisations such as the Supply Chain Sustainability School and the Chartered Institute of Procurement and Supply we keep abreast of best practice.

### Top three material issues

- North west regional economy
- Responsible supply chain
- Human rights

### Media

#### Why we engage

It is through both traditional media and social media that many of our stakeholders receive their information about us and our activities. The media is influenced by the issues that matter most to those stakeholders as well as influencing them through what it reports. Given the nature of our services, it is important that coverage is fair, balanced and accurate. This requires effective two-way dialogue between the company and the media.

#### How we engage

Our media team are available 24/7 to respond to media enquiries and proactively engage media outlets providing digital content suitable for direct media broadcast.

Regular press releases on company activities help to maintain relationships with national, regional and local media outlets.

## Strategic report

We have a dedicated social media team who manage and respond to posts on our social media channels while driving proactive messages and articles. We monitor social media sentiment and issues related to the company so we can respond accordingly.

### Top three material issues

- Political and regulatory environment
- Leakage and water efficiency
- Social media

### *Politicians*

#### Why we engage

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.

#### How we engage

We engage with regional and national politicians across the different political parties.

Open dialogue with regional MPs is maintained on specific issues and we regularly attend meetings at constituency offices. We have provided each MP in our region with a fact sheet with contact details and information about our activities in their constituency.

We take part in joint working groups with devolved administrations and local authorities on topics such as natural capital.

As part of our capital programme, we often attend local parish council meetings to make the case for our planning applications.

### Top three material issues

- Political and regulatory environment
- Leakage and water efficiency
- Trust, transparency and legitimacy

### *Regulators*

#### Why we engage

Through proactive, constructive engagement with economic, quality and environmental regulators, we agree commitments over specified time periods and finalise the expectations they have of our business planning and performance.

We actively engage to shape the policy and regulatory framework within which we operate, covering customer, economic, environmental, social and governance matters.

#### How we engage

We hold regular meetings with all of our regulators to discuss priorities and objectives which can change over time.

## Strategic report

When they seek views through specific consultations we provide considered responses where we think there is value and we have something to contribute.

We work together with regulators to find new solutions through projects such as Natural Course, which aims to build capacity to protect and improve the water environment of the North West.

### Top three material issues

- Political and regulatory environment
- Resilience
- Trust, transparency and legitimacy

## Managing our material issues

### Our approach to materiality

Understanding what matters most to our stakeholders is fundamental to being a purpose-driven organisation. We consider these stakeholder priorities alongside our own assessment of what has the biggest impact on the company and its ability to create value, and the output is presented in the material issues matrix below.

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

In defining the strategic relevance of an issue to the company, we have adopted the integrated reporting 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 employees) and there can be external value (for customers, communities, suppliers and the environment). Value may be financial or non-financial.

Our assessment of the level of interest to stakeholders is based on a balance of views obtained from communities, customers, employees, regulators, and subject matter experts from the company on an ongoing basis, as well as the extensive insights gathered for the regulatory price review process. We will be undertaking a thorough review of our material issues and matrix in the next 12 months.

We have cross-referenced and aligned these issues with our principal risks and uncertainties, and our approach was reviewed by responsible business consultancy Corporate Citizenship, which commented that “alignment with United Utilities’ way of creating value gives life and credibility to the materiality matrix”, and this sends a very distinct message about our business model and what we value.

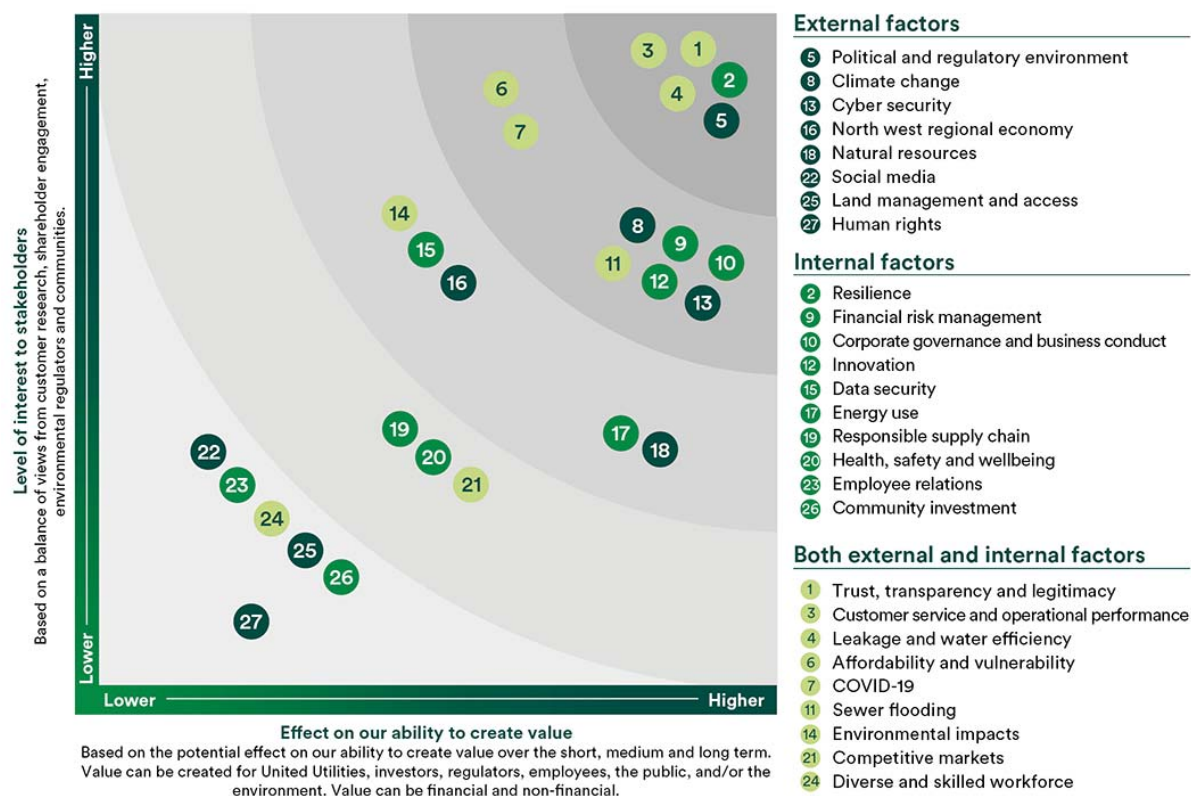
### Our prioritisation of issues

Striking the right balance between different interests and views is not easy. Discussions at board and management level form part of this alongside the use of tools such as our whole-life cost model when considering investment decisions. We are exploring how multi-capital approaches might help in our decision-making, and expect a plan of how this can add the most value to be completed this year.

### Material issues matrix

We consolidated feedback from our various stakeholder groups, as detailed above, which resulted in 26 material issues. Due to the impact and ongoing nature of the COVID-19 pandemic we have included this as a new material issue. These issues are impacted by factors that may be external, internal or both; for example, the material issue of a diverse and skilled workforce has an external dimension of skills and diversity within the region, whereas the training and culture within the company are internal factors. The 27 issues are plotted on the matrix below, from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value.

## Strategic report



## S172(1) Statement

### Introduction

Throughout this annual report, 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 employees;
- 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, vision and values.

### 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 (among other matters) to factors (a) to (f) S172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2021.

Our key decisions during the year to 31 March 2021 were:

## Strategic report

### Green recovery

In July 2020, Defra commenced an initiative through which water companies (among others) could propose to accelerate investment to deliver ‘green’ initiatives that would both benefit the environment and support the economic recovery from the COVID-19 pandemic. The requirements for such proposals were further clarified by Ofwat, Defra, the Consumer Council for Water, the Environment Agency and the Drinking Water Inspectorate in November 2020 and January 2021.

### The board’s view

The board believed that the draft investment proposed would help to contribute to the Government’s green recovery plans and bring forward benefits for customers and the environment, but it would not present a significant risk to our financial resilience nor compromise our ability to deliver the remainder of our AMP7 plan. The board believed that our proposals were: of high quality; represented strong outcomes for customers and the environment; offered good value for money; could be implemented alongside existing regulatory and statutory commitments; and would be most likely to promote the long-term success of the company for the benefit of its members as a whole. If our regulators confirm they are supportive, the board will further review its position.

### Scope 3 emissions

We had already committed to achieving science-based targets to reduce our emissions in line with the UK’s commitment in the 2008 Climate Change Act (see pages 60 to 71). As part of our carbon strategy the board has made a series of pledges to deliver these targets and to setting further targets across our full value chain, including transitioning to using 100 per cent renewable energy by 2021 and a 100 per cent green fleet by 2028.

### The board’s view

During the year, we have made a further commitment by setting science-based targets for scope 3 emissions. First, we will reduce our absolute emissions by 25 per cent from the 2020 baseline by 2030, thereby aligning the group to a trajectory needed to limit global warming to ‘well below’ 2°C. Secondly, we have set the target that 66 per cent of our construction services suppliers should set their own science-based target by 2025, thereby helping to escalate a carbon focus in the construction services sector. The board believed that committing to our pledges and delivering against the targets set would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

### AMP7 dividend policy

The UUG AMP 7 dividend policy for the 2020–25 regulatory period was agreed by the UUG board, which the company’s directors support, and was announced on 29 January 2020. When UUG announced its full-year results in the early stages of the pandemic in May 2020, we undertook to review the AMP7 dividend policy in light of the uncertainty associated with the impact of the pandemic that existed at that time. In November 2020, the UUG board reaffirmed the AMP7 dividend policy, targeting a growth rate of CPIH inflation each year through to 2025. This UUG dividend policy has a direct impact on the dividend policy of UU PLC as it is through this company that distributions from the broader group are made to UUG in order for dividends to be paid to shareholders.

### The board’s view

Over the summer and autumn of 2020, we had a chance to gain a clearer understanding of the impact of the pandemic on the business, which continued to be robust and supported by a strong balance sheet, along with a stabilised inflation outlook supported by central bank policy and government actions. The UUG board believed that reaffirmation of the AMP7 dividend policy would provide greater certainty for our stakeholders and would be most likely to promote the long-term success of UUG, and therefore the company, for the benefit of its members as a whole.

### 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

## Strategic report

on pages 5 to 13 sets out how we act as a responsible business and is applicable to the areas of disclosure required by s414CB(1). The performance information we publish for each stakeholder that we create value for, so that we can demonstrate we are fulfilling our purpose (see pages 37 to 47), include data in relation to the areas of disclosure required by s414CB(1).

The UU PLC Board supports the UUG Board and therefore the below non-financial information statement should be read in conjunction with the UUG 2021 Annual report and financial statements. Page references in the below table are to the relevant areas of the UUG Annual report and financial statements.

| Reporting requirement            | Information necessary to understand our business and its impact, policy, due diligence and outcomes                               | Policies, guidance and standards which govern our approach (some of which are only published internally) |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Environmental matters            | Reflecting the needs of the environment:                                                                                          | <ul style="list-style-type: none"> <li>Waste and resource use policy</li> </ul>                          |
|                                  | <ul style="list-style-type: none"> <li>Natural resources – see page 34</li> </ul>                                                 | <ul style="list-style-type: none"> <li>Environmental policy</li> </ul>                                   |
|                                  | <ul style="list-style-type: none"> <li>Natural environment – see pages 25 and 26</li> </ul>                                       | <ul style="list-style-type: none"> <li>Water Resources Management Plan – see page 48</li> </ul>          |
|                                  | <ul style="list-style-type: none"> <li>Reducing our carbon footprint – see pages 86 to 99</li> </ul>                              | <ul style="list-style-type: none"> <li>Emissions target – see pages 86 to 99</li> </ul>                  |
| Employees                        | Reflecting the needs of our employees:                                                                                            | <ul style="list-style-type: none"> <li>Health and safety policy</li> </ul>                               |
|                                  | <ul style="list-style-type: none"> <li>Competitive base salaries and benefits – see page 173</li> </ul>                           | <ul style="list-style-type: none"> <li>Equality, diversity and inclusion policy</li> </ul>               |
|                                  | <ul style="list-style-type: none"> <li>Health and safety – see page 61</li> </ul>                                                 | <ul style="list-style-type: none"> <li>Flexible working arrangements</li> </ul>                          |
|                                  | <ul style="list-style-type: none"> <li>Mental wellbeing – see pages 59 to 60</li> </ul>                                           | <ul style="list-style-type: none"> <li>Agency worker policy</li> </ul>                                   |
|                                  | <ul style="list-style-type: none"> <li>Gender pay report 2020 - see page 139</li> </ul>                                           | <ul style="list-style-type: none"> <li>Mental wellbeing policy</li> </ul>                                |
|                                  | <ul style="list-style-type: none"> <li>Engagement – see pages 5, 24, 59, 61 and 194</li> </ul>                                    | <ul style="list-style-type: none"> <li>Human rights policy – see page 41</li> </ul>                      |
| Respect for human rights         | Reflecting the needs of our stakeholders:                                                                                         | <ul style="list-style-type: none"> <li>Employee data protection policy</li> </ul>                        |
|                                  | <ul style="list-style-type: none"> <li>Suppliers – see page 25</li> </ul>                                                         | <ul style="list-style-type: none"> <li>Slavery and human trafficking statement</li> </ul>                |
|                                  | <ul style="list-style-type: none"> <li>Diversity within our workforce – see pages 42, 59 to 62, 132 to 133, 137 to 140</li> </ul> | <ul style="list-style-type: none"> <li>Human rights policy – see page 41</li> </ul>                      |
| Social matters                   | Reflecting the needs of our stakeholders:                                                                                         | <ul style="list-style-type: none"> <li>YourVoice – see page 22</li> </ul>                                |
|                                  | <ul style="list-style-type: none"> <li>Customers – see page 24</li> </ul>                                                         | <ul style="list-style-type: none"> <li>Charitable matched funding guidance</li> </ul>                    |
|                                  | <ul style="list-style-type: none"> <li>Communities – see page 24</li> </ul>                                                       | <ul style="list-style-type: none"> <li>Volunteering policy</li> </ul>                                    |
|                                  | <ul style="list-style-type: none"> <li>Environment – see pages 25 and 86</li> </ul>                                               | <ul style="list-style-type: none"> <li>United supply chain – see pages 41 and 73</li> </ul>              |
|                                  | <ul style="list-style-type: none"> <li>Suppliers – see page 25</li> </ul>                                                         | <ul style="list-style-type: none"> <li>Commercial procurement policy</li> </ul>                          |
| Anti-corruption and anti-bribery | Reflecting the needs of our stakeholders:                                                                                         |                                                                                                          |
|                                  | <ul style="list-style-type: none"> <li>Regulators – see page 26</li> </ul>                                                        |                                                                                                          |
|                                  | Reflecting the needs of employees and suppliers:                                                                                  | <ul style="list-style-type: none"> <li>Anti-bribery policy</li> </ul>                                    |
|                                  | <ul style="list-style-type: none"> <li>Employees – see pages 59 and 155</li> </ul>                                                | <ul style="list-style-type: none"> <li>Fraud investigation and reporting processes</li> </ul>            |
|                                  | <ul style="list-style-type: none"> <li>Suppliers – see page 71</li> </ul>                                                         | <ul style="list-style-type: none"> <li>Whistleblowing policy</li> </ul>                                  |
|                                  |                                                                                                                                   | <ul style="list-style-type: none"> <li>Internal financial control processes</li> </ul>                   |
|                                  |                                                                                                                                   | <ul style="list-style-type: none"> <li>Commercial procurement policy</li> </ul>                          |

## Our business model

Our purpose is to provide great water and more for the North West

### Our key resources

#### Natural resources

We rely on natural resources to supply water and take back wastewater after treatment, as well as to generate renewable energy. We own and manage large areas of land.

## Strategic report

### People

We rely on skilled and engaged employees and suppliers to deliver our services, and must ensure skills are maintained across the generations through training and development.

### Assets

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

### Financing

Financing allows us to preserve intergenerational equity for customers while funding long-term capital investment, and we maintain access to a range of markets to seek good value.

## Our external drivers and relationships

### 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.

### Stakeholders

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

### Technology and innovation

New technology and innovations create opportunities for improvements in service and efficiency, but can also create risks such as cyber security.

### Economic environment

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

### Regulatory environment

Regulators' priorities drive our five-year commitments, and we must actively engage to influence and prepare for future market reforms in the industry.

### Political environment

This includes regional and national politicians as well as policy makers, and we must understand the key policy issues affecting our industry.

## Our strategy and core values

Our strategy sets out how we deliver our purpose, and is broken down into three strategic themes, which govern everything we do.

Our core values – to be customer-focused, innovative and trustworthy – provide the cultural framework within which we operate.

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

## Strategic report

### Our planning horizons

We undertake long, medium, and short-term planning, taking into account our external drivers and what matters to stakeholders.

#### 1 year

We set annual targets but retain flexibility in these short-term targets to respond to challenges and meet our five-year goals in the most effective and efficient way possible.

#### 5 – 10 years

Medium-term planning reflects our five-year regulatory periods, and aims to help us work towards our long-term plans.

#### 25+ years

Our business is very long term by nature and we must build resilience to ensure we can continue to provide this essential service.

### Our key resources

#### *Natural resources*

We rely on natural sources of water, such as reservoirs, rivers and boreholes, from which abstraction licences permit us to take water in a safe and sustainable way to be treated and supplied to customers. We rely on natural watercourses to take wastewater back into the environment after extensive cleaning. We generate renewable energy from the sun and wind, and extract bioresources from wastewater that we break down into biogas (which is used to generate renewable energy) and biosolids (which are treated to provide a high-quality fertiliser for farmers).

Coping with severe dry periods requires action in relation to supply (ensuring we have resilient water resources and infrastructure to move water efficiently around the region) and demand (encouraging and supporting customers to use water more efficiently). In periods of heavy rainfall we need to deal with excess surface water drainage and minimise the risk of sewer flooding, pollution and spills.

#### How we manage this key resource

Much of the water we abstract originates on land before running off into the bodies of water. We own and manage large areas of this land, much of which is managed by tenant farmers, or in partnership with other organisations, such as the RSPB and Wildlife Trusts, and we focus on ensuring it is well managed to improve water quality and help protect habitats and species that live there.

Our Systems Thinking approach is central to how we manage water supply. We have an integrated supply zone covering most of our region, our West-East Link Main allows us to transfer water between Manchester and Liverpool, and where there is a potential shortfall we can bring more supplies online to meet demand. Forty-six per cent of households in our region now have water meters installed, and we encourage customers to save water by raising awareness, sharing tips, and providing free water-saving devices.

Traditional interventions to flooding, such as storage tanks and enlarging sewers, are costly and subject to space constraints. We are innovating with new sustainable drainage solutions by working with partners to transform hard grey areas into living planted places. We use integrated catchment solutions, working with others to improve the lakes, rivers and coastal waters in our region, and often using the natural environment as part of the solution. We manage our own woodland in a sustainable way to protect water quality, conservation, access, recreation and timber.

Our activities produce various wastes, including sludges, which we manage in a sustainable way with more than 97 per cent going to beneficial uses such as recycling and application to land as a fertiliser. We use recycled products where practical, and are working to reduce our use of plastics and raw materials to minimise our environmental impact.

## Strategic report

### Link to risks:

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

### People

Our people are the face of our company and essential in delivering our purpose. We believe the most effective decision-making comes from a diverse range of people who feel encouraged to share their views, and that having a skilled, engaged and motivated team of employees, suppliers and contractors is fundamental to the performance we deliver.

Rewarding employees well has been shown to enhance quality of work, increase employee retention, and reduce absenteeism, as well as providing societal benefits. Employee retention helps ensure efficient and effective training and higher levels of performance.

### How we manage this key resource

We support thousands of jobs in the North West, including graduate and apprenticeship programmes, helping to secure a legacy for the future in our region. We are an accredited Living Wage Foundation employer, providing our employees with competitive salaries and benefits, an attractive pension offering, and the opportunity to join the employee healthcare scheme and our share incentive plan.

We provide comprehensive training and development opportunities, including digital skills to help with our Systems Thinking approach and enable remote working where practical, which has been more important than ever this year with restrictions as a result of the COVID-19 pandemic.

We promote diversity and equal opportunity to drive a comprehensive and balanced skill set, and we recruit and promote employees on the basis of merit. We are committed to being an inclusive workplace, supporting employees to reach their full potential whilst feeling valued and included. Employee networks, representing certain groups of employees that may face specific challenges, are overseen by an executive sponsor and support employees through their career progression. Read more about diversity and inclusion on pages 41 to 42.

We are committed to protecting the health, safety and wellbeing of our people, and have been awarded the workplace wellbeing charter.

We measure employee engagement through an annual survey, and regularly achieve results higher than the UK norm.

We monitor and measure employee performance through annual reviews, and employees at all levels of the company participate in the bonus scheme, so they benefit from company success. The bonus performance measures are the same for all employees as those for the executive directors, and can be found on page 168 of the UUG 2021 Annual report and financial statements.

### Link to risks:

- Resource
- Health, safety and environmental

### Assets

Our network assets and treatment works are essential to delivering our services for customers and protecting public health, and our energy assets enable us to generate renewable energy, which helps reduce costs and minimise our environmental impact. It is important we have the right systems and procedures in place to monitor and control our assets efficiently and effectively.

## Strategic report

Many of our assets are very long term in nature, such as our impounding reservoirs that can last hundreds of years. We must invest to maintain these assets in good condition so they can continue to provide for customers in the long term. We need to make improvements to ensure we can meet the needs of a growing population, and increasingly high quality standards and tighter environmental consents driven by our quality and environmental regulators.

### How we manage this key resource

Since privatisation, the significant investment we have made in our assets has provided substantial benefits to customers, including reduced supply interruptions, reduced sewer flooding incidents, and improved water quality, and we expect to continue with a substantial investment programme for the foreseeable future as current environmental legislation requires continued investment. We plan for the long term to help us understand where and when we need to invest in our assets, and we monitor the condition, performance and health of our assets.

We manage our assets in a holistic way that seeks to minimise whole life costs, and we embrace new technology and innovation, which is at the heart of our Systems Thinking approach. This helps us deliver efficient total expenditure (totex) without compromising on quality of service or long-term resilience, saving future operating costs and reducing future customer bills.

We saw in AMP6 the benefit of accelerating our investment to deliver improvements sooner, and we plan to take the same approach in AMP7, bringing forward £500 million of our capital expenditure into the first three years of the five-year period.

Our assets and infrastructure projects can affect people who live nearby. We consult with these communities in the planning stage and work hard to minimise odours from our wastewater treatment works and other impacts.

### Link to risks:

- Water service
- Wastewater service
- Resource

## Financing

As a result of the long-term nature of our assets and the need to spread the cost between the generations of customers that benefit from them, it is necessary to raise financing in order to fund investment in building, maintaining and improving our assets, networks and services.

It is important that we are able to raise finance when needed to preserve adequate liquidity, and that we manage financial risks such as our exposure to movements in interest rates and inflation, to ensure we maintain long-term financial resilience.

### How we manage this key resource

We maintain a robust capital structure, with a responsible mix of equity and debt financing. We monitor our performance against required thresholds for key credit ratios to help us maintain strong and stable investment grade credit ratings. This gives us efficient access to debt capital markets across the economic cycle.

We maintain relationships with a diverse range of banks and access to a broad and diverse range of sources of financing in a number of markets, across which we seek the best relative value when issuing new debt. We periodically refresh our euro-medium term note (EMTN) programme to enable efficient debt issuance under pre-agreed contractual terms, and the board delegates authority to the CFO, allowing us to respond quickly to attractive financing opportunities. This helps us to consistently raise efficient financing at a cost cheaper than many of our peers. This year we published our new sustainable finance framework, allowing us to raise debt based on our strong ESG credentials.

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We aim to avoid a concentration of refinancing in any one year, and fund long term where possible. Our debt portfolio has a very long average life, and we monitor liquidity forecasts with a policy of having resources available to cover the next 15–24 months of projected cash flows to ensure forward funding needs are met. We have clear and transparent hedging policies covering credit, liquidity, interest rate, inflation and currency risk, and these are aligned with the regulatory model.

### Link to risks:

- Finance

## Our external drivers and relationships

The way we work is impacted by a number of factors external to our business that we must consider and manage.

### *Natural environment*

The natural environment is constantly changing, and we must adapt and prepare for future impacts such as climate change and population growth. We can help mitigate climate change by minimising our own emissions and environmental impact. Our use and return of water to the environment is a continuous cycle, and returning water cleanly and safely, as well as managing our catchment land effectively, allows this cycle to begin again from the best starting point.

### Link to challenges:

- Protecting and enhancing the natural environment
- Adapting to a changing climate

### *Stakeholders*

The nature of our work means we are at the heart of communities in our region, and have an impact on a large variety of stakeholders. We own and manage huge areas of land in areas of natural beauty that are valued by locals and tourists alike. It is important, therefore, that we give consideration to what matters to those stakeholders, and we build relationships and consult with them in developing and executing our plans.

### Link to challenges:

- Securing long-term operational resilience

### *Technology and innovation*

New technologies and innovative ideas present opportunities for us to make things faster, better, safer and cheaper. These can come from a huge variety of places – across different industries and different countries as well as ideas from within our business. We encourage innovation externally and internally at all levels of the business, from our Innovation Lab to our annual CEO Challenge. Technology can also create risks, and this is why our approach to cyber security is so important.

### Link to challenges:

- Delivering a reliable service in a changing world

### *Economic environment*

We are impacted by market rate movements, such as interest rates and inflation, but we seek to manage these prudently to reduce risk as far as practical. As well as these direct impacts on the company, the

## Strategic report

economic climate impacts our customers and their ability to pay their bills. We operate in an area with high levels of extreme deprivation, so helping vulnerable customers is particularly important for us.

### Link to challenges:

- Protecting corporate and financial resilience
- Helping customers with affordability and vulnerability

### Regulatory environment

Sustainable business means preparing for future market reforms as well as meeting current regulatory commitments. We place great value on our relationships with economic, quality and environmental regulators. We engage actively and regularly, both on progress with our ongoing plans, and on consultations for future reforms where we offer our views and influence where we can.

### Link to challenges:

- Securing long-term operational resilience
- Maintaining trust and confidence

### Political environment

Political decisions have the potential to significantly impact on our operations. As a responsible business, we ensure that we abide by the directions set by government, and stay flexible to adapt according to political and policy developments. Therefore, we engage closely with politicians and other policymakers from the government and other parties on a constituency, regional and national level, to understand the development of policy which will affect our business, and to communicate the economic, social and environmental value that United Utilities delivers in the North West, and the UK as a whole.

### Link to challenges:

- Maintaining trust and confidence

## Our industry and market

*To provide great water and more for the North West we must first consider our economic, quality and environmental regulation, and the particular characteristics of our region.*

Customers in England and Wales are served by 10 large licensed water and wastewater companies and smaller companies providing water-only services. Our regulated entity, United Utilities Water Limited, is the second largest, based on the size of our Regulatory Capital Value (RCV), which represents the value of accumulated investment in the company's asset base. We serve more than seven million people, with more than three million household customers making up around two-thirds of our revenue, and over 200,000 businesses. As a monopoly provider of essential services, we are regulated by various bodies as set out below.

Our economic regulator (Ofwat) sets the price, service and incentive package that companies must deliver in five-year periods, known as Asset Management Plan periods (AMPs). These packages are based on Ofwat's methodology and priorities, and consideration and scrutiny of company business plans. We must therefore engage constructively with Ofwat on its future priorities and methodology consultations, and submit high-quality plans to help ensure we receive a determination that targets the best outcomes for us to continue creating value for customers and all our stakeholders, and effectively incentivises us to continue improving performance. To ensure our plan is robust and balanced, we consult with customers and other stakeholders (including quality and environmental regulators) and factor in long-term planning and resilience needs.

This was the first year of AMP7, covering the 2020–25 period, and our focus has been on delivering and trying to outperform our final determination through:

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- delivering higher customer satisfaction than the other companies in our industry;
- beating the outcome delivery incentive (ODI) targets for operational performance;
- delivering our AMP7 scope within our final determination total expenditure (totex) allowance; and
- raising debt finance at a cost below the industry allowed cost of debt.

Since privatisation the water industry has invested a significant amount, contributing to improvements in public health and environmental standards, better quality of services, and superior quality drinking water. In its final determinations for AMP7, Ofwat has allowed a further £51 billion across the industry to deliver even more improvements.

Our regulators assess our comparative operating performance against the other water and wastewater companies in England and Wales, with the Drinking Water Inspectorate (DWI) assessing performance in water, the Environment Agency (EA) assessing performance in wastewater, and Ofwat assessing customer satisfaction. The latter two, which were in place at the start of AMP6, are included in our operational key performance indicators (KPIs). Our vision is to be the best UK water and wastewater company, so we regularly benchmark our performance against these peers. As well as assessment against our water peers, we benchmark our customer service performance against other leading service providers in our region.

### Our regulators

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as shown in the diagram.

These bodies exist to help protect the interests of customers and the environment, but they can have competing interests. For example, in agreeing environmental improvements and over what timeframe these will be delivered, we must consider how much it will cost and the need to protect customers from bill shocks. Balancing these interests requires open and continuous dialogue.

The regulatory framework can change significantly in the long term and we have seen substantial tightening of laws and regulations since privatisation. While much is outside our direct control, maintaining good relationships enables us to engage positively with regulators to influence future policy, aiming to achieve the best outcome for all our stakeholders.



## Strategic report

### How we respond to challenges

*Managing short, medium and long-term challenges facing our business.*

#### Overview

Addressing the challenges we face is key to delivering a resilient service. How we respond to these can be seen in the material issues and risks identified below.

#### **Challenge: Delivering a reliable service in a changing world**

In an increasingly digitised and instant economy, customers expect more from services now than ever before. This includes the water sector, with high expectations for the reliability of services, the water we supply and the assets we operate.

Many of our assets are ageing compared to other utilities. To meet the expectations of customers and regulators, it is critical that we combine modern technology into our networks and management of customer service. Quick response to issues raised by stakeholders, often through digital means such as social media, is part of this growing expectation.

Ensuring a reliable service in the face of a growing population, changing climate and increasing expectations of service requires integrated long-term thinking and targeting investment to ensure both short and longer-term reliability.

#### How we respond

Our culture of innovation and Systems Thinking approach drive us to adapt our assets and the way we operate to use modern technology and the best new ways of working. Examples include sensors across our network that allow remote monitoring and control from our integrated control centre, and our fleet of alternative supply vehicles (ASVs) that can inject treated water directly into supply while we undertake repairs. We have a substantially enhanced social media presence to respond quickly to stakeholders.

Over one million customers now engage with us digitally, whether this is through our website, our mobile app or on social media. Customers rate us 4.7 out of 5 on the App Store and 4.2 out of 5 on Google reviews.

We monitor the performance and health of our assets, with the help of sensors across the network, and this allows us to be proactive. For example, by monitoring pressure in the water network we can spot issues and fix them before we get a burst, saving costs and sparing customers the impact.

#### Link to strategic themes

We are installing over 100,000 sensors across our networks to proactively manage issues and sort them before customers are impacted.

We balance our capital and maintenance expenditure to ensure affordability and reliability over the short, medium and long term.

We are targeting a 15 per cent reduction in leakage over the 2020–25 period to further protect the reliability of service and water resources.

#### Our future plans

We have a number of challenging targets for the 2020–25 period that will help improve the reliability of our service, including helping and encouraging customers to use less water. Further deployment of Systems Thinking will deliver further improvements in the reliability of services.

## Strategic report

### Link to material issue

- Resilience
- Innovation
- Customer service and operational performance

### Link to risks

- Water service
- Wastewater service
- Retail and commercial

### **Challenge: Securing long-term operational resilience**

It is vital to our operational resilience that we have plans in place to manage future challenges and maintain the provision of our essential services to customers. Our assets must be prepared to cope with a growing population, and comply with increasingly challenging environmental constraints in areas such as water abstraction and wastewater treatment levels. We must build increased resilience to cope with the anticipated impacts of a changing climate in the long term, including reducing the risk of sewer flooding.

Balancing the risk of service interruptions against investment for the future is a constant challenge for water companies. Understanding what matters to stakeholders to plan our investment programme requires in-depth engagement and analysis, especially in the context of longer-term challenges that span more than five years.

### How we respond

It can take many years and require substantial investment to increase the resilience of existing assets or build new ones, which is why our long-term planning is so important. We have detailed plans in place to anticipate future challenges and understand what we need to do to address these, and we build these needs into our business plans for each five-year regulatory period to ensure we can agree the funding we need to act at the right time. We invested an additional £250 million over 2015–20, from the outperformance we earned over that period, to improve our operational resilience further.

Where possible, we design our assets to work in tandem with the natural environment, which provides more sustainable and efficient solutions, such as our innovative Catchment Systems Thinking approach.

### Link to strategic themes

Through innovative approaches we are improving the reliability and resilience of our assets, helping to reduce unplanned service interruptions, and enabling us to be more proactive.

By monitoring the health and performance of our assets we can ensure we invest at the right time in solutions that offer the lowest whole life cost.

We invest in training centres to build technical skills and promote future skills through our education programmes.

### Our future plans

Systems Thinking provides opportunities for us to increase our resilience further. Our Haweswater Aqueduct Resilience Project (HARP) will be progressed through direct procurement for customers in AMP7 and AMP8, addressing our biggest operational risk in a critical pipeline that transports water from the Lake District to Greater Manchester.

## Strategic report

### Link to material issue

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

### Link to risks

- Supply chain and programme delivery
- Resource

### **Challenge: Protecting and enhancing the natural environment**

The UK Government's current goal is to be the first generation to leave the environment in a better state than we found it. Water management is a key part of this and our industry has a leading role to play. However, the cost of solutions has an impact on customer bills and so we need to balance this goal with the need to maintain affordability and avoid bill shocks.

Environmental regulators set stringent consents for our activities to ensure the environment is protected. We take these obligations seriously and work hard to maintain compliance. This requires striking a balance with environmental impacts, such as the use of natural resources and emissions of greenhouse gases.

Our region is fortunate to have some of England's finest countryside and wildlife, much of it legally protected being designated as National Parks and Sites of Special Scientific Interest. There is growing realisation, brought further to the fore by the COVID-19 pandemic, of the physical and mental health benefits that access to green space has for people and communities.

### **How we respond**

The EA assesses water companies' performance across a basket of measures, and we are one of the best-performing company over the last five years.

Our regulatory framework shapes the way we manage natural resources and our interaction with the environment, and we work with our environmental regulators to agree long-term plans.

A phased, long-term approach to address all of the concerns and interests of our many stakeholders, including environmental regulators, ensures that the necessary work can be delivered without placing too much pressure on customer bills by spreading some of the spend over several years. We work with partners to improve the quality of rivers and bathing waters in our region, providing access to the recreational benefits of the natural environment and boosting the local tourism industry.

Our catchment land is open to the public with millions of visits a year. National lockdowns have increased the popularity of many of our sites and made managing visitor numbers at certain sites difficult. We have worked with local interest groups and local MPs to manage these issues when they arise.

### **Link to strategic themes**

Customer engagement tells us that they value the natural environment in our region and want us to protect and enhance it, while maintaining affordable bills.

We use pioneering catchment projects that combine multiple partners and access to other sources of funding to achieve more together for less.

We provide free public access to our land, many of which are in areas of outstanding beauty, with over nine million visits every year.

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### Our future plans

We are expanding our Catchment Systems Thinking approach, using more natural solutions to create more value for the environment, and we are reviewing our approach to land management to enable multiple benefits from a targeted approach.

#### Link to material issue

- Natural resources
- Environmental impacts
- Land management and access

#### Link to risks

- Health, safety and environmental
- Political and regulatory

### **Challenge: Helping customers with affordability and vulnerability**

The socioeconomic situation in the UK is still very challenging and water poverty is an important issue. The COVID-19 pandemic, national lockdowns and slowdown of the economy will only make this more difficult for many customers. How we respond will be crucial to securing and maintaining customers' trust and confidence in the sector in the years ahead.

Our region suffers high levels of extreme deprivation. 18 per cent of households in the North West are affected by water poverty, higher than the national average, and research indicates that many customers who are behind on water charges are behind on other bills and many have a pay-day loan. Our stakeholders are interested in how we provide support for customers in vulnerable circumstances beyond just financial distress, such as disability, first language not being English, or temporary vulnerability brought on by illness or a life event.

#### How we respond

We have a leading approach to affordability and vulnerability, with the sector's widest range of assistance schemes. We are helping over 200,000 customers through our affordability schemes, and through our assistance schemes 71,000 customers became water debt free this year.

Customer support has been at the forefront of our activities throughout COVID-19, such as increasing the number of customers eligible for our social tariff, 'Back on Track', and providing the option to request a three- month payment holiday without affecting credit scores.

We led the sector in establishing our Priority Services scheme, with dedicated teams providing additional support to customers with physical, mental health, or financial difficulties during an incident. This scheme is now accredited by the British Standards Institute (BSI), and over 128,000 customers are now registered for this support, with more joining every day.

#### Link to strategic themes

We have a wide range of schemes that help customers struggling with affordability concerns and other vulnerable circumstances.

Initiatives such as our affordability schemes help us to manage our household bad debt expense.

Through the charity FareShare we have provided support that has enabled the delivery of 600,000 meals for struggling families in the North West.

## Strategic report

### Our future plans

Through bill reductions and financial support we will help move over 300,000 customers out of water poverty by 2025, extend our Priority Services offering to over 210,000 customers, and improve the quality and scale of the support we provide.

### Link to material issue

- North west regional economy
- COVID-19
- Affordability and vulnerability

### Link to risks

- Retail and commercial

### **Challenge: Adapting to a changing climate**

The biggest anticipated impact on our natural environment comes from climate change. We must plan well into the future to understand what changes we are likely to experience in our region as a result of climate change, and continually adapt to meet the risks and opportunities this presents.

The main opportunity is the potential for water sharing, as our region typically receives more rainfall than the comparatively drier south.

The main risks from climate change are the impact of prolonged severe dry periods, which constrain water resources, and intense periods of heavy rainfall, which increase the risk of flooding and pollution incidents.

We need to ensure we have access to resilient water resources, reduce leakage, and encourage less water use in the future to protect this critical resource. We need to ensure our infrastructure can cope with increased surface water to reduce the risk of flooding.

### How we respond

Our response to climate change risk involves mitigation (minimising our greenhouse gas emissions) and adaptation (ensuring our services are resilient to a changing climate). Where practical, we generate renewable energy on our sites through solar panels, wind turbines, and the use of bioresources at wastewater treatment works, helping to reduce our emissions. We have reduced our carbon footprint considerably since 2005/06 and have set ambitious science-based targets as part of our continued efforts to reduce emissions. We have committed to six pledges to help us achieve significant further reductions in emissions. Read more about our approach to climate change on pages 60 to 79.

We have detailed plans that set out how we will adapt to meet the challenges of climate change, and we are targeting a 15 per cent reduction in leakage over AMP7.

We work with third parties to encourage sustainable drainage solutions to help cope with surface water in periods of heavy rain and are finalising a Drainage and Wastewater Management Plan with key authorities across the region.

### Link to strategic themes

We help customers to use less water, with advice and free water saving gadgets, saving them money as well as protecting this resource.

Our renewable energy generation helps to reduce our reliance on purchasing energy and therefore save costs.

We have reduced our carbon footprint significantly in recent years and are committed to further reduce our emissions.

## Strategic report

### Our future plans

We have a detailed 25-year Water Resources Management Plan, Drought Plan, and we plan to publish our third adaptation report in 2021 setting out how we aim to adapt to meet the challenges of climate change. Read more at [unitedutilities.com/corporate/about-us/our-future-plans](https://unitedutilities.com/corporate/about-us/our-future-plans)

### Link to material issue

- Climate change
- Resilience
- Leakage and water efficiency

### Link to risks

- Water service
- Wastewater service

### **Challenge: Maintaining trust and confidence**

Strong relationships are based on trust. Being open, honest and transparent is key to building and maintaining trust and legitimacy. As well as reporting openly this means setting out commitments and delivering on them. Our stakeholders want to know that we are treating employees fairly, protecting customer data, and paying our fair amount of tax.

The increasing pace of globalisation means many customers feel disconnected from many large businesses. This has led to growing calls for companies to demonstrate how they are contributing to society as a whole and operating in the public interest.

In recent years the UK water sector has faced challenges to its legitimacy, amplified by some specific issues at a small number of companies. Consequently, trust has been eroded and questions raised about the ownership structure of the sector, and Ofwat has called for further transparency and disclosure around board leadership and decision-making processes, as well as starting discussion on companies' contribution to public value.

### How we respond

We have open and transparent reporting around all of our equity and debt financing arrangements, do not use offshore financing vehicles, and we have secured the Fair Tax Mark independent certification for the past two years.

We have updated our human rights policy which can be found on our website, with links to other related policies, including our modern slavery policy and whistleblowing policy.

Cybercrime has been on the increase and, as the holder of customer information, it is a threat we take very seriously through our policies and dedicated data protection team.

We work with suppliers and contractors whose principles, conduct and standards align with our own. Our key suppliers have committed to United Supply Chain. We are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers.

### Link to strategic themes

We engage on a continual basis with customers to understand their expectations in relation to service and behaviour, through activities like our quarterly brand tracker.

We maintain a stable credit ratings with key agencies which helps us retain efficient access to the debt capital markets.

## Strategic report

We set qualitative and quantitative performance targets across all of our stakeholders to evidence how we are delivering on our purpose.

### Our future plans

Operating in a responsible manner is a key driver of trust with our stakeholders. Our continued compliance with the corporate governance requirements of a listed company helps ensure the transparency of our reporting and behaviour.

### Link to material issue

- Cyber security
- Corporate governance and business conduct
- Trust, transparency and legitimacy

### Link to risks

- Security
- Conduct and compliance

### **Challenge: Protecting corporate and financial resilience**

We believe the most resilient and effective companies have a diverse, engaged and motivated workforce, who can bring their different ideas and perspectives to help us find solutions.

The availability of skilled engineers depends on economic and social conditions, and we need to ensure an appropriate pipeline of skills in younger generations too, especially in the areas of science, technology, engineering and mathematics (STEM). As the world becomes increasingly digital, we need to have the right people and skills to manage our business in the modern world.

Long-term financial resilience starts with a robust balance sheet and management of financial risks. Companies have to be aware of their own financial situation and make sure that they understand the financial resilience of others, such as suppliers and former employees.

### How we respond

We support employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background.

We build skills resilience internally through training and development, including digital skills.

We have graduate and apprentice schemes, and ambassadors that work with schools and education institutes to encourage the younger generation to pursue STEM careers.

We maintain good relationships with employees, and employee representatives, to ensure an engaged and motivated workforce, and we continually strive to build diversity across all types of role and all levels within our business. We have a Gender Equality Network that helps by providing role models, mentoring and opportunities. Women are represented at all levels of our company, and 38 per cent of the UUG combined board and executive team, is female, as can be seen below.

As part of a publicly listed group, we consistently adhere to the highest levels of governance, accountability and assurance.

We have a strong balance sheet, a secure pension position, and take a prudent approach to financial risk management, which delivers long-term predictability and resilience to financial shocks.

Our clearly articulated policies, covering a variety of market risks, help us reduce our exposure to the economic and regulatory environment, providing more predictable returns.

## Strategic report

### Link to strategic themes

As we did in AMP6, we are accelerating our capital programme into the early years of AMP7 to deliver service improvements for customers earlier.

Our robust capital structure and relatively low gearing provide long-term financial resilience and future financial flexibility.

We have award winning training centres, the only ones in the water industry approved to run Ofsted accredited programmes.

### Our future plans

Creating strong relationships with employees and suppliers will help build a resilient value chain, and our focus on good corporate governance and prudent financial management ensures we have a basis for long-term success.

### Link to material issue

- Financial risk management
- Corporate governance and business conduct
- Diverse and skilled workforce

### Link to risks

- Resource
- Finance
- Conduct and compliance



- (1) Group board as at 31 March 2021
- (2) Executive team excludes CEO and CFO, who are included in group board figures
- (3) As at 31 March 2021, there were eight male and three female employees appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'
- (4) Wider employees as at 31 March 2021

## How our responsible approach has helped us make a difference during the COVID-19 pandemic

### How we responded

We serve some of England's most socioeconomically deprived communities, many of which have been severely impacted by COVID-19. We have prioritised supporting customers, the wider communities and our colleagues during this difficult time. Recognising the importance of water for public health and sanitation, especially with the emphasis placed on washing hands, we have maintained water supplies and wastewater services throughout the pandemic, keeping our employees safe while they carried out their duties.

Our communication with stakeholders during this time has been more important than ever, whether that has been encouraging customers to get in touch if they have been impacted financially by the pandemic or issuing guidance reinforcing government guidelines to protect employees, suppliers and customers. Our consultation for the Haweswater Aqueduct Resilience Programme (HARP) was stopped in its tracks by COVID-19. We changed approach, developed a virtual consultation, and as a result we have seen better engagement than our traditional approach.

## Strategic report

### Board oversight

COVID-19 has changed ways of working for everyone and the UUPLC and UUG boards have been no exception. We have continued to hold scheduled board meetings in a virtual format to ensure that the board's oversight has remained effective.

### Outlook

Lessons we have learnt from the pandemic will shape how we deliver for stakeholders in the future. We now have an even better understanding of our customers and how we can support them. We have been challenged to think more creatively about how we engage with our stakeholders.

The pandemic has accelerated our digital strategy and changed our ways of working in such a way that we do not see a return to how we worked before.

Although there remains a degree of uncertainty as to how the UK and the economy will continue to recover after the pandemic, it has taught us that our sustainable and responsible approach to business means we can tackle future challenges as they emerge.

### Communities

#### How we responded

We have continued to support young people in our region throughout the pandemic.

Recruitment of apprentices and graduates has continued uninterrupted and we are supporting the Kickstart Scheme, offering training and meaningful work placements, with the support of our supply chain partners, to an initial 250 young people.

This year, as part of our ongoing charitable donations, we supported the FareShare charity in delivering 600,000 meals to struggling families via local foodbanks and replaced one of the charity's delivery vans, helping to ensure meals get to families in need over the next eight years.

During school closures our education team created a Home Learning Hub, providing teachers and children with home schooling material.

### Customers

#### How we responded

Recognising affordability has been even more important during the pandemic, we took swift action and were the first company to secure support and regulatory approval for an extension to our social tariff, with an additional £15 million available to help customers keep out of debt.

We are committed to providing over £71 million of financial support over AMP7, and we have accelerated payments this year to provide much needed assistance to struggling households.

We have increased the extensive financial assistance we already provide, for instance by widening eligibility for our 'Back on Track' social tariff.

### Employees

#### How we responded

We facilitated home working for over 3,000 of our employees with the remainder of our workforce continuing to work at COVID- secure facilities.

A huge focus has been on the wellbeing needs of our colleagues, in particular mental health support. We have delivered initiatives to help build resilience across our workforce, including e-learning and bitesize webinars.

## Strategic report

We have not furloughed any employees, but, recognising that our employees and their families have not been immune to the hardships as a result of changing circumstances, we created a Staff Outreach Scheme to provide one-off grants through a confidential application process.

### **Environment**

#### **How we responded**

As we emerge from the pandemic, we are determined to play our part in supporting a green recovery in the North West. We have accelerated investment plans, spending more over the early years of AMP7 than our original business plan. This will support recovery to build a greener, more sustainable future, all while helping the region to recover from the economic impact of the COVID-19 pandemic.

Our new investment plans include delivering environmental improvements in rivers, protecting habitats, combating invasive species, enhancing water quality, drainage and reducing pollution. This investment will generate lasting benefits for the environment, for customers and for communities.

### **Suppliers**

#### **How we responded**

We have continued to work closely and actively engage with our supply chain during the pandemic. Looking out for the health, safety and wellbeing of our suppliers has been as important to us as that of our employees.

We continued with the majority of our construction programme throughout the national lockdowns, supporting our supply chain partners.

We acted swiftly at the beginning of the pandemic to accelerate payments from 14 days down to seven days to help with cash flow and offered a range of payment options.

#### **How we plan for the future**

*Our approach and short, medium and long-term planning horizons help us continue fulfilling our purpose in a sustainable and resilient 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, to stakeholders and to our ability to create value;
- our assessment of principal risks and uncertainties;
- our environmental, social and governance (ESG) commitments; and
- how our plans will fit with our Systems Thinking approach.

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

Long-term (25+ years) planning helps us identify what we need to do to address challenges and opportunities that may arise, so we can ensure resilience in order to continue to fulfil our purpose.

These long-term plans influence our medium-term (five to ten years) planning, which sets out how we will deliver the commitments of our final determination for each regulatory period, as well as our non-regulatory activities, such as renewable energy.

Short-term (one year) planning enables us to monitor and measure progress against our five-year plans and regulatory 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.

## Strategic report

### Long-term planning (25+ years)

Our approach to long-term planning ensures we are responding to long-term challenges and opportunities.

In order to maintain a reliable, high-quality service for customers far into the future, we have to look a long way ahead to anticipate and plan for the changes and core issues that are likely to impact on our activities.

This involves looking at a lot of current and predictive data from various sources, such as economic forecasts, expectations for population growth in certain areas, climate and weather predictions, legal and regulatory consultations and changes, as well as the age and condition of our assets, and keeping track of innovations and technological advancements. We review this information as part of our long-term planning and our risk management process.

Over the next 25+ years we have identified many challenges and opportunities that we are likely to be faced with, including:

- 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.

There is a section of our website dealing with our future plans, where we examine the challenges ahead and how we will focus our resources and talents in order to meet them: [unitedutilities.com/corporate/about-us/our-future-plans](https://unitedutilities.com/corporate/about-us/our-future-plans)

This includes our 25-year Water Resources Management Plan (WRMP) covering the 2020–45 period, which was developed and published in 2019 following consultation with stakeholders, and our Drought Plan, which was published in 2018 with an amendment appendix in 2018/19. These long-term plans set out the investment needed to ensure we have sufficient water to continue supplying our customers, taking into account the potential impact of climate change, and the actions we will take to manage the risk of a drought. In 2023 we will publish an update to our WRMP and, for the first time, publish a Drainage and Wastewater Management Plan (DWMP).

We create long-term value for stakeholders by:

- Systems Thinking and innovation;
- long-term planning and responding to challenges and opportunities, including management of water resources;
- sustainable catchment management;
- disciplined investment, based on a sustainable whole-life cost modelling approach, to ensure the resilience of our assets and network;
- investing in our employees to maintain a skilled, healthy and motivated workforce;
- close collaboration with suppliers; and
- maintaining a robust and appropriate mix of debt and equity financing.

### Medium-term planning (5-10 years)

Our medium-term planning aligns with delivery of our plans as set out in Ofwat's final determination (FD).

The majority of the group's activities sit within our regulated water and wastewater business, therefore our medium-term planning predominantly sets out how we will deliver against the FD we receive from Ofwat for each five-year period. The business plans we submit focus mainly on the subsequent five-year AMP

## Strategic report

period whilst providing a high-level view of the following AMP. This provides medium-term planning visibility of between five and ten years at any one point in time.

It is important that our ambitions align with those of our regulator, therefore we carefully evaluate all consultation and methodology publications from Ofwat and engage with them to put forward our views and help ensure a balanced approach that creates value for all stakeholders.

Our business plans are designed to help us work towards our long-term plans, build and maintain resilience, and ultimately fulfil our purpose. We engage in extensive research to ensure the plans we put forward are robust and balanced, targeting the best overall outcomes for all our stakeholders.

Following scrutiny and challenge from Ofwat, we receive the FD, which sets the price (in terms of total expenditure and customer bills), level of service, and incentive package that we must deliver over the five-year period, and an allowed return we can earn (expressed as a percentage of Regulatory Capital Value). When we receive the FD, we refine our company business plan for any changes, such as in allowed expenditure or performance level targets, and we must decide whether to accept the FD.

Our business plan submission for 2020–25 was awarded fast-track status by Ofwat and we were given one of the lowest cost challenges in the sector, reflecting the efficient totex proposals we put forward.

We made a flying start to our 2020–25 plans by investing an additional £130 million in 2019/20, helping us deliver a strong start to this new period. The acceleration of our capital programme during the 2015–20 period helped us deliver improvements early and we are adopting the same strategy in this regulatory period with around £500 million of total expenditure brought forward over years one to three of the five-year period. Our total expenditure for this period will be extended by £300 million, with this expenditure extending our environmental programme and accelerating our digital strategy.

Our strategy of delivering the best service to customers at the lowest sustainable cost in a responsible manner helps us create value for our stakeholders by delivering or outperforming the FD. Since 2015 we have published an Annual Performance Report (APR), which reports our regulatory performance in a format that helps customers and other stakeholders understand it and compare it with other companies in the sector. This includes reporting of Return on Regulated Equity (RoRE), which is made up of the base allowed return and any outperformance/underperformance, on an annual and cumulative basis for each five-year period.

### Short-term planning (1 year)

In the short-term we set annual, measurable targets but we 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 that we can continually monitor and assess our progress, which helps us ensure the long-term resilience and sustainability of our business.

Before the start of each financial year, we develop a business plan for that year, which is reviewed and approved by the board. This sets our annual targets, designed to help deliver further improvements in service delivery and efficiency, and to help move us towards achievement of our five-year goals. Performance against these annual targets determines annual bonuses for executive directors and employees right through the organisation, who are remunerated against the same bonus targets as the executive team.

To avoid short-term decision-making and ensure management is focused on the long-term performance of the company, as well as these annual targets executive directors are remunerated through long-term incentive plans that assess three-year performance, measured during the current period through Return on Regulated Equity and a customer basket of measures.

The executive directors hold quarterly business review meetings with senior managers across the business to monitor and assess our performance against our annual targets, helping to ensure that we are on track to deliver our targets for the year, and longer term.

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

## Strategic report

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 allow our people to spend their time dealing with any unexpected challenges that arise.

The challenges presented by COVID-19 are a clear example of why this flexibility is crucial. We enacted our robust contingency plans, enabling us to quickly and efficiently move thousands of our people to home-working and introduce additional safeguarding measures for those that remained on sites or in the field, while maintaining reliable water and wastewater services that are critical for public health at this time. Read more about our response to the challenges of COVID-19 on pages 31 to 33.

## How we measure our performance

To measure progress on delivering our purpose and creating value for all our stakeholders, we monitor and measure our performance against each stakeholder group.

### *Our key performance indicators*

#### **Overview**

During the 2015–20 period, we reported against a range of operational KPIs that were aligned to our strategic themes to demonstrate how we realise our purpose and deliver on our vision.

Our purpose drives us to create long-term value for all our stakeholders, so between 2020 and 2025 we are measuring our performance by reference to the value we create for each of our stakeholder groups.

#### **Operational KPIs**

Our operational KPIs include one main metric for each stakeholder group, based on the top material issues identified through stakeholder engagement. A description of these operational KPIs, our targets for each, and our performance against these targets can be seen on pages 37 to 47.

#### **Financial KPIs**

Our financial KPIs assess both profitability and sustainability of our business from a financial perspective.

A description of these financial KPIs and our performance against our targets can be seen on pages 47 to 58.

### *Our other performance indicators*

#### **Overview**

Our KPIs provide a snapshot of our performance across a variety of areas, but these are by no means the only metrics by which we monitor and assess our performance on a regular basis, and we report against other metrics both internally and externally.

As discussed on pages 7 to 14, we engage with a variety of stakeholders and this gives us a view of what matters most to them.

We report on a selection of other metrics on pages 37 to 47 of this report, based on the measures shown to be of highest interest to our stakeholders.

For example, for customers our KPI is Ofwat's measure, C-MeX, but on page 39 we report on Ofwat's D-MeX measure, the level of customer complaints, vulnerability support, customers lifted out of water poverty, and the impact of water efficiency measures.

On environmental performance, our KPI is the overall assessment by the Environment Agency and on page 43 we report on more specific environmental performance indicators, such as leakage reduction, climate change, proportion of waste going to beneficial use rather than landfill, and measures of natural capital.

## Strategic report

We regularly report on numerous corporate responsibility performance measures on our external website.

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.

### ***Our Annual Performance Report (APR)***

#### **Overview**

Performance against our regulatory contract is monitored and assessed each year, and reported within an Annual Performance Report (APR), as required by Ofwat for all water companies since the start of the previous regulatory period in 2015/16, replacing the previous 'regulatory accounts'.

Many of our performance indicators relate to regulatory performance on a high level, and it is within the APR that more detail can be found on the components within these measures, as well as narrative detail about our performance during the year.

There is financial information contained within the APR. This relates only to the regulated company and its appointed activities, and is calculated and prepared in accordance with the regulatory accounting framework. This differs from IFRS reporting, and a reconciliation to IFRS reporting is provided in our APR. For the purposes of clarification, our financial KPIs relate to our performance at the group level, and are calculated in line with the definitions given in this report.

Our APRs for previous years are available on our external website, and the APR for 2020/21 will be published in July 2021.

#### **Find our more information on our external accreditations**

In addition to our KPIs and regulatory targets, we monitor our performance against an assortment of ESG metrics that are of interest to our many stakeholders.

We report against these within this report on pages 58 to 59 and on our website at [unitedutilities.com/corporate/responsibility/our-approach/cr-performance](https://unitedutilities.com/corporate/responsibility/our-approach/cr-performance)

## Operational performance

Our performance at a glance.

### ***Communities***

Our work puts us at the heart of local communities in the North West of England, where customers and employees live and work. We understand the impact our work can have on everyday lives across our region, and we seek to play an active role in tackling the issues that matter most to these communities through active engagement and investment, developing strong relationships and building partnerships where we work together to generate solutions. We also look after beautiful landscapes and open our land to the public, which supports the regional tourism industry and offers physical and mental health and wellbeing benefits for communities through access to relaxation and recreation.

**Our key performance indicator to measure value created for communities over AMP7 is the level of community investment, and we target increasing this by at least 10 per cent over 2020 to 2025, compared with the average between 2010 and 2020.** The average investment between 2010 and 2020 was £2.5 million per annum and in 2020/21 we supported communities through direct community investment of £2.1 million (calculated using the B4SI method). This is slightly lower than we were targeting to invest, mainly as a result of much lower community activity as a result of the impact of COVID-19. However, we contributed an additional £2.7 million from our Trust Fund to help those struggling to pay their bills and a further £15 million was made available to help customers reduce their water bill to an affordable amount through extending our social tariff. As we emerge from the pandemic, and events can safely recommence, we expect our community investment to increase.

## **Strategic report**

### **Helping young people**

We are committed to supporting the Government's 'Kickstart' programme by providing 250 placements to young people, working with our supply chain. Our new employees will have a dedicated placement manager as well as a Kickstart Skills Coach, and will also receive job-related and employability skills training to enhance their CVs in order to help secure employment in the future. We work with local schools and training facilities to promote skills for the future, including youth programmes that support young people not in education, employment and training (NEETs) to help improve social mobility in our region and break down barriers in bringing people from all backgrounds into employment. It is estimated this programme has generated over £9 million of social value through avoided welfare costs and new employment. During the school closures brought about by the pandemic lockdowns, our education team created a home learning hub that supported teachers and children across the region, and even extending overseas, with materials for home schooling. Recruitment of apprentices and graduates has continued uninterrupted, with the help of some online challenges, skills sessions and live streamed assessments while face to face interaction was limited. We have continued to create our early careers pipeline welcoming 67 apprentices and graduates in 2020/21.

### **Social mobility**

In October we hosted the sector's first Social Mobility Summit, an online event at which more than 100 organisations joined us for the launch of our Opportunity Action Plan – another first for the sector – which aims to identify and share best practice and leading edge thinking from businesses that are successful in promoting social mobility, including case studies from our own employees reflecting the progress we have already made.

### **Charitable support**

Our ongoing charitable support, including a voluntary salary reduction by Board members at the height of the COVID-19 pandemic, has helped provide support to local communities. One of our donations to the FareShare charity has supported them in delivering 600,000 meals to struggling families across the North West via local foodbanks, and will replace one of the charity's delivery vans, helping to ensure 6.4 million meals get to families in need over the next 8 years.

### **Community engagement**

We build trust with local communities through effective engagement, whether that is around large capital projects or day to day management of our landholdings. Our consultation for the Haweswater Aqueduct Resilience Programme (HARP) was stopped in its tracks by COVID-19, half way through the traditional face to face exhibitions. We changed approach, developed a virtual consultation, with accessible content advertised through letters and social media, and, as a result, we have seen better engagement. We received over 100 per cent more feedback compared with the traditional approach with over 8,000 hits to the specific HARP section of the website. 69 per cent of all feedback has been supportive of the plans. Given the success of this approach, we will continue with virtual consultations for other aspects of this project.

### **Access to our land for recreational use**

As a result of COVID-19 restrictions, there has been a marked increase in the number of visitors to our catchment land to enjoy the countryside and benefit from open spaces. While the majority of visitors have respected the countryside, sadly a small minority have not. Our teams have worked hard to address this anti-social behaviour through a variety of methods, including targeted social media campaigns on issues such as moorland fire risk, improved site signage and the creation of local stakeholder groups. We are currently testing several ideas to better connect visitors to the land and to encourage them to behave responsibly.

### **Customers**

We put customers at the heart of everything we do. This relentless focus drove us to deliver significant and continuous improvements over AMP6, ending the period as a leading water and wastewater company. Despite the challenging environment we have continued to operate in during the pandemic, customer satisfaction has remained high. Reliable access to clean water has been more important than ever before, and we have continued to provide a robust service for customers throughout the year. Serving the most

## Strategic report

economically deprived areas in the country, we are always mindful of the need to help customers who struggle to pay their bills. We reduced typical household bills by 5 per cent this year in real terms, have committed to provide £71 million in financial support to customers over AMP7, and have an extensive range of schemes offering financial assistance and tailored support for customers struggling with affordability and vulnerability. We are delighted to have received a positive recommendation for continued certification to BS 18477:2010 which is the accreditation for our Priority Services scheme and one of our customer ODI measures looking at the quality of services provided to vulnerable customers.

**Our key performance indicator to measure customer satisfaction over AMP7 is Ofwat's C-MeX measure, in which we target being in positive reward territory.** At the end of the year we are ranked 5<sup>th</sup> out of 17 companies, the highest listed company, achieving a reward of £2.1 million for C-MeX performance in the first year of AMP7. While our written customer complaints performance for the year has fallen below our targets, in part reflecting the higher level of complaints during the dry spring in 2020 and our focus on collecting cash from those customers who are able to pay, but choose not, we still expect our relative performance to be upper quartile compared with the other water and wastewater companies.

### Customer service

We have significantly increased the availability and performance of our digital channels with over 1 million customers engaging with us digitally, driving both service improvements and cost efficiencies. Customers rate us 4.7 out of 5 on the App store and 4.2 out of 5 on google reviews.

We have been proactive and used targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay. We have achieved all of our reputational performance commitments, most notably continued certification to BSI standard for our Priority Services scheme that supports over 133,000 customers, and we were recognised as providing the best customer support initiative at the Utilities and Telecoms Awards for the support provided to customers during the pandemic. We are one of only 14 brands in the UK with the Institute of Customer Service Accreditation with distinction.

For developers, customer experience is measured in AMP7 by D-MeX, of which there are two elements: quantitative (service level agreement performance); and qualitative (customer satisfaction survey). For 2020/21, we are ranked first in the sector for our quantitative performance, with final qualitative results expected later in the year. We estimate our overall industry position to be fourth. This strong performance reflects the transformation programme we are delivering in this area that continues to deliver tangible and much improved results, benefiting all developers who are building in the North West.

### Operational performance for customers

Our AMP7 business plan includes 46 customer commitments, delivering the outcomes that are important to customers and measured through customer ODIs.

Our performance has been strong across the broad range of our activities with us having met or exceeded over 80 per cent of our performance commitments for the year. We have delivered particularly strong performance in the areas of hydraulic flood risk resilience and pollution where we have delivered another year of sector leading performance with no serious pollution incidents for the second consecutive year. We were also able to deliver leakage at its lowest ever level and have more than halved supply interruptions to customers – outperforming our targets on both these key service delivery measures.

We entered AMP7 knowing that our biggest challenge would be against our internal flooding ODI and this is the measure that has yielded the largest penalty this year. As part of the £300 million extension to our AMP7 totex plans, we will be investing around £100 million in Dynamic Network Management (DNM) – a ground breaking application of Systems Thinking using state of the art sensors and predictive machine intelligence to move to a more proactive management of our wastewater network. This new digital capability is expected to improve service to customers and improve performance against our internal flooding ODI.

We work hard to encourage customers to save water through water efficiency programmes, helping them to preserve this precious resource and save money on their bills. More customers have spent more time at home during the pandemic and used more water for sanitation, increasing per capita consumption (PCC) measures for 2020/21. Recognising that the long term impact of COVID-19 remains uncertain and that

## Strategic report

there may also be a variety of drivers of changes in behaviour, Ofwat has proposed to assess company performance for this customer ODI at the end of the AMP when fuller facts and evidence of absolute and relative company performance are available.

We have our own in house app development capability and this is paying dividends in creating digital capability for our field and customer facing teams with agility, flexibility and at low cost. Our new voids app which helps us to easily identify unbilled but occupied properties has contributed to a 93,000 reduction in the number of void properties in the year, helping us earn maximum customer ODI reward on voids this year and underpins a further £24 million reward over the AMP.

### Haweswater Aqueduct Resilience Programme (HARP)

In November 2020, we successfully completed the replacement of the Hallbank section of the Haweswater Aqueduct, part of a critical asset that delivers around a third of our total water production to 2.5 million people in Cumbria, Lancashire and Greater Manchester. Work to replace the majority of the aqueduct is expected to be undertaken using a direct procurement for customers (DPC) approach and we have been preparing for a DPC tender in 2021/22. If the tender process proceeds as planned, contract award is anticipated in 2023, with construction to begin later in the AMP.

### Cash collection

Despite the impact of COVID-19, our overall cash collection has performed well throughout the year. We are encouraged by the continued growth in our direct debit volumes, now at 72 per cent and one of the highest across the industry. Overall, the proportion of customers on a payment plan has continued to increase to 82 per cent despite the challenging economic environment and providing a high level of collection certainty for a significant proportion of the household customer base.

We are recognised as a leader in credit management and collections across all industries, not just water. In the year we have won three external awards for our credit services, most recently winning the Utilities and Telecoms Team of the Year at the 2020 Credit Awards. Our industry leading approach to collections and innovative affordability offerings have ensured we were well placed to respond to the challenges brought about by the pandemic.

In the current year, we have enhanced our credit reference sharing process to include another agency with a greater high street focus. This has further extended our footprint and will facilitate improvements in our collections activity, and is just one example of our comprehensive approach to collections activity, supporting our ability to collect cash from customers who have the ability to pay, but attempt to avoid doing so.

### Affordability

When the country first went into lockdown we saw an increase in demand for affordability support. The initiatives we delivered over AMP6 enabled us to respond efficiently and effectively, with our Payment Break scheme giving over 8,000 customers the breathing space they required.

The nature of the pandemic and the significant impact it is having on customers' lives has meant we have had to consider the appropriateness of continuing our normal billing and collection activities and the most suitable means of engagement. While as an industry we took steps to pause collection activity, our COVID-19 response encouraged customers to contact us if they had been impacted financially by the pandemic and found themselves struggling to pay. We carried out targeted activities aligned to specific customer segments and changes in customer behaviour to engage with customers, actively promoting our range of affordability support, ensuring customers knew they could talk to us about their bill, and highlighting alternative ways to pay. Over the course of the year we sent over 5 million proactive customer communications, a 30 per cent increase on the previous year.

We have an extensive range of schemes available to help customers and around 200,000 are currently benefiting from that help. Recognising affordability has been even more important during the pandemic, we took swift, proactive action and were the first water company to secure support and regulatory approval for an extension to the scale and scope of our social tariff, allowing us to support a broader range of customers whose income has been affected by COVID-19. This augments our support schemes this year with an additional £15 million to help customers keep out of debt and was intended to support an additional

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45,000 customers who have been furloughed, are claiming through the self-employed income support scheme (SEISS) or are now unemployed, by reducing their water bill to an affordable amount. Through efficient use of the additional £15 million funding secured we were able to support 73,000 customers – 62 per cent more than originally estimated - preventing customers from falling into debt. This additional support meant that in the year we supported 160 per cent more customers via our Back on Track scheme than the previous year. We promoted the new scheme directly to customers, via partner organisations and the Hardship Hub to increase overall awareness. The £71 million financial support we have committed to provide over AMP7 is the largest of any water company, and we have accelerated payments this year to provide much needed assistance to households struggling as a result of the economic impact of the pandemic.

We continually innovate to further enhance our affordability processes, and we are piloting a first-of-its-kind real-time income verification tool to streamline eligibility for reduced-rate social tariffs. We're proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications, modernising our income verification. In March 2021 we were the first water company to begin data sharing with the DWP, leveraging the new provisions under the Digital Economy Act, to assist people living in water poverty. We're excited to be able to use these new provisions to continue to proactively provide lower bill support to customers.

### **Employees**

Our people are critical to the success of our business and it is important we give them the opportunity to develop their skills and knowledge and support them with the most effective technology. We have continued to invest in skills training throughout the pandemic and have accelerated our digital strategy to support new ways of working. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern. During the initial lockdown in 2020, we moved 60 per cent of our workforce to home working and the remainder continued working at our COVID-secure facilities. Around 80 per cent of our employees were designated as key workers, delivering our essential services to customers. We have largely continued with business as usual, operating within COVID guidelines and in line with the Government roadmap out of lockdown, while defining and shaping the way we will work post-COVID based on the changes in the last year.

**Our key performance indicator to measure value created for our employees over AMP7 is our engagement score, in which we target being at least as good as the UK High Performance Norm benchmark.** This year we achieved 89 per cent engagement, which is five per cent above the UK High Performance Norm and is the highest engagement score we have achieved while comparatively tracking engagement over the last six years. It is also a five per cent increase from 2020 engagement levels and is 15 per cent better than the UK Norm and nine per cent better than the Utilities Norm. We are rated 4.5 out of 5 by former and current employees on Glassdoor and 92 per cent of our employees would recommend United Utilities to a friend as a great place to work. We are delighted to be in the top one per cent of 15,000 companies across Europe, and the highest placed water company, for our overall approach in the Diversity Leaders ranking. The survey, by Statista and the Financial Times, surveyed employees on their employers' efforts to promote diversity.

### **Protecting colleagues through the COVID-19 pandemic**

During the pandemic, we have facilitated home working for over 3,000 of our employees and are providing support for employees' health, safety and wellbeing whilst temporarily working at home in extraordinary circumstances. As well as facilitating home working for more than half of our employees, we have introduced a range of measures to ensure those who are still working on sites and in the field are able to do so in a COVID-secure way. We conducted over 390 COVID-secure risk assessments across all our operational sites and carried out a number of control measures to ensure they met the Government's requirements for COVID-secure workplaces. This included temperature checking stations, extra sanitation provisions, safe desks and one-way procedures in offices to ensure social distancing can be maintained. Additional personal protective clothing has been provided and we have adapted new ways of working for our front line field employees. We adapted the way we carry out our mandatory health surveillance checks to virtual assessments and more recently COVID-secure face-to-face assessments.

With the involvement of over 200 trained mental health supporters and wellbeing champions across the business, we have supported the wellbeing needs of our colleagues, delivering initiatives to help build

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resilience across our workforce. This includes delivery of several bitesize webinars on topics such as mental health, stress control, and managing change to around 2,000 people over 20 webinars. We have been encouraged by the take up of the zero suicide alliance e-learning module which now includes a specific module on COVID-19 and isolation, and have produced new resource packs and initiatives to help our workers through winter. Crucially, we engage regularly with managers, providing awareness of the support services available and how to make best use of them and the widely introduced Wellness Action Plans, in order to enable managers to have wellbeing conversations with their teams.

We have not furloughed any employees, but we are aware that our employees and their families are not immune from the hardships caused by the economic impacts of COVID-19. Therefore, we have established a staff outreach scheme that provides financial support to employees whose families are struggling financially as a direct result of the pandemic.

### Committed to equality, diversity and inclusion

We want fantastic people to enable us to deliver a great public service now and into the future, so we are determined to make sure we are reaching and recruiting from every part of our community. We are supporting employees to achieve their full potential and feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background. Our employee diversity networks, including LGBT+; GENEq; ability and multi-cultural groups have a growing membership of 730 people, and play a pivotal role in providing insight, raising awareness and giving support to colleagues. We are committed to creating a diverse and inclusive workforce and so we are delighted to be one of the top one per cent of 15,000 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership.

We are working hard to improve how we attract women into the industry, and developing women within our existing workforce. We are seeing good progress with increasing numbers of female graduates and apprentices in our talent pipeline and 96 per cent of our current female workforce recommend United Utilities as an employer. Following our 2021 Annual General Meeting (AGM), the measurable targets of 33 per cent female representation on the board and one director of non-white ethnicity will be met. We achieved inclusion in the Bloomberg Gender Equality Index, recognising our commitment to gender equality and transparency.

### Training and development

Our technical training academy established in February 2014 has provided skills development and certification to over 2,800 people to date, including programmes for those individuals not in education, employment or training (NEETs). Many people have received multiple training opportunities such that in total, around 11,000 technical training sessions have been delivered over that period. We are the only water company currently governed by Ofsted (Office for Standards in Education), with a "good" overall rating.

### Ensuring everyone goes home safe and well

Over the last couple of years our health, safety and wellbeing agenda has centred on behaviours and the part they play in accidents and the culture across our organisation. Having spent a number of years focusing on site standards, asset condition, training and personal protective equipment, it was clear from our root cause analysis that behaviours play a key part in many of the accidents we have had. We delivered our Home Safe & Well Behavioural Safety programme to everyone in the company and we are embedding a culture of looking after ourselves and each other, to ensure we all go home safe and well.

We are seeing improvements in a number of important performance measures, including the number of accidents, the severity of accidents and an increase in hazard and near miss reporting. Our employee accident frequency rate for 2020/21 was 0.094 accidents per 100,000 hours worked, representing a 15 per cent improvement on performance from the prior year. Our contractor accident frequency remained broadly consistent despite an increased workload at the start of AMP7, with 0.087 accidents per 100,000 hours worked, compared to 0.083 last year. Our aim by 2030 is that no one will be harmed while working on our behalf, and we will actively promote, support and improve their wellbeing.

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### *Environment*

We are fortunate to have many areas of natural beauty within our region, and these are important in offering health, fitness and wellbeing benefits to local communities and drivers for tourism in the area, as well as being essential for us to deliver our services to customers. It is of great importance we continue to protect and enhance the environment across the North West, and manage our land responsibly to improve the environment in our region for future generations. We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, increasing our renewable energy production and ensuring zero emissions energy usage. We have agreed an environmental improvement programme to be delivered in AMP7 that will continue to improve the river, bathing and shellfish water quality for the benefit of customers and visitors to the North West.

as well as society as a whole. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315km of rivers in the North West. Having completed the first year of the period, we remain on track for the improvements we have committed to.

**Our key performance indicator to measure value created for the environment over AMP7 is our performance against the Environment Agency's annual performance assessment, in which we target being an upper quartile performer.** In the assessment for 2020, we expect to be awarded the maximum 4 stars, meaning we would be classed by the Environment Agency as an "industry leading company".

### **Leakage reduction**

We have beaten our leakage target for the 15<sup>th</sup> consecutive year and we are now at the lowest ever level of leakage reported in the North West. Our leakage performance improvement has been achieved through a combination of techniques. Alongside satellite technology to geo-locate potential leaks in our network and sniffer dogs to accurately locate the leak, we have deployed 66,000 acoustic loggers since 2019 with a further 29,000 being installed over the next year. We have recruited around 20 per cent additional leakage detection resources, further supported this year by our first intake of apprentices on a bespoke two year technical training scheme, mitigating the risk of a national shortage in leakage technicians. Over AMP7, we plan to reduce total leakage by at least 15 per cent, with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area.

### **Pollution performance**

In 2020, we had no serious pollution incidents for the second year running, and have reduced total pollution incidents by almost a third. Here, we are seeing the benefits of delivering the action developed as part of our Pollution Incident Reduction Plan which covers a range of interventions, and for the first time we had no Wastewater Treatment Works classed by the Environment Agency as "failing works", which is something that has only ever been achieved across the sector once before.

### **Greenhouse Gas Emissions and Climate Change**

Carbon reduction ("mitigation") and climate resilience ("adaptation") have influenced both our strategic and operational decisions for over two decades. We have achieved substantial progress over recent years and we have ambitious plans and commitments to go much further.

**Carbon reduction** - We are signatories to the UN Race to Zero campaign and we are contributing to the UK water industry's commitment to achieve carbon net-zero by 2030. In May 2020 we announced six carbon pledges including a new carbon emissions reduction target by adopting a science-based approach. We have successfully reduced our operational emissions by over 70 per cent in recent years, primarily by investing in our own renewable energy generation capabilities and purchasing green energy from the national grid. We continue to deliver on our commitments to peatland restoration and woodland creation, recently establishing two tree nurseries in the North West. We are also committed to delivering our green fleet strategy and have introduced more low carbon vehicles and charging.

Our portfolio of renewable energy assets is operating satisfactorily and our investment has delivered the returns that we targeted. Having maximised the opportunities to date and established long-term contracts to secure a proportion of our renewable energy out to 2045, we are now looking at how we can recycle our

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investment in order to achieve further strong returns and take the next steps in our plans to achieve net zero by 2030.

**Climate resilience** - In AMP6 we invested an additional £250 million targeted to increase resilience against climate change, and we continue to invest across our business to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further mature our already advanced level of climate risk understanding. We will soon be publishing an overview of our climate risks and plans in our new adaptation report. This will be released in draft for open consultation and engagement before we finalise our submission over the months ahead. Our latest annual statement in support of the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) provides an update on our performance this year.

### Natural Capital and Biodiversity

We continue to develop our approach to natural capital and improve our understanding of the full value of our activity to better inform investment decisions. We have a natural capital ODI in AMP7, which encourages assessment of the added natural capital value we deliver by pursuing nature based and catchment solutions. Understanding this value will help us drive partnership working and our Catchment Systems Thinking (CaST) approach which seeks to understand the broader needs of a catchment and deliver outcomes across multiple stakeholders. As part of this approach we have worked with stakeholders to develop a North West natural capital baseline to understand the natural assets the North West has, the benefits they provide and the value of them. Once completed, we will engage with other partners across the North West to drive a consistent approach in order to drive greater natural capital value. To facilitate this we are seeking to establish a North West governance group for natural capital.

Biodiversity is a key pillar of natural capital and plays an important part in our CaST approach. As the largest private land owner in the UK, and an organisation delivering significant development in the North West we have committed to no net loss on biodiversity and delivered significant investment in improving the condition of habitats on our land. We are actively reviewing our approach to how we can best manage and enhance biodiversity.

### Investors

Our investment strategy and digital transformation, underpinned by our pioneering Systems Thinking approach, is delivering significant performance improvement and efficiency. This has been our best year of operational performance for customers and the environment, manifesting itself in a net reward against our customer ODIs for the year of £21 million. Since accepting our AMP7 Final Determination, we have increased our totex plan by a further £300 million, all of which we expect to be remunerated through regulatory mechanisms, and we continue to accelerate our overall AMP7 investment programme to deliver benefits sooner and boost the regional economy as we emerge from the worst effects of COVID-19. We have delivered another year of robust financial performance and we are raising finance effectively, locking-in rates favourable to the price review assumptions and leveraging our strong ESG credentials.

**Our key performance indicator to measure value created for our investors over AMP7 is Return on Regulated Equity (RoRE), and we will update our targets for individual components of this measure as we progress through the period.** 2020/21 reported RoRE was 4.3 per cent on a real, RPI/CPIH blended basis, mainly comprising the base return of 3.9 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 1.2 per cent and customer ODI outperformance of 0.3 per cent as a result of our year 1 net reward of £21 million.

Our totex performance of -0.3 per cent represents the year 1 impact of the £300 million additional totex which provides benefits that are not all reflected in RoRE.

Retail performance of -0.3 per cent reflects a small overspend this year in adapting to the effects of COVID-19 and tax performance of -0.5 per cent reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020 (which will be recovered through the tax sharing mechanism), and the tax impact of our strong financing outperformance.

Our underlying RoRE is higher at 4.8 per cent and is adjusted for the tax impact that will be recovered through the tax sharing mechanism and the additional totex that drives better outcomes against future customer ODIs.

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### Total expenditure (totex)

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector. Thanks to the strong performance we delivered in AMP6, we started AMP7 at the target totex run rate and we are confident that we can deliver our AMP7 scope within our Final Determination totex allowance. Our investment strategy delivers long-term sustainable performance improvements and efficiency and our AMP7 totex plans will be extended by around £300 million, which we expect to be fully remunerated<sup>1</sup> through regulatory mechanisms, with this investment extending our environmental programme, accelerating our digital transformation and exploiting spend to save opportunities.

In this first year of AMP7, we have invested £617 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure (IRE)), representing the continued acceleration of our AMP7 investment programme and early expenditure against the £300 million extension to our original totex plans. This represents a good start to the delivery of our AMP7 programme, benefitting from the early start and transition investment we made in 2019/20 and our ability to continue working, where it was safe to do so, during the COVID-19 pandemic. As a consequence, we have been able to deliver this expenditure effectively, maintaining our high performance scores against our Time, Cost and Quality index (TCQi) at over 95 per cent.

While we continue to seek efficiencies in the delivery of totex, as we have demonstrated through the £300 million extension to our totex plans, we will invest where we are confident we can deliver improved customer or environmental outcomes and better customer ODI performance.

### Customer outcome delivery incentives (ODIs)

Our digital transformation and investment strategy are delivering improved performance and we have made a strong start to AMP7, achieving a £21 million net customer ODI rewards for 2020/21. This is ten times the net reward we achieved in the first year of AMP6 and is particularly pleasing in light of the tougher targets we have set.

The “Customer” section above provides more detail on the customer ODIs where we are performing well and others where the targets for AMP7 are challenging. We see opportunities across a number of ODI targets, and our Systems Thinking approach, including new digital capability driven by DNM, increased use of data and analytics within our retail function, coupled with early investment have and will continue to help us drive performance improvements.

Unlike AMP6, ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag, therefore any net reward earned this year will be reflected in an increase to revenues earned in 2022/23 through allowed increases in the rates charged to customers in that financial year, in accordance with the regulatory mechanism. Overall, we are targeting a cumulative net ODI reward over the 2020-25 period of around £150 million, a significant improvement on the £44 million achieved in the previous regulatory period.

### Financing

On financing performance, 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 already locked-in for AMP7 compare favourably with the price review assumptions.

In November 2020, we published our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials and replacing the green funding that we have previously secured through the European Investment Bank (EIB), which is no longer available post-Brexit. In January 2021, we issued our debut sustainable bond generating a huge amount of interest for the company and our ESG credentials and delivering a coupon of 0.875 per cent. This is not only our lowest ever coupon at this maturity, locking-in financing outperformance, but also the lowest ever coupon for any UK corporate at this maturity.

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### ESG performance

We perform well across a broad range of ESG indices and for 2021 we attained World Class status on the Dow Jones Sustainability Index for the 14<sup>th</sup> consecutive year. In April 2021, we were ranked 6<sup>th</sup> out of 613 global utilities in the Sustainalytics' ESG Risk Rating assessment, positioning us as the leading water utility in the index. We achieved a score of A- from the CDP which evaluates how companies assess climate change related financial risks and opportunities, including their approach to transparency and disclosure. We were assessed by the Environment Agency (EA) as the best performing company on pollution for the second year in a row with no serious pollution incidents and we expect to be awarded industry leading 4 star status in the EA's Environmental Performance Assessment for 2020. From an employee perspective, we achieved a significant improvement in the Workforce Disclosure Initiative, scoring well above the overall average and receiving special recognition in the 'COVID-19 transparency' category at its Workforce Transparency Awards.

### Suppliers

Our activities support around 17,700 jobs in the supply chain, and the acceleration of around £500 million of capital expenditure into the first three years of AMP7 will play a part in helping to generate jobs and income for the North West economy at a critical time as the country emerges from the worst effects of the COVID-19 pandemic. Suppliers play an important role in maintaining supply for key parts of our business, and contractors, as well as direct employees, act as the face of our business for many customers and communities. The pandemic has shown the importance of our relationship with our supply chain partners. We have continued to work closely with our supply chain and issued guidance reinforcing Government guidelines to protect employees, suppliers and customers while maintaining delivery of critical services.

**Our key performance indicator to measure value created for our suppliers over AMP7 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this timeframe.** For 2020/21, in excess of 99 per cent of invoices were paid within 60 days, the average number of days taken to pay our suppliers was 13 days which is reflective of our efforts to accelerate payment to suppliers by 7 days during the COVID-19 pandemic and which was particularly welcomed by the small businesses we engage with. We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements.

### 'Better together' through our United Supply Chain

In November 2020 we successfully launched our new approach to responsible supply chain management for AMP7 called United Supply Chain (USC). USC recognises suppliers as an extension of the United Utilities family and suppliers are asked to become a signatory to our Responsible Sourcing Principles as a minimum. Those suppliers who are integral to our operations we encourage to become leaders and to work jointly with us to deliver improvements across environmental, social and governance areas and improve value to customers. At the end of March 2021 we had signed 38 per cent of our targeted suppliers to our Responsible Sourcing Principles and continue to pursue the remaining suppliers to reach our target of 100 per cent. Via our partnership with Supply Chain Sustainability School we have been able to offer both our commercial colleagues and supply chain partners free resources to learn more about the Responsible Sourcing Principles.

### Innovation in action

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. It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and idea adoption / contract award – an obstacle that most regulated companies struggle with. The open, collaborative nature means that feedback is given more frequently and ideas get tailored for United Utilities adoption faster than traditional product testing. We have worked with 23 suppliers in this way – and our highest profile success is FIDO (tackling leakage detection in our Lab 2 programme.) They are becoming known as a disruptor in the global water sector with United Utilities having first mover advantage on new developments.

We are part-way through our third Innovation Lab programme; we have published four high level problems and encouraged innovative solutions from around the world. Over 120 supplier applications have been

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reviewed by our experts and we have selected eight suppliers with high potential ideas; with our help, they could offer a performance step-change across a range of areas from helping us to reduce our carbon footprint and be more self-sufficient on energy, to predicting asset failures before they occur. All ideas support our Systems Thinking ambitions, most are digitally-centric, and half are new entrants to the UK water sector.

## Financial performance

In respect of our financial KPIs, we use underlying profit measures as these enable more meaningful comparisons of the year-on-year performance of our business.

|                                                              | Year ended<br>31 March 2021 | Year ended<br>31 March 2020 |
|--------------------------------------------------------------|-----------------------------|-----------------------------|
| <b>Financial KPIs</b>                                        |                             |                             |
| Revenue                                                      | £1,808m                     | £1,859m                     |
| Underlying operating profit <sup>(1) (2)</sup>               | £602m                       | £732 m                      |
| Underlying profit before tax <sup>(1) (2)</sup>              | £484m                       | £568 m                      |
| Underlying profit after tax <sup>(1) (2)</sup>               | £403m                       | £513 m                      |
| Gearing: net debt to regulatory capital value <sup>(3)</sup> | 62%                         | 61%                         |
| <b>Performance summary</b>                                   |                             |                             |
| Operating profit                                             | £602m                       | £630m                       |
| Profit before tax                                            | £575m                       | £336m                       |
| Profit after tax                                             | £473m                       | £134m                       |

Notes:

- (1) Underlying profit measures have been provided to give a more representative view of business performance and represent non-GAAP measures that are reconciled to reported measures on pages 57 to 58.
- (2) Underlying measures are defined in the tables on pages 55 to 56 and reflect a change in approach to alternative performance measures (APMs) with prior year numbers re-presented for comparability
- (3) Regulatory capital value or RCV gearing calculated as group net debt/United Utilities Water shadow RCV (out-turn prices).

Revenue for the year to 31 March 2021 was down 2.8 per cent on last year, largely reflecting the typical customer bill reduction we have delivered for this first year of the new AMP7 regulatory period. Although COVID-19 changed patterns of demand for our services, changes in consumption between different customer groups have broadly offset each other in total. Household cash collection and our bad debt position have remained robust, and we have provided further financial assistance to customers who are struggling in this difficult time.

We have simplified our approach to alternative performance measures (APMs) during the year and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years' tax matter. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. In the commentary that follows in relation to underlying measures, we show the prior year results based on our new definition of APMs for comparative purposes. The reconciliation on pages 57 to 58 show the prior year APMs both on the previously used basis (consistent with how we reported last year) and updated based on our new definition of APMs.

We continue to invest in our assets, bringing forward capital expenditure and seeing an increase in infrastructure renewals expenditure (IRE) in the period. Underlying operating profit has reduced 17.8 per cent compared with last year, largely reflecting lower revenue and higher IRE. Our financing performance remains strong and we have benefitted from lower short-term inflation reducing our net finance expense.

Our balance sheet remains one of the strongest in the sector, with a robust customer receivables position, an industry-leading, fully funded pension scheme on a low dependency basis, and RCV gearing supporting a stable A3 credit rating with Moody's for UUW.

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### Revenue

|                                                                                                                                     | £m             |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Year to 31 March 2020                                                                                                               | 1,859.3        |
| Wholesale revenue forecast incentive mechanism (WRFIM*) adjustments                                                                 | 12.5           |
| Regulatory revenue changes – 5.5 per cent real typical household bill reduction and 1.5 per cent uplift in line with CPIH inflation | (79.5)         |
| Non-household consumption decrease                                                                                                  | (46.7)         |
| Household consumption increase                                                                                                      | 46.8           |
| Innovation fund increase                                                                                                            | 6.2            |
| Other                                                                                                                               | 9.4            |
| <b>Year to 31 March 2021</b>                                                                                                        | <b>1,808.0</b> |

\* Annual regulatory adjustment for volume differences – Wholesale Revenue Forecasting Incentive Mechanism

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

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

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

### Operating profit

|                                              | £m           |
|----------------------------------------------|--------------|
| Underlying – year to 31 March 2020           | 732.1        |
| Revenue decrease                             | (51.3)       |
| Depreciation and amortisation increase       | (21.8)       |
| Infrastructure Renewals Expenditure increase | (21.8)       |
| Property rates increase                      | (13.5)       |
| Innovation fund increase                     | (6.2)        |
| Other underlying operating costs increase    | (15.4)       |
| <b>Underlying – year to 31 March 2021</b>    | <b>602.1</b> |
| Adjusted items                               | -            |
| <b>Reported – year to 31 March 2021</b>      | <b>602.1</b> |

Underlying operating profit at £602 million was £130 million lower than last year. This principally reflects the £51 million reduction in revenue, and also a £22 million increase in IRE as a result of ongoing work to optimise the performance of our network. Depreciation is £22 million higher, principally reflecting the higher capex programme in AMP6 with a high number of assets commissioned towards the end of the AMP. In the near term we would expect depreciation to flatten out reflecting the lower AMP7 capex programme. Property rates are £14 million higher this year largely reflecting a rates refund received last year. We have accrued £6 million of costs in 2020/21 in relation to the Innovation in Water Challenge Scheme mentioned above, along with £13 million of extra COVID-19 related costs (including a £5 million

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increase in the underlying bad debt charge), which have been absorbed within our cost base and which have not been treated as adjusted items when calculating our underlying operating profit.

Reported operating profit was £28 million lower than last year, reflecting the decrease in underlying operating profit partially offset by a decrease in adjusted items. As a result of the changes we have made to alternative performance measures, we will no longer, as a matter of course, adjust for restructuring costs to derive underlying operating profit and therefore we do not have any adjusted items in the year to 31 March 2021, with prior year numbers re-presented for comparative purposes. Adjusted items totalling £102 million were made in the full year to 31 March 2020, comprising £83 million of accelerated depreciation of Bioresourcess assets that had been taken out of use and £19 million in relation to provisions for the anticipated impact of COVID-19, principally reflecting a higher bad debt charge recognising the higher risk of future non-payment of household customer bills. These adjusted items can also be found on pages 31 to 33 and more detail can be found in the group's annual report for the year to 31 March 2020.

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

### Profit before tax

|                                           | £m           |
|-------------------------------------------|--------------|
| Underlying – year to 31 March 2020        | 567.8        |
| Underlying operating profit decrease      | (130.0)      |
| Underlying net finance expense decrease   | 49.6         |
| Share of JVs losses                       | (3.2)        |
| <b>Underlying – year to 31 March 2021</b> | <b>484.2</b> |
| Adjusted items *                          | 91.0         |
| <b>Reported – year to 31 March 2021</b>   | <b>575.2</b> |

\* Adjusted items are set out on pages 57 to 58.

Underlying profit before tax was £484 million, £84 million lower than last year. This reflects the £130 million reduction in underlying operating profit, and an increase in the share of underlying losses of joint ventures of £3 million, partly offset by a £50 million decrease in underlying net finance expense.

Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 57 to 58. Reported profit before tax increased by £239 million to £575 million reflecting the £28 million reduction in reported operating profit and the £3m increase in the share of underlying losses of joint ventures, more than offset by a £202 million reduction in reported net finance expense (including fair value movements), a £37 million profit on the disposal of our Tallinn joint venture and the impact in the prior year of our £32 million share of Water Plus losses arising as a result of COVID-19.

### Net finance expense

The underlying net finance expense of £109 million was £50 million lower than last year, on a consistent basis. Interest of £83 million on non-index linked debt was £13 million lower than last year due to lower rates locked in on debt and associated swaps. The indexation of principal on index-linked debt, including the impact of inflation swaps, amounted to a net charge in the income statement of £54 million, compared with a net charge of £100 million last year.

Reported net finance expense of £54 million was £202 million lower than last year, principally reflecting a £151 million increase in the fair value gains on debt and derivative instruments, from a £76 million loss in the prior year to a £74 million gain in the current year, and lower inflation applied to our index-linked debt.

## Strategic report

### Joint ventures

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

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

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

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

Further details can be found in note 11 of these consolidated financial statements.

### Profit after tax

|                                           | <b>PAT<br/>£m</b> |
|-------------------------------------------|-------------------|
| Underlying – year to 31 March 2020        | 513.1             |
| Underlying profit before tax decrease     | (83.6)            |
| Underlying tax increase                   | (27.0)            |
| <b>Underlying – year to 31 March 2021</b> | <b>402.5</b>      |
| Adjusted items *                          | 70.4              |
| <b>Reported – year to 31 March 2021</b>   | <b>472.9</b>      |

\* Adjusted items are set out on pages 57 to 58.

Underlying profit after tax of £403 million was £111 million lower than last year, principally reflecting the £84 million reduction in underlying profit before tax and a £27 million higher underlying tax charge largely due to the pension deficit repair payment we made last year.

Reported profit after tax increased by £339 million to £473 million, principally reflecting the £239 million increase in the reported profit before tax and a £100 million decrease in the reported tax charge primarily as a result of a £136 million deferred tax adjustment for the change in tax rate reflecting the Government's reversal of the planned reduction in the rate of corporation tax recognised in the prior year.

### Tax

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

## Strategic report

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

In 2020/21, we paid corporation tax of £83 million, which represents an effective cash tax rate on underlying profits of 17 per cent, which is 2 per cent lower than the headline rate of corporation tax of 19 per cent. The key reconciling item to the headline rate of corporation tax continues to be allowable tax deductions on capital investment and also, in the prior year, pension payments these being deductions put in place by successive governments to encourage such investment and thus reflecting responsible corporate behaviour in relation to taxation.

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

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

The current tax charge was £84 million in 2020/21, compared with £45 million in the previous year. There were current tax credits of £1 million in 2020/21 and £12 million in 2019/20, following agreement of prior years' UK tax matters.

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

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

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

### Cash flow

Net cash generated from continuing operating activities for the year to 31 March 2021 was £850 million, broadly consistent with £802 million last year. The group's net capital expenditure was £639 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost. Cash flow capex differs from regulatory capex, since the latter is based on capital work done in the period, rather than actual cash spent.

### Pensions

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

## Strategic report

Further detail on pensions is provided in note 18 ('Retirement benefit surplus') of these consolidated financial statements.

### Financing

| <b>Net debt</b>                          | <b>£m</b>      |
|------------------------------------------|----------------|
| At 31 March 2020                         | 7,440.6        |
| Cash generated from operations           | (1,004.6)      |
| Proceeds from disposal                   | (85.3)         |
| Fair value movements                     | (7.5)          |
| Dividends from joint ventures            | (6.4)          |
| Net capital expenditure                  | 639.0          |
| Dividends                                | 291.9          |
| Interest                                 | 100.4          |
| Indexation                               | 52.6           |
| Tax                                      | 54.7           |
| Other                                    | (6.9)          |
| <b>At 31 March 2021</b>                  | <b>7,482.3</b> |
| <b>Adjustments</b>                       | <b>(91.9)</b>  |
| <b>At 31 March 2021 (new definition)</b> | <b>7,390.4</b> |

The group's gross borrowings at 31 March 2021 had a carrying value of £8,537 million. The fair value of these borrowings was £9,940 million. This £1,404 million difference principally reflects the significant fall in real interest rates compared with the rates at the time we raised a portion of the group's index-linked debt. This difference has increased from £470 million at 31 March 2020 due primarily to a decrease in credit spreads.

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

Net debt at 31 March 2021 was £7,390 million, compared with £7,441 million at 31 March 2020. This comprises gross borrowings of £8,537 million and derivative liabilities of £115 million net of cash of £744 million and derivative assets of £425 million. This is then adjusted to exclude derivatives with a net liability of £92 million under our revised definition of net debt to exclude the impact of derivatives that are not hedging specific debt instruments and therefore gives a fairer reflection of the amount we are contractually obliged to repay. This approach is more consistent with that taken by the credit rating agencies and better reflects the regulatory economics.

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

Gearing, measured as group net debt divided by U UW's shadow (adjusted for actual spend) regulatory capital value, was 63 per cent at 31 March 2021, unchanged from the 63 cent as at 31 March 2020 and remaining within our target range of 55 to 65 per cent.

### Cost of debt

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

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

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

### Credit ratings

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

### Debt financing

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

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

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

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

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

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

### Interest rate management

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

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

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

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

Historically, this has been supplemented by fixing substantially all remaining floating rate exposure across a forthcoming regulatory period around the time of the price control determination. Recognising Ofwat's intention to apply debt indexation for new debt raised during the 2020-25 regulatory period, we have retained the hedge to fix underlying interest costs on nominal debt out to ten years on a reducing balance

## Strategic report

basis, but have not supplemented this with the additional ‘top up’ fixing at the start of the new regulatory period.

### Liquidity

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

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

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

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

### Outlook

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

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

### Underlying profit

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

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

We have simplified our approach to APMs and are no longer, as a matter of course, adjusting our underlying earnings for restructuring costs, net pension interest, capitalised borrowing costs and prior years’ tax matters. This brings our approach more in line with peers and therefore makes cross-company comparisons easier. In the tables that follow we show the prior year APMs both on the previously used basis (consistent with how we reported last year) and updated based on our new definition of APMs for comparative purposes.

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

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

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|                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interest on derivatives and debt under fair value option <sup>2</sup> | Net fair value gains on debt and derivative instruments includes interest on derivatives and debt under fair value option. In adjusting for net fair value gains on debt and derivatives, it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue.                                                                                                                                                                                                               |
| Net pension interest income                                           | This item can be volatile from one period to the next and it is a direct function of the extent to which the pension scheme is in an accounting deficit or surplus position.                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Capitalised borrowing costs                                           | Accounting standards allow for the capitalisation of borrowing costs in the cost of qualifying assets. These significant costs have previously been adjusted for to provide a representative cost of borrowings and current year performance when considered in the context of the return on capital the group earns through revenue.                                                                                                                                                                                                                                                                                   |
| Agreement of prior years' tax matters                                 | The agreement of prior years' tax matters is part of the group's normal processes of ensuring the right amount of tax is paid. Depending on the agreements made in any given year, this can be significant, volatile and often related to final settlement of numerous prior year periods. Historically, management has adjusted for this as a matter of course to provide a more representative view of the tax charge/credit in relation to current year performance. For the year ended 31 March 2021 and going forward, an adjustment will only be made if significant and relating to numerous prior year periods. |

<sup>1</sup> These adjustments are no longer made from the year ended 31 March 2021 and going forward reflecting our change in approach to APMs

<sup>2</sup> For the year ended 31 March 2021, and going forward, this adjustment combines the two adjustments 'net fair value (gains)/losses on debt and derivative instruments' and 'interest on derivatives and debt under fair value option'

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|                                                                                                                                  |                      | <i>Re-presented</i>  | <i>As reported</i>   |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
|                                                                                                                                  | <b>Year ended</b>    | <b>Year ended</b>    | <b>Year ended</b>    |
| <b>Underlying profit</b>                                                                                                         | <b>31 March 2021</b> | <b>31 March 2020</b> | <b>31 March 2020</b> |
|                                                                                                                                  | <b>£m</b>            | <b>£m</b>            | <b>£m</b>            |
| <b>Operating profit per published results</b>                                                                                    | <b>602.1</b>         | <b>630.3</b>         | <b>630.3</b>         |
| Bioresources asset write down                                                                                                    | -                    | 82.6                 | 82.6                 |
| COVID-19 - expected credit loss on non-household receivables                                                                     | -                    | 1.4                  | 1.4                  |
| COVID-19 - expected credit loss on household receivables                                                                         | -                    | 16.7                 | 16.7                 |
| COVID-19 - operating expenses                                                                                                    | -                    | 1.1                  | 1.1                  |
| Restructuring costs                                                                                                              | -                    | -                    | 11.8                 |
| <b>Underlying operating profit</b>                                                                                               | <b>602.1</b>         | <b>732.1</b>         | <b>743.9</b>         |
| <b>Net finance expense</b>                                                                                                       |                      |                      |                      |
|                                                                                                                                  | <b>£m</b>            | <b>£m</b>            | <b>£m</b>            |
| Finance expense                                                                                                                  | (107.2)              | (307.9)              | (307.9)              |
| Investment income                                                                                                                | 49.2                 | 56.9                 | 56.9                 |
| Allowance for expected credit losses – loans to joint ventures                                                                   | 3.7                  | (5.0)                | (5.0)                |
| <b>Net finance expense per published results</b>                                                                                 | <b>(54.3)</b>        | <b>(256.0)</b>       | <b>(256.0)</b>       |
| Adjustments:                                                                                                                     |                      |                      |                      |
| COVID-19 - Expected credit losses on loans to JVs                                                                                | -                    | 5.0                  | 5.0                  |
| Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option | (54.3)               | 92.8                 | -                    |
| Net fair value (gains)/losses on debt and derivative instruments                                                                 | -                    | -                    | 76.3                 |
| Interest on swaps and debt under fair value option                                                                               | -                    | -                    | 16.5                 |
| Net pension interest income                                                                                                      | -                    | -                    | (14.0)               |
| Adjustment for capitalised borrowing costs                                                                                       | -                    | -                    | (40.6)               |
| <b>Underlying net finance expense</b>                                                                                            | <b>(108.6)</b>       | <b>(158.2)</b>       | <b>(207.8)</b>       |
|                                                                                                                                  | <b>£m</b>            | <b>£m</b>            | <b>£m</b>            |
| <b>Share of (losses)/profits of joint ventures</b>                                                                               | <b>(9.3)</b>         | <b>(38.1)</b>        | <b>(38.1)</b>        |
| Adjustments:                                                                                                                     |                      |                      |                      |
| COVID-19 - Water Plus impairment losses and expected credit losses                                                               | -                    | 32.0                 | 32.0                 |
| <b>Underlying share of (losses)/profits of joint ventures</b>                                                                    | <b>(9.3)</b>         | <b>(6.1)</b>         | <b>(6.1)</b>         |

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|                                                               |              |              |              |
|---------------------------------------------------------------|--------------|--------------|--------------|
| <b>Profit on disposal of joint ventures</b>                   | 36.7         | -            | -            |
| Adjustments:                                                  |              |              |              |
| Profit on disposal of AS Tallinna Vesi joint venture          | (36.7)       | -            | -            |
| <b>Underlying profit on disposal of joint ventures</b>        | -            | -            | -            |
| <b>Profit before tax per published results</b>                | <b>575.2</b> | <b>336.2</b> | <b>336.2</b> |
| Adjustments:                                                  |              |              |              |
| In respect of operating profit                                | -            | 101.8        | 113.6        |
| In respect of net finance expense                             | (54.3)       | 97.8         | 43.2         |
| In respect of share of (losses)/profits of joint ventures     | -            | 32.0         | 32.0         |
| In respect of profit on disposal of joint ventures            | (36.7)       | -            | -            |
| <b>Underlying profit before tax</b>                           | <b>484.2</b> | <b>567.8</b> | <b>525.0</b> |
| <b>Profit after tax per published results</b>                 | <b>472.9</b> | <b>133.6</b> | <b>133.6</b> |
| Adjustments:                                                  |              |              |              |
| In respect of profit before tax                               | (91.0)       | 231.6        | 188.8        |
| Deferred tax adjustment                                       | 18.4         | 157.5        | 157.5        |
| Agreement of prior years' UK tax matters                      | -            | -            | (12.2)       |
| Tax in respect of adjustments to underlying profit before tax | 2.2          | (9.6)        | (11.3)       |
| <b>Underlying profit after tax</b>                            | <b>402.5</b> | <b>513.1</b> | <b>456.4</b> |

## Being a responsible business

### Our ESG credentials

Through our purpose, vision and strategic themes, responsible business is a core part of who we are as a business and has been for many years.

We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges.

| Index/rating                   | Description                                                                                                                                                                                  | Performance                                                                                                                                                                                      |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dow Jones Sustainability Index | The Dow Jones Sustainability Index ranks the sustainability approach of the top 10 per cent of the world's biggest companies based on long-term economic, environmental and social criteria. | <b>For 2020, our overall performance was 79 per cent and we attained World Class status for the 14th consecutive year. We were awarded SAM Bronze Class in the Sustainability Yearbook 2021.</b> |
| FTSE4Good Index                | The FTSE4Good Index measures the performance of companies who demonstrate strong ESG practices against globally recognised responsible business standards.                                   | <b>United Utilities Group PLC has been included in the FTSE4Good Index Series since 27 June 2001. Latest review June 2020.</b>                                                                   |
| ISS                            | ISS ESG's Corporate ESG Rating provides investors with comprehensive portfolio company research on social, environmental and governance factors to help                                      | <b>In the annual review of November 2020 our status was assessed as Prime.</b>                                                                                                                   |

## Strategic report

|                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                     |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | identify and mitigate ESG risks and to capitalise on investment opportunities                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                     |
| MSCI ESG       | Provides ESG ratings on an AAA to CCC scale according to exposure to industry specific ESG risks and ability to manage those risks relative to peers.                                                                                                                                                                                                                                                                                                           | As of February 2021, United Utilities Group PLC received an MSCI ESG rating of AA.                                                                                                                                                                                  |
| Sustainalytics | Sustainalytics, a Morningstar company, is a leading independent ESG research, ratings and data firm. Its ESG Risk Ratings measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.                                                                                                                                                                                                                  | In April 2021, United Utilities received an ESG Risk Rating of 13.0 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors. United Utilities is a Sustainalytics ESG Industry Top Rated Company for 2021. |
| Vigeo Eiris    | Vigeo Eiris (V.E), an affiliate of Moody's, is a global leader in ESG assessments, data, research, benchmarks and analytics. Leveraging their extensive proprietary database, they equip market players with the ESG insight they need to manage risks and better understand and address their social and environmental impact. The Euronext ESG indices serve as a benchmark for investors to incorporate ESG considerations into their investment strategies. | We received an overall Advanced ESG score by V.E of 65 and United Utilities Group PLC has been confirmed as a constituent of the Euronext UK 20 and Europe 120 Indices in year 2020                                                                                 |

### Alignment to wider global goals

The Sustainable Development Goals (SDGs) comprises 17 global goals to be achieved by the year 2030, and were adopted by a summit of the United Nations (UN) in 2015. They are designed to be the blueprint to achieve a better and more sustainable future for all. Our approach to responsible business aligns quite naturally with the goals and we have identified six that are most material to our business and where we contribute the most.

We contribute to the delivery of a wider selection of the SDGs through our investment projects and these are described in our sustainable finance framework.

**Clean water and sanitation** – Part of our purpose is to provide great water and is the reason we exist, ensuring customers in the North West have safe, resilient and affordable water and wastewater services.

This includes avoiding wasting water, and we promote water efficiency through campaigns, advice, education and free water saving gadgets for customers.

We protect and enhance water-related ecosystems across our region through initiatives such as our Catchment Systems Thinking approach.

**Decent work and economic growth** – Our daily operations provide direct, indirect and induced employment for 22,700 people, and we are a big contributor to the North West economy.

We provide training and development opportunities in safe, secure working environments, graduate and apprentice opportunities, programmes for young people experiencing difficulties securing employment, offer equal opportunities to all and value diversity among our employees.

**Industry, innovation and infrastructure** – We invest heavily in infrastructure, including plans for over £4 billion between 2020 and 2025 to improve the performance and resilience of our assets and operations to impacts such as those arising from climate change.

We embrace innovation, especially in an increasingly digital world, to ensure the region where we operate has reliable, sustainable and resilient infrastructure, now and into the future.

**Sustainable cities and communities** – We use our understanding of customer needs and priorities to deliver services that meet their expectations and engage with communities to enhance participation in what we do. We plan at least 25 years into the future to prepare for increases in the population and new housing that will need connections for water and wastewater services. We are exploring ways to do this using natural solutions to manage water and wastewater, such as Sustainable Drainage Systems (SuDS).

**Climate action** – Responding to the climate emergency is an imperative for us all.

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Reducing our greenhouse gas emissions, delivering against our six carbon pledges and ensuring that we, and the region we serve, are resilient to the impacts that a changing climate might bring, are key to our long-term planning.

**Peace, justice and strong institutions** – We run our business in a responsible manner, and being trustworthy is one of our core values.

We have high levels of transparency in our reporting and ethical standards of business conduct and corporate governance – those systems and processes through which our organisation is managed, controlled and held accountable.

### Our approach to climate change

Task Force on Climate-related Financial Disclosures

#### Overview

Weather is fundamental to how we deliver water and wastewater services so climate change has been, and always will be, of strategic and operational importance.

With advances in climate science, our understanding of climate change and how we respond is ever evolving, as is the external policy environment in which we operate.

#### Incorporating climate into long-term planning

Building on our long-standing approach to climate change mitigation and adaptation, we now integrate consideration of climate-related risks and opportunities directly into our business planning to influence strategy and behaviours throughout the organisation.

This year, we've enhanced our understanding of the sensitivity of our business risks to climate change and applied Systems Thinking to embed physical and transitional risks into both operational planning and long-term strategy development.

We now have a good understanding of the controls required to adapt to a changing climate, and are building our confidence to recognise and manage cascade impacts where multiple weather events in a short time frame can have a cumulative impact.

#### Scenario analysis

To support strategic planning, we developed three comprehensive scenarios exploring how multiple drivers of change might evolve and interact over time, compared to a baseline scenario. Each one is aligned to a specific emissions pathway, enabling us to test out scenarios where there is: an effective transition to a low carbon world; a climate crisis due to suboptimal climate change mitigation efforts; and a central case where more moderate impacts of climate change are experienced after slow initial progress is followed by a step change in de-carbonisation.

#### Pledges and commitments

We have made good progress on our six carbon pledges (see pages 43-44), which include science-based emission reduction targets and four specific pledges on how those reductions will be achieved.

**Pledge 1** is to reduce our scope 1 and 2 emissions by 42 per cent by 2030. We are on track to achieve this pledge although progress will not be linear year-on-year while we work to reverse the pressures that are driving growth in emissions.

**Pledge 2** – Over 94 per cent of the electricity we used in 2020/21 came from renewable technologies. From October 2021, we will meet our pledge for 100 per cent.

**Pledge 3** commits us to 100 per cent green fleet by 2028. We have deployed 27 electric vehicles at operational sites, and are trialing a 44-tonne biogas-powered HGV.

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**Pledge 4** commits us to 1,000 hectares of peatland restoration by 2030. We have proposed five sites for green recovery catchment peatland restoration.

**Pledge 5** commits us to 550 hectares of woodland creation by 2030. We have planted 9,783 woodland carbon code compliant trees, established two tree nurseries and identified hundreds of potential sites for new and 'replanted' woodlands.

**Pledge 6** commits us to set a science-based target for our scope 3 emissions, which we have done (see page 15).

An important element of our approach is to encourage others to contribute by making public commitments. We joined the global movement of 'Business Ambition for 1.5°C: Our Only Future', with a commitment to setting science-based targets aligned with limiting global temperature rise to 1.5°C above pre-industrial levels. We are signatories to the UN Race to Zero campaign and we are proud to be contributing to the UK water industry's commitment to be net zero from 2030.

### Achievements

- On track to deliver our climate change mitigation pledges and our public commitments.
- Science-based targets covering all emission scopes set and submitted for validation by the Science Based Target initiative (SBTi).
- Three 'alternative' scenarios, each one aligned to a specific emissions pathway, developed and used to support strategic planning.
- Impact of climate change now specifically considered as part of corporate risk framework.

### Successes

- CDP is a global disclosure system for environmental reporting. Our CDP climate change rating improved from B to A- in 2020, demonstrating leadership-level reporting and disclosure. We are one of only two companies in the UK water sector achieving leadership level.
- The Sustainability Reporting Performance report by EcoAct measures how businesses are acting and reporting on climate-related sustainability. We have been ranked in the top 20 FTSE 100 list, improving from 17th to 11th position in 2020, and are the highest ranking water company.

### Transparency and disclosure

We have published carbon and climate change disclosures in our annual report and CDP's Climate Change Programme assessment for over a decade. We report in adherence with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standards (2015) and the 2019 UK Governmental Environmental Reporting guidelines.

We have signed the Statement of Support for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) which was published in June 2017, and we report in line with its recommendations across its four thematic areas.

### Corporate Citizenship Review

Corporate Citizenship, a leading sustainability consultancy, reviewed this disclosure and provides an ISAE assurance against the Principles of Effective Disclosure to ensure that it accords with Task Force on Climate-related Financial Disclosures recommendations.

Read more at [fsb-tcfd.org/recommendations](https://fsb-tcfd.org/recommendations)

### TCFD recommendations

This table shows progress this year towards meeting the TCFD recommendations and the areas we will focus on in the future. The table includes cross-references where there is more material within this annual report and financial statements.

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|                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Governance</b>                                                                                                                                                                                                                                                                                                                                    | The organisation's governance around climate-related risks and opportunities                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                            |
| Progress this year                                                                                                                                                                                                                                                                                                                                   | Future focus                                                                                                                                                                                                                                                                       | Further information                                                                                                                                                                                                                                                                                                                                        |
| <ul style="list-style-type: none"> <li>Implemented enhancements required to reach overall 'leadership level' in the 2020 CDP assessment.</li> <li>Included special report on climate-related risks in board-level risk review.</li> <li>Created long-term strategy team with primary focus on climate change adaptation and mitigation.</li> </ul>   | <ul style="list-style-type: none"> <li>Further inclusion of climate-related risks and opportunities into all investment decisions, processes and governance.</li> <li>Continue to demonstrate leadership in climate-related disclosure, for example CDP assessment.</li> </ul>     | <p>Our <b>corporate responsibility committee report</b> on pages 156 to 159 of the UUG 2021 Annual report and financial statements provides a summary of committee discussions on climate change.</p> <p>A summary of the <b>board and its management committees</b> can be found on page 120 of the UUG 2021 Annual report and financial statements .</p> |
| <b>Risk management</b>                                                                                                                                                                                                                                                                                                                               | The process used by the organisation to identify, assess and manage climate-related risks                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                            |
| Progress this year                                                                                                                                                                                                                                                                                                                                   | Future focus                                                                                                                                                                                                                                                                       | Further information                                                                                                                                                                                                                                                                                                                                        |
| <ul style="list-style-type: none"> <li>Enhanced analysis of risks arising from the climate change we are already experiencing and the extent to which that might affect operations.</li> <li>Completed a robust review to identify which corporate risks are vulnerable to climate change and quantified the impact and time sensitivity.</li> </ul> | <ul style="list-style-type: none"> <li>Further formalisation of climate-related physical and transitional risks into risk management systems.</li> <li>Embed identification of climate-related risk and opportunities throughout the organisation as business as usual.</li> </ul> | <p>Read more about <b>the process for identifying, assessing and managing climate risks</b> on pages 63 to 73.</p> <p>Read more about <b>our risk management framework</b> on page 79.</p>                                                                                                                                                                 |
| <b>Strategy</b>                                                                                                                                                                                                                                                                                                                                      | The actual and potential impacts of climate-related risks and opportunities of the organisation's businesses, strategy and financial planning.                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                            |
| <b>Metrics and targets</b>                                                                                                                                                                                                                                                                                                                           | The metrics and targets used to assess and manage relevant climate-related risks and opportunities                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                            |
| Progress this year                                                                                                                                                                                                                                                                                                                                   | Future focus                                                                                                                                                                                                                                                                       | Further information                                                                                                                                                                                                                                                                                                                                        |

## Strategic report

|                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Completed comprehensive review of all scope 3 emissions and set ambitious science-based targets (currently being validated by SBTi).</li> <li>Achieved A- rating in 2020 CDP assessment of targets and emission-reduction initiatives.</li> <li>Updated drought plan triggers to minimize the impact on customers and improve our resilience to periods of prolonged dry weather.</li> </ul> | <ul style="list-style-type: none"> <li>Secure SBTi validation for science-based targets for all three emission scopes.</li> <li>Implement data improvements for scope 3 emissions so more are supplier and product-based factors rather than spend based.</li> <li>Analysis to understand cascade impacts and our resilience to them where multiple extreme weather events can occur in a single short time frame.</li> </ul> | <p>Read more about <b>metrics used to assess climate impacts to our key risks</b> on page 73.</p> <p>Read more about <b>setting our science-based targets</b> on page 71.</p> <p>Read our <b>energy and GHG emissions report</b> on pages 73 to 79.</p> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### Governance

Chief Executive Officer Steve Mogford has ultimate responsibility for the group's preparedness for both adapting to climate change and driving our mitigation strategy. As climate change is a significant causal factor for the group's principal risks (see page 83 to 92), the executive team is tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary financial resources and people with the required skills to achieve its climate-related objectives.

Chief Financial Officer Phil Aspin has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager.

The group audit and risk board (GARb) reviews the effectiveness and performance of the governance processes along with the identification of emerging trends, including climate change. The work of the GARb feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and strategies to manage these risks.

There is further board oversight of climate-related issues through the UUG corporate responsibility committee (see pages 156 to 159 of the UUG annual report). Mitigation and adaptation are priority topics for the committee, which plays an important role in challenging and encouraging consideration of climate-related issues. It initiated the review of the company's carbon strategy and endorsed the mitigation policy, defining our corporate ambition and objectives. This led to the development of our mitigation strategy and the establishment of an executive-level steering group. This group has delegated responsibility to embed climate-related issues throughout business planning, to bring consistent focus to the delivery of our climate-related commitments, such as the six carbon pledges, and to provide updates to the board and corporate responsibility committee.

### Risk Management

We have a strong track record of risk management and of climate change disclosure. We continually mature our capacity and capability to manage risk and uncertainty to build and maintain long-term resilience across the corporate, financial and operational structures of the group.

Our company risk management framework follows an enterprise-wide approach and covers all principal risk areas such as water service, supply chain and programme delivery.

Climate-related risks are identified, assessed and managed in the same way as any other risk through our embedded risk management framework which is described on pages 79 to 83. Having been identified, each

## Strategic report

business risk is assessed in two ways. First, we consider the likelihood of the event occurring based on multiple causal factors; secondly, we examine the full range of potential impacts and their severity should the event occur, from a minimum (best case) to a maximum (worst case) scenario.

We take a variety of approaches to identify and assess risks, including using risk breakdown structures and tools such as PESTLE to formalise horizon scanning, as well as complex modelling of the physical impacts of climate change on our water resources and wastewater management.

Horizon scanning such as tracking legal and regulatory changes, emerging technologies and comparison of our strategies with other companies is particularly useful when considering transitional risks. We have found risk breakdown structures and detailed modelling are better suited to acute or chronic physical risks.

### Risks sensitive to climate change

Climate change has been identified as a critical cross-cutting driver, so all our 100 event-based risks in our business risk profile were reviewed for their exposure to climate change. Last year we identified seven risks most sensitive to climate change in that their likelihood or the impact will increase with global warming. We have further analysed these risks and now have a good understanding of the controls required to adapt to a changing climate. This is set out on pages 63 to 72. This exercise highlighted a further risk in the potential for cascade impacts where multiple weather events in a relatively short time span can have a more challenging impact.

Looking ahead, we will explore how innovation can help us learn more about the profile of risk events, their causes and consequences and the capacity and capability of our company to manage them. By understanding this, we have the opportunity to be proactive and better prepared by prioritising issues.

By incorporating longer-term climate change impacts more explicitly in our corporate risk framework, we have raised the profile of climate change adaptation, providing the board enhanced insight to consider our risk appetite and capacity from within existing risk management processes and with the same thresholds for materiality.

We have identified where climate risks are not well enough understood or where existing controls might be inadequate to manage the risk in the long term.

## Strategy

### Planning horizons

Our planning horizons are illustrated on page 18. Climate-related risks are manifesting themselves in the short to medium term and in common with the rest of the water industry, we are also vulnerable to physical climate risks in the long term (ten to 25 years and beyond) as our assets typically have long, even very long, lifespans. Many of our services are based on legacy infrastructure which was designed decades ago to deliver water and wastewater services for the climate we had rather than the one that is ahead of us.

### Already seeing climate change in the North West

Five of the top ten wettest years for the North West since 1880 have occurred since 2000, and all of the ten hottest years have occurred since 2002. A top ten coldest year has not been recorded since 1963. These trends, and their impact on local weather conditions, are impacting our climate sensitive risks already.

For example, changes in precipitation and temperature have contributed to changing patterns of river flow in our water supply catchments. There has been an increase in winter flows in almost all catchments, with significant upward trends in ten of the 14 river basins, and a reduction in flows in most catchments in spring, most notably for the strategic Vyrnwy catchment where there has been a significant downward trend over the last 20 years.

Annual average rainfall has not changed significantly, although the year-to-year variability has increased (with more dry and wet years) and some research shows an increase in the probability of heavier rainfall events. The greatest change in seasonal rainfall trends is an increase in winter rainfall, due to an intensification of heavy rainfall events, which leaves us increasingly susceptible to a range of key risks, including sewer flooding, asset flooding and land quality deterioration.

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Annual and monthly temperatures in the North West are already higher than those experienced before 1900, largely due to anthropogenic activity, with the rate of warming accelerating.

Application of temperature-based estimates show an increase in potential evapo-transpiration in our region. This may influence the water balance, particularly in spring and summer, leading to a sensitivity to drought, and potentially water network failure and water sufficiency events.



### Physical risks

All seven of the risks identified as being sensitive to climate change are physical risks, so we set about quantifying that vulnerability.

Predicting the effects of climate change is complex, with a large amount of uncertainty involved. Focusing on the predominant downsides, we assessed the potential implications for the seven risks in 2050 and 2100 compared to today, using the latest climate research, the Met Office UK Climate Projections 2018 (UKCP18). This has four pathways to 2100 depending on concentrations of greenhouse gases in the atmosphere and we have used what is widely accepted as the most likely pathway, RCP 6.0, which is consistent with peak emissions occurring in 2080. Best and worst case scenarios will be considered in due course.

The outcomes of the risk assessment were the topic of a special report prepared for a board-level risk review which took place in April 2021. They are presented on pages 66 to 69, together with a summary of assumptions, climate sensitivity and existing controls. In each case the downside effect is quite significant relative to the baseline, and four risks in particular stand out as having the most significant increases in likelihood: water sufficiency event; water network failure; recycling of biosolids to agriculture; and risk of inadequate land management.

### Transitional risks

We are also vulnerable to risks associated with the transition to a low-carbon economy. Changing policies, regulation and legislation to address mitigation and adaptation requirements can increase operating costs due to, for example, enhanced emissions reporting.

Environmental requirements to meet water quality standards can lead to increased fuel or chemical consumption and legislation such as the Industrial Emissions Directive will result in operational and strategic planning interventions.

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One likely consequence of changing legislation is potential asset redundancy, where the case to move to lower carbon technologies might result in the consolidation of assets on a fewer number of sites.

### Opportunities

We are a relatively energy-intensive business, typically using around 800 GWh of electricity each year. As well as the risks associated with this dependency we see opportunities in the way we manage energy and have developed an approach to use less, generate more and use our assets and resources smarter while maintaining security of supply.

We have already invested in innovation and research to minimise the total amount of energy we consume, for instance in pioneering UV LED water treatment. We have increased renewable generation through bioresources, solar and wind, increasing the amount of self-generated energy from 108 GWh in 2012/13 to 205 GWh in 2020/21.

We aim to develop more successful innovation projects and that by meeting more of our own energy demands we can rely less on imports from the grid and mitigate the risks of future energy price fluctuations and uncertainty, as well as bolstering our own security of supply.

### Resilience of our organisation to a changing climate

The main climate-related risks to the resilience of our operational assets are uncertainty of the health of ageing infrastructure and the increasing challenges presented by predictions for climate change and population growth over the long term.

Our Water Resources Management Plan 2019 is an example of how our strategy, to achieve a long-term, best value and sustainable plan for water supplies in the North West, has been developed to ensure that we have an adequate supply to meet demand over the 25 years from 2020 to 2045. This will ensure that our supply system is resilient to drought and other hazards, including climate change (using 'stochastic weather' and scenarios from the latest UK climate projections, UKCP18) and demand (population growth, economic trends and patterns of water use).

### Climate sensitive risks overview

Below is the outcome of a special risk assessment on the risks identified as sensitive to climate change.

Likelihood and impact are as predicted at 2050 and 2100 using the accepted most likely emission pathway RCP6.0.

### Water sufficiency event

When temperatures rise, higher water usage, evapo-transpiration and lower average summer rainfall from associated dry periods, causes supply pressures. The most likely impact assumes weather patterns similar to 2018 happening twice in five years at 2050, and four times in five years by 2100.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 10%            | £66m            |
| 2050     | 40%            | £265m           |
| 2100     | 80%            | £530m           |

### Controls

- Development of new sources of water, particularly boreholes.
- Water trading between different regions of the UK. Leakage reduction.
- Encourage and inform customers about using less water.
- Installation of more meters on domestic properties.

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### Failure of wastewater network (sewer flooding)

Increased rainfall (storm) events can result in severe sewer flooding. The frequency of such events is forecast to almost double with climate change. For a storm with a return period of one in 50 years or greater, 15 per cent of our region is currently at risk of internal flooding. By 2050 it is expected 20 per cent of our region would be impacted, rising to 29 per cent by 2100. The cost of an internal flooding incident is assumed to stay constant.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 40%            | £210m           |
| 2050     | 53%            | £278m           |
| 2100     | 77%            | £404m           |

#### Controls

- Increase sewer capacity and build storm water holding tanks.
- Implement and encourage sustainable drainage solutions.
- Use technology to monitor and better control flows in the sewer system.
- Install flood protection devices to at-risk properties.

### Land management

Deterioration in the quality of land due to climate change will increase the frequency and impact of weather events on our owned land. Such events have led to more fire, flood, subsidence and landslip events which in turn have associated impacts on: health, safety and environmental issues; access to operational and capital activities; corporate reputation; missed opportunities; legal liability and additional unplanned spend associated with invasive species.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 20%            | £31m            |
| 2050     | 50%            | £76m            |
| 2100     | 100%           | £153m           |

#### Controls

- Proactive land management action to protect quality, including through nature-based solutions.
- Provide net gain in biodiversity from our construction projects.
- Directly restore peatland and woodland.
- Work in partnership with farmers, the Environment Agency and others to improve upland watercourses.

### Failure to adequately treat wastewater

Extreme rainfall events cause overflows and variation between high rainfall and drought periods causes further susceptibility. Likelihood of failure to adequately treat wastewater is expected to remain at one in two years but the most likely impact expects six more failing works (above 2020 baseline) and uses the current ODI penalties as the impact magnitude.

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|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 50%            | £75m            |
| 2050     | 50%            | £95m            |
| 2100     | 50%            | £114m           |

### Controls

- Enhancements linked to no deterioration funded through price review.
- DWMP investigations into increased dilution.
- Infrastructure investment to increase resilience to extreme events.

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

Average winter rainfall is projected to increase by 6 per cent by 2050, and by 12 per cent by 2100, increasing the likelihood of extreme events where sites are flooded from sea, river or surface water sources.

The impact is estimated based on three modelled events (of likelihood 1:1000, 1:100 and 1:30) each having a 10 per cent annual increase in frequency every 20 years.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 8%             | £45m            |
| 2050     | 23%            | £117m           |
| 2100     | 15%            | £142m           |

### Controls

- Install permanent flood defences at most flood-prone sites.
- Improve flood forecasting capabilities.
- Build better network connectivity so that supplies can be maintained from elsewhere if a treatment works is flooded.
- Invest to ensure sites can bounce back quickly once flooding subsides.

### Water network failure

Warmer, milder winters will decrease the likelihood of cold snaps/freeze thaws that result in burst pipes. However, these milder winters will result in more precipitation and flood events, causing a risk to assets close to, or crossing, rivers. Increased summer temperatures may result in considerably more heatwaves, which cause a higher peak demand. Such events can result in low pressure and no water for some customers.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 13%            | £2.1m           |
| 2050     | 24%            | £28m            |
| 2100     | 32%            | £41m            |

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### Controls

- Already increased the size of our fleet of alternative supply vehicles (ASVs), and introduced a new 24/7 logistics capability.
- New Network Maintenance Services contracts with key third-party suppliers include elements to ensure all can respond effectively in an incident when required.
- Leakage reduction.
- Encourage and inform customers about using less water.
- Installation of more meters in domestic properties.

### Recycling biosolids to agriculture

Climate change is expected to increase persistent rainfall. The resultant water logging will limit spreading biosolids to land for a greater part of the year and uncovered sludge stores and stockpiles will be more vulnerable in persistent wet, winter weather.

The impact calculation assumes the sludge that cannot be spread to land will be sent to restoration and the impact is the associated ODI and EA fines.

|          | Likelihood (%) | Impact (NPV £m) |
|----------|----------------|-----------------|
| Baseline | 20%            | £2.3m           |
| 2050     | 37%            | £12m            |
| 2100     | 52%            | £27m            |

### Controls

- Increased sludge storage capability.
- Utilise covered storage.
- Increased distance travelled for disposal of sludge.

Our WRMP proposals include enhanced demand management activities to offset upward pressures on water suppliers and will enable us to reduce the frequency of needing drought permits to augment supply by 2025.

As well as targeted scenario analysis, we have developed three company- wide alternative scenarios for 2050 incorporating combinations of key factors that are both highly relevant and uncertain. These scenarios, named 'climate chaos', 'green guardianship' and 'public purpose', are plausible narratives, with associated metrics, of a 2050 future for water and wastewater services in the North West.

The scenarios recognise climate change as one of the most critical uncertainties and use RCPs 2.6, 4.5 and 8.5 (GHG concentration pathways adopted by the IPCC) to describe how well climate change has been mitigated in each case.

The scenarios have provided a simple way to understand the interaction of multiple factors so we can enhance resilience, help manage future uncertainty and shape long- term decisions.

### Climate change mitigation strategy

Before agreeing our strategy, we developed a matrix to assess and compare our mitigation capabilities with other water companies and brands, to explore principles, priorities and define our objectives. The matrix began with the premise that great carbon management is more than just a number and that our strategy should cover four themes: vision and visibility; ambition and commitment; demonstrating action; and beyond here and now. See figure on page 72.

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We already have a strong track record of sustainability reporting and disclosure, having reported our GHG emissions for nearly 20 years. Through this TCFD section, and improvements in our CDP response, we want our carbon reporting to be open and transparent and recognised as among the best in the UK.

Other aspects of our climate mitigation strategy can be summarised as:

- integrating carbon into strategic and day-to-day business planning;
- improving our carbon reporting and climate-related disclosure;
- setting ambitious and comprehensive commitments and greenhouse gas emissions targets to contribute to limiting global temperature rise;
- reducing emissions across water and wastewater processes, sludge process and disposal, fleet management, fuel use, land use, and waste and resources; and
- collaborating to drive innovation and challenge standards to deliver a low- carbon future.

### Playing our part

Pages 94 to 95 in the UUG 2021 Annual report and financial statements illustrate and describe how there are climate-related risks and opportunities throughout our organisation. Our approach to managing those risks, and taking advantage of the opportunities, involves all our stakeholders across our value chain

### Metrics and targets

#### Metrics to assess climate risks

The metrics which determine the magnitude of our climate risks and opportunities relate mainly to the weather, for instance measures such as temperature and rainfall by season.

To manage our climate risks effectively we must track and understand patterns of weather, and weather events, and learn how they can affect us operationally, so we can put into place appropriate controls such as those in the risk table on pages 66 to 69.

We monitor several measures that can affect transitional risks. These include energy pricing (electricity, natural gas, diesel and alternative fuels, such as compressed natural gas and hydrotreated vegetable oil) and carbon pricing through purchasable credits, offsets and certificates (such as REGOs not bundled with electricity). We monitor the marketplace for the availability and pricing of alternative fuelled vehicles, battery storage and for emerging technologies to reduce process and fugitive emissions.

#### Operational metrics and targets

We have key metrics that assess the effectiveness of the controls for our principal risks and therefore determine our capability to adapt to a changing climate and ensure the resilience of our service. For these operational metrics we have set ambitious targets. For instance, to give us headroom in our water supply demand balance we have set short and long-term targets for leakage and per capita consumption (how much customers use) to reduce the demand for water in all climate scenarios. Recognising the need to maintain service to customers, even in extreme weather events, we have also set targets for supply interruptions, sewer flooding and pollution incidents.

| Metric                 | 2020 | 2025          | 2045          |
|------------------------|------|---------------|---------------|
| Per capita consumption | 140  | 135           | 115           |
| Leakage                | -    | 15% reduction | 40% reduction |
| Network interruptions  | -    | 50% reduction |               |
| Sewer flooding         | -    | 20% reduction | 70% reduction |
| Pollution incidents    | -    | 37% reduction | 64% reduction |

## Strategic report

### Climate commitments and targets

We have made several climate-related public commitments, on our own and with other organisations. Having exceeded the emissions targets we set in 2015, last year we made six pledges to reduce our carbon footprint. Central to these is to set and meet science-based targets for all emission scopes (see figure of greenhouse gas emissions by scope on page 75) and we have joined the global movement of 'Business Ambition for 1.5°C: Our Only Future' and the UN Race to Zero campaign.

### Science-based targets

Science-based emission reduction targets are set in line with what climate science says is enough to limit global temperature rise to well below 2°C or 1.5°C above pre-industrial levels. This requires emissions to halve from 2010 levels by 2030 and to hit net zero by 2050.

The Science Based Target initiative (SBTi) defines and promotes global best practice in science-based target setting. We have applied the 'SBTi Criteria and Recommendations' guidance to our policies and greenhouse gas accounting standards and have applied for our targets to be validated.

Pledge 1 is to meet our science-based target to reduce scope 1 and 2 emissions by 42 per cent by 2030 (from the 2019/20 baseline). This ambition is based on the Paris Agreement's highest level of ambition, to limit global temperature rise to 1.5°C above pre-industrial levels. We have a longer-term science-based target for a 100 per cent reduction from the 2019/20 baseline (net zero without purchased offsets) by 2050.

Pledge 6 committed us to set a science-based target for scope 3 emissions and we describe how this was achieved on page 75.

### Net Zero 2030 Routemap: Unlocking a net zero future

In November 2020 the UK water sector launched the 'Net Zero 2030 Routemap: Unlocking a net zero future', understood to be the world's first sector-wide plan for net zero. We have committed to contributing by stating our ambition that our water emissions (scope 1, 2 and a small selection of scope 3) will be net zero from 2030.

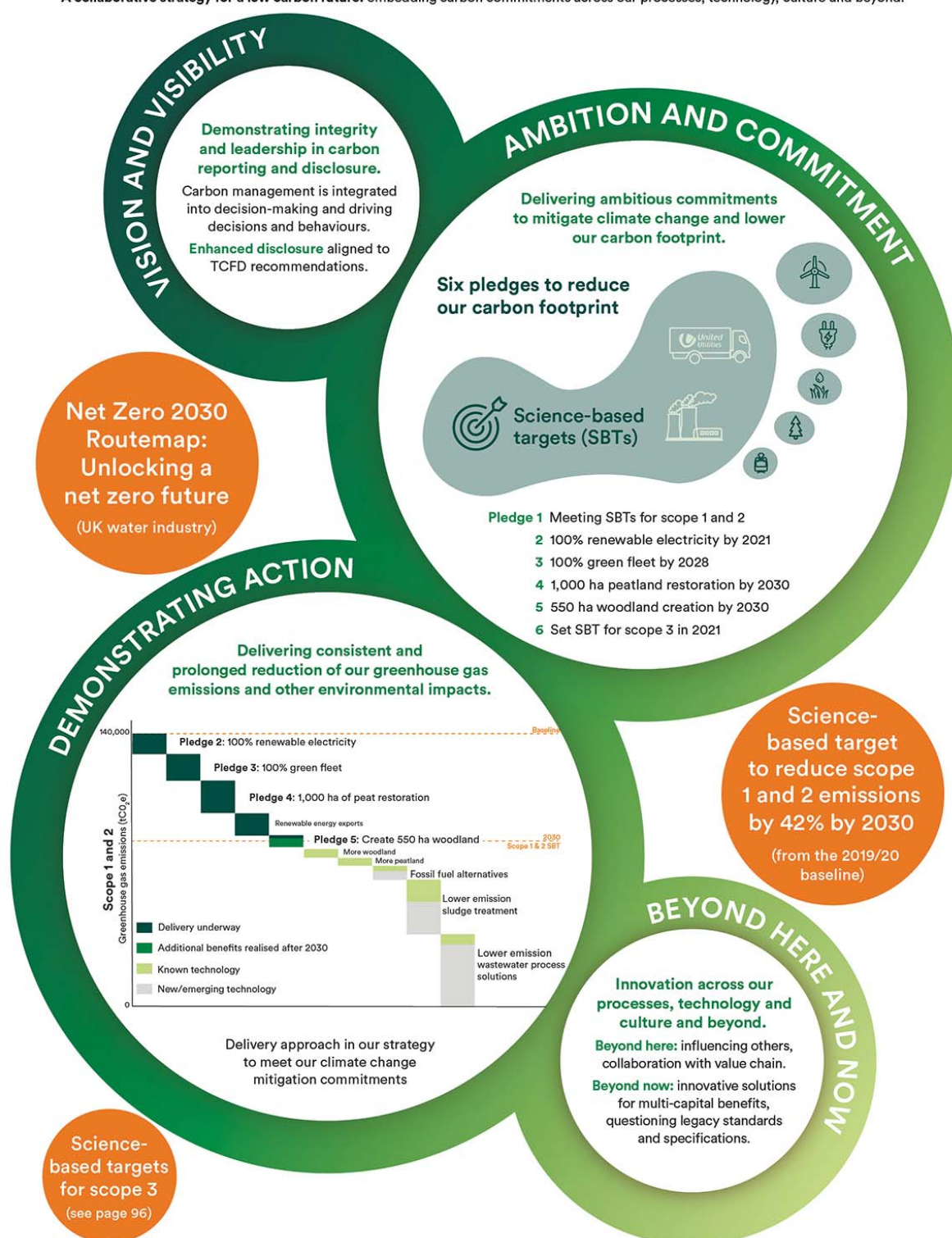
This routemap allows companies to offset residual emissions (using agreed offsetting principles) whereas science-based targets require absolute emission reductions.

This explains the difference between our science-based target to achieve a 42 per cent reduction by 2030 and being net zero from 2030 in line with the water industry ambitions.

## Strategic report

### Our approach to climate change mitigation

A collaborative strategy for a low carbon future: embedding carbon commitments across our processes, technology, culture and beyond.



## Strategic report

### Energy and carbon report

#### Reporting and assurance

We measure and report the greenhouse gases that result from all United Utilities' activities. We have used the financial control approach so our energy and greenhouse gas emissions reports are aligned with the consolidated financial statements for United Utilities Group PLC. This includes its subsidiaries, which include United Utilities PLC and the subsidiaries listed in section A8 on page 185.

Our measurement and reporting is aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the recommendations of the TCFD. As required, we report under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations and we apply the 2019 UK Government Environmental Reporting Guidelines, including the Streamlined Energy and Carbon Reporting Guidance (SECR). Our reporting is compliant with the international carbon reporting standard (ISO 14064, Part 1) and assured by the Carbon Reduce programme previously known as Certified Emissions Measurement and Reduction Scheme (CEMARS). We hold a Platinum status certificate as we have demonstrated emission reductions over ten years.

#### How we measure our greenhouse gas emissions

A carbon footprint is calculated by converting all emissions of Kyoto Protocol gases into a carbon dioxide equivalent (tCO<sub>2</sub>e). Emissions are categorised as direct, indirect or avoided emissions.

Direct emissions (scope 1 emissions) are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.

Indirect emissions, known as scope 2 and 3 emissions, result from operational activities we do not own or control. These include emissions produced as a consequence of electricity we purchase to power our treatment plants (scope 2) and other indirect emissions such as products and services we buy and travel on company business (scope 3).

Avoided emissions are reductions from the purchase, or export, of renewable energy. Gross emissions are the sum of all three scopes. Net emissions are the gross emissions minus reductions from avoided emissions and removals.

The GHG Protocol recommends using two methods to quantify emissions - the 'location-based' method which uses average grid electricity emissions factors and the 'market-based' method which is specific to the actual electricity purchased. Following the GHG protocol recommendation we report results using both methods and use the 'market-based' figures to report our headline emissions.

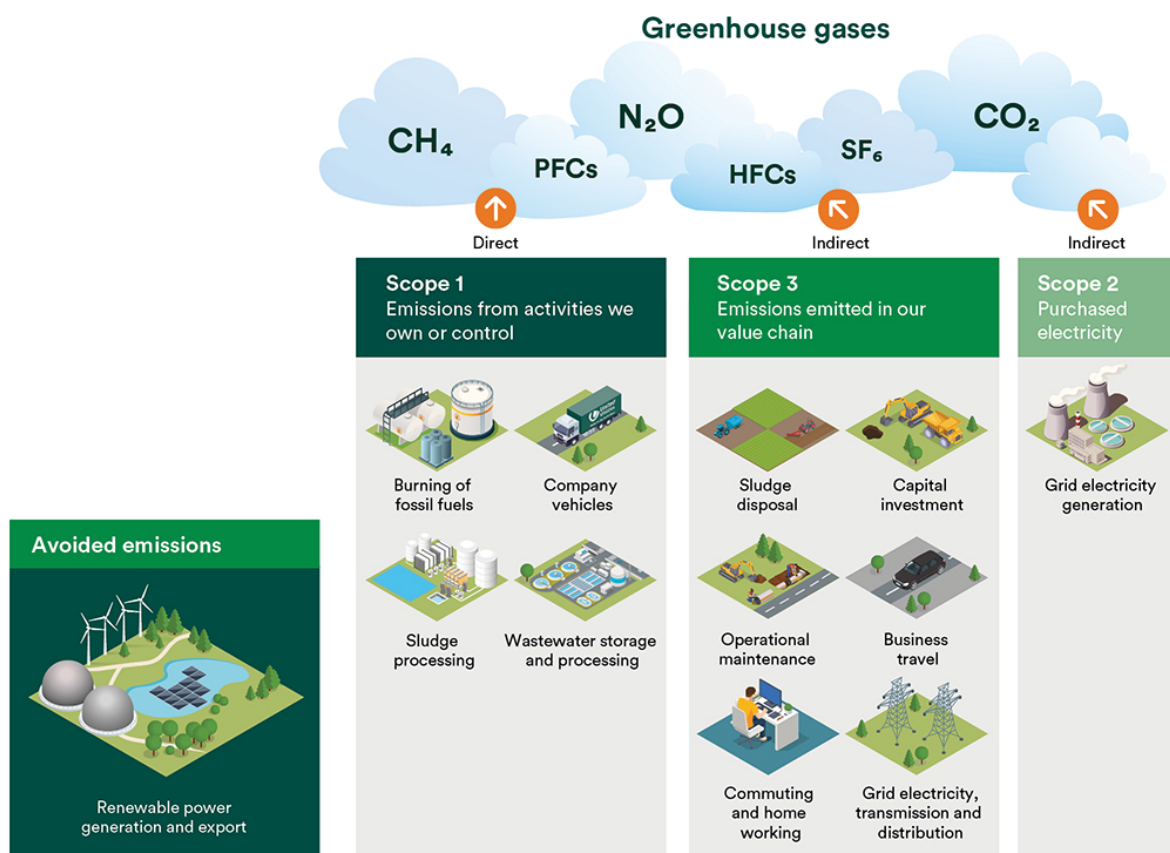
#### Greenhouse gas emissions and energy performance in 2020/21

Our investment in renewable energy generation has resulted this year in a further increase to 205.3 GWh, equivalent to a quarter of the electricity we consumed.

Our net scope 1 and 2 greenhouse gas emissions for 2020/21 were 127,173 tCO<sub>2</sub>e, 1.5 per cent more than last year. This is due to an increase in fossil fuel use, the volume of wastewater being processed and the subsequent amount of wastewater sludge being produced.

Our scope 3 emissions, covering our new comprehensive inventory, have increased by 4 per cent, due to increased spend in the value chain on goods and services. In the coming years we plan to reduce the reliance on spend-based emissions calculations and will incentivise use of lower emission products, services and suppliers.

## Strategic report



### Greenhouse gas emissions and energy

The greenhouse gas emissions for the financial year 2020/21 are presented in the table below. Emissions have been estimated using the water industry Carbon Accounting Workbook v15 (CAW v15) which incorporates the UK Government GHG conversion factors for company reporting. 2019/20 data has been restated using CAW v15 to reflect the significant changes from the previous version of the workbook, including improvements to the accounting for biogas and renewable electricity generated and used on site and an increased emission factor for wastewater process emissions (following the recommendation in UK Water Industry Research project report 'Quantifying and reducing direct greenhouse gas emissions from waste and water treatment processes – Phase 1' (20/CL/01/28)).

Scope 1, 2 and 3 emissions have been separated to align with the boundaries of our science-based targets. We now disclose all the scope 3 emissions categories described in the Corporate Value Chain (scope 3) Accounting and Reporting Standard that are deemed relevant to United Utilities. This change in scope 3 emissions reporting boundary has significantly increased our emissions in this area. The increase over the past year is due to variation in supply chain spend on goods and services.

## Strategic report

|                                                                      |                             | Current            | SBT baseline                      |                       |                       |
|----------------------------------------------------------------------|-----------------------------|--------------------|-----------------------------------|-----------------------|-----------------------|
|                                                                      |                             | CAW v15            | CAW v15                           | CAW v13 2020          | CAW v13 2020          |
|                                                                      |                             | 2020/21            | 2019/20                           | 2019/20               | 2018/19               |
|                                                                      |                             | tCO <sub>2</sub> e | tCO <sub>2</sub> e <sup>(2)</sup> | tCO <sub>2</sub> e    | tCO <sub>2</sub> e    |
| <b>Scope 1 Direct emissions</b>                                      |                             |                    |                                   |                       |                       |
| Direct emissions from burning of fossil fuels                        |                             | 17,371             | 15,247                            | 17,129                | 16,809                |
| Process emissions from our treatment plants – including refrigerants |                             | 98,569             | 96,186                            | 84,048                | 88,136                |
| Transport: company owned or leased vehicles                          |                             | 16,634             | 15,739                            | 15,739                | 14,409                |
| <b>Scope 1 Total</b>                                                 |                             | <b>132,575</b>     | <b>127,172</b>                    | <b>116,916</b>        | <b>119,354</b>        |
| <b>Scope 2 Energy indirect emissions</b>                             |                             |                    |                                   |                       |                       |
| Grid electricity purchased – generation                              | Market-based <sup>(1)</sup> | 8,507              | 11,789                            | 11,789                | 18,503                |
|                                                                      | Location-based              | 149,030            | 164,521                           | 164,521               | 187,171               |
| <b>Scope 2 Total</b>                                                 |                             | <b>8,507</b>       | <b>11,789</b>                     | <b>11,789</b>         | <b>18,503</b>         |
| <b>SCOPE1 AND 2 GREENHOUSE GAS EMISSIONS (GROSS)</b>                 | Market-based                | <b>141,082</b>     | <b>138,961</b>                    | <b>123,705</b>        | <b>137,857</b>        |
| <b>Avoided emissions from renewable energy</b>                       |                             |                    |                                   |                       |                       |
| Renewable electricity exported                                       |                             | -4,184             | -3,979                            | -3,979                | -3,434                |
| Biomethane exported                                                  |                             | -9,725             | -9,302                            | -9,302                | -8,446                |
| <b>Avoided emissions Total</b>                                       |                             | <b>-13,909</b>     | <b>-13,281</b>                    | <b>-13,281</b>        | <b>-11,880</b>        |
| <b>SCOPE1 AND 2 GREENHOUSE GAS EMISSIONS (NET)</b>                   |                             | <b>121,173</b>     | <b>125,680</b>                    | <b>115,424</b>        | <b>125,977</b>        |
| <b>Scope 3 Other indirect emissions</b>                              |                             |                    |                                   |                       |                       |
| Purchased goods and services                                         |                             | 271,871            | 213,442                           | -                     | -                     |
| Capital goods                                                        |                             | 95,968             | 128,286                           | -                     | -                     |
| Fuel and energy-related emissions                                    | Market-based                | 42,599             | 45,262                            | 1,007 <sup>(2)</sup>  | 1,577 <sup>(2)</sup>  |
| Upstream transportation and distribution (sludge transport)          |                             | 1,119              | 3,374                             | -                     | -                     |
| Waste generated in operations (including sludge disposal to land)    |                             | 26,333             | 27,936                            | 27,410 <sup>(3)</sup> | 26,186 <sup>(3)</sup> |
| Business travel (public transport and private vehicles)              |                             | 1,226              | 3,508                             | 1,123 <sup>(4)</sup>  | 2,236 <sup>(4)</sup>  |
| Emissions from sludge and process waste disposal                     |                             | 4,108              | 4,231                             | -                     | -                     |
| <b>Scope 3 Total</b>                                                 | <b>Market-based</b>         | <b>443,223</b>     | <b>426,039</b>                    | <b>n/a</b>            | <b>n/a</b>            |
| <b>SCOPE 3 GREENHOUSE GAS EMISSIONS (excluding capital goods)</b>    |                             |                    |                                   |                       |                       |
| <b>Science based targets</b>                                         | <b>Market-based</b>         | <b>347,255</b>     | <b>297,753</b>                    | <b>n/a</b>            | <b>n/a</b>            |

## Strategic report

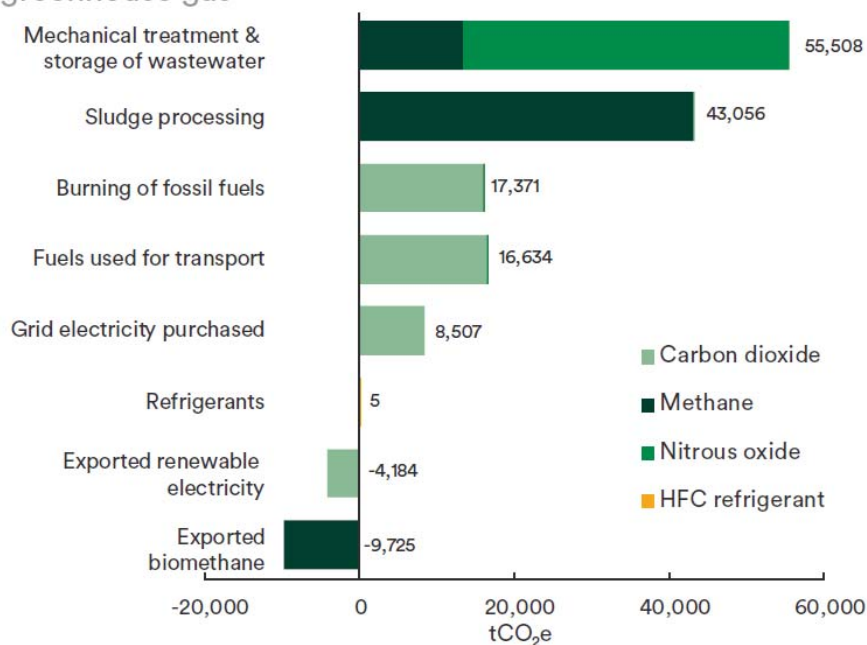
- (1) Market-based figures for electricity purchased on a standard tariff have been calculated using specific emissions factors from published generator fuel mix disclosures, shown in energy use table. Location-based figures use average grid emissions and are shown in blue.
- (2) Well-to-tank emissions were not included in previous scope 3 inventory. We include well-to-tank emissions for electricity, natural gas and all liquid fuels.
- (3) Sludge-to-land and grit and screenings only, other business waste was not included in the previous scope 3 inventory.
- (4) Hotel accommodation, other travel services and outsourced transport were not included in the previous scope 3 inventory.

### United Utilities' greenhouse gas emissions intensity

As in previous years we state our emissions as tonnes CO<sub>2</sub>e per £million revenue. We include scope 1 and 2 emissions only in this measure. We also report the regulated emissions tonnes CO<sub>2</sub>e per megalitre treated (using the location-based method as calculated in the CAW v15), as these are common metrics for our industry. The methodology for this calculation changed from CAW v13 so the figure is not available for 2018/19.

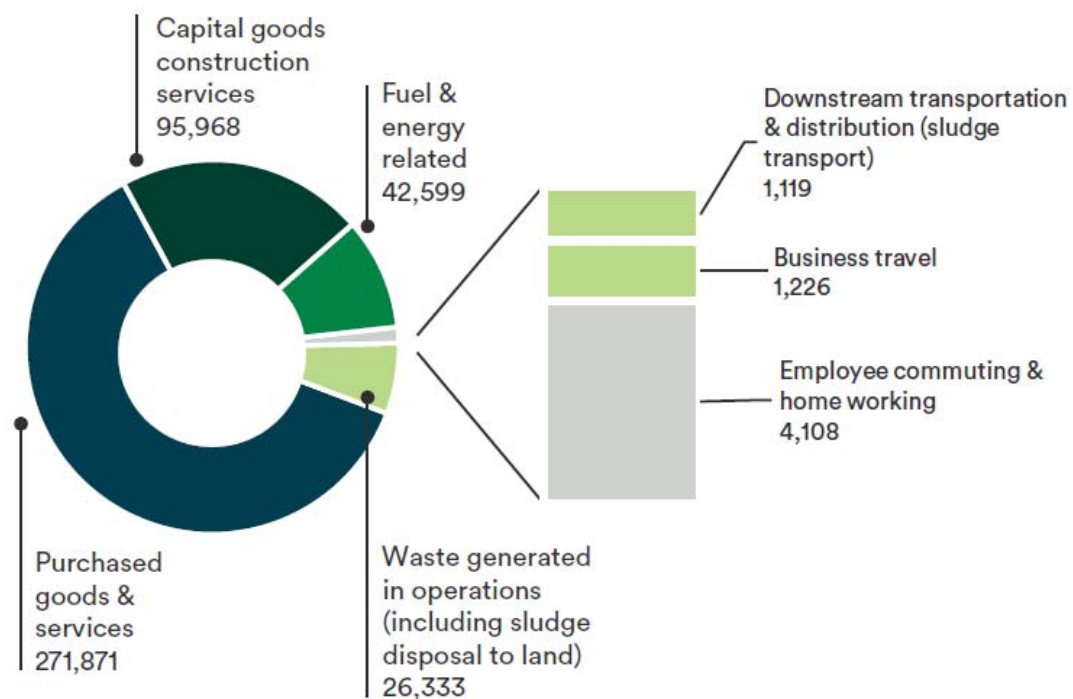
|                                                               |                          | 2020/21     | 2019/20 | 2018/19 |
|---------------------------------------------------------------|--------------------------|-------------|---------|---------|
| Scope 1 and 2 greenhouse gas emissions (gross) per £m revenue | tCO <sub>2</sub> e       | <b>78.0</b> | 74.6    | 75.8    |
| Scope 1 and 2 greenhouse gas emissions (net) per £m revenue   | tCO <sub>2</sub> e       | <b>70.3</b> | 67.6    | 69.3    |
| Regulated emissions per megalitre of treated water            | kg tCO <sub>2</sub> e/ML | 118.51      | 131.98  | n/a     |
| Regulated emissions per megalitre of sewage treated           | kg tCO <sub>2</sub> e/ML | 152.26      | 168.51  | n/a     |

### Scope 1 and 2 emissions – breakdown by activity and greenhouse gas

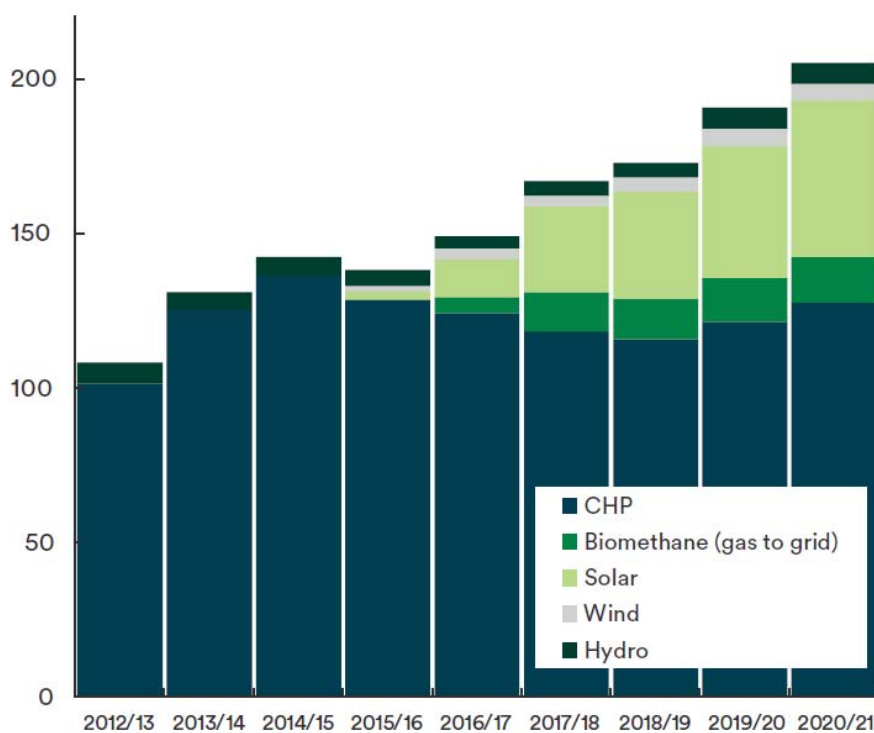


## Strategic report

### Scope 3 Emissions by GHG Protocol category



### Renewable energy generated



## Strategic report

### Energy use, generation and export

|                                         | 2020/21      | 2019/20      | 2018/19      |
|-----------------------------------------|--------------|--------------|--------------|
|                                         | GWh          | GWh          | GWh          |
| <b>Energy use</b>                       |              |              |              |
| Electricity                             | 807.3        | 801.3        | 807.8        |
| Gas                                     | 40.0         | 38.3         | 33.0         |
| Other fuels <sup>(1)</sup>              | 104.0        | 144.4        | 135.0        |
| <b>Total energy use</b>                 | <b>951.3</b> | <b>984.0</b> | <b>975.8</b> |
| <b>Electricity purchased</b>            |              |              |              |
| Renewable Tariff <sup>(2)</sup>         | 591.4        | 602.9        | 601.5        |
| Supplier Standard Tariff <sup>(3)</sup> | 47.8         | 40.8         | 59.7         |
| <b>Total electricity purchased</b>      | <b>639.2</b> | <b>643.7</b> | <b>661.2</b> |
| <b>Renewable energy generated</b>       |              |              |              |
| CHP                                     | 127.6        | 121.5        | 115.7        |
| Solar                                   | 50.7         | 42.6         | 34.6         |
| Wind                                    | 5.3          | 5.7          | 4.8          |
| Hydro                                   | 6.9          | 6.8          | 4.6          |
| Biomethane <sup>(4)</sup>               | 14.8         | 14.2         | 13.2         |
| <b>Total renewable energy generated</b> |              | <b>190.8</b> | <b>172.9</b> |
| <b>Renewable energy exported</b>        |              |              |              |
| Electricity                             | 22.4         | 18.1         | 13.0         |
| Biomethane <sup>(4)</sup>               | 14.8         | 14.2         | 13.2         |
| <b>Total renewable energy exported</b>  | <b>37.2</b>  | <b>32.3</b>  | <b>26.2</b>  |

(1) Other fuels includes liquid fuel purchased for processing and transport plus business mileage in private vehicles converted to GWh using 2020 UK Government GHG Conversion Factors for Company Reporting.

(2) Electricity purchased on a renewable tariff had 0 CO<sub>2</sub>e/kWh emissions.

(3) Electricity purchased on our standard tariff had 289 CO<sub>2</sub>e/kWh emissions in 2019/20 and 178 CO<sub>2</sub>e/kWh emissions in 2020/21.

(4) Biomethane generated and exported to grid is expressed as an electricity equivalent.

### Energy use and emissions

Our energy management strategy aims to achieve an appropriate balance between managing energy consumption, use of renewables and self-generation and being smart about how we operate our assets to get best value while maintaining security of supply. We are a relatively energy-intensive business, consuming 951 GWh in 2020/21. We have increased the amount of energy generated from renewable sources, such as hydro, solar photovoltaics, wind, biomethane and sewage sludge powered combined heat and power (CHP) generators. In 2020/21 we generated the equivalent of 205 GWh of renewable electricity, an increase of 14 GWh on 2019/20. We exported 37.2 GWh back to the national electricity and gas grids, 4.9 GWh more than the previous year. Overall we reduced our electricity purchase by 4.5 GWh.

### Energy efficiency action taken

Our energy management programme brings together management processes, asset optimisation and data analytics. We have focused on optimisation of existing operations alongside realising opportunities through our capital programme to improve our use of pumps and how we manage wastewater treatment processes.

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A focus area for 2020/21 has been our use of pumps. At Watchgate water treatment works, performance analysis of two key pump types led to the tactical refurbishment of the worst performing pumps and changes to the control philosophy – resulting in better efficiency, saving an estimated £40,500 per year, and a longer asset life.

At Heronbridge water treatment works, analysis of pump operation identified an opportunity to operate two pumps at minimum speed rather than a single pump at maximum speed. Running pumps closer to their best efficiency point reduces energy use and costs and should save approximately £45,000 per year.

## Principal risks and uncertainties

### *Our risk management framework*

We have a robust risk management 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 the North West, and be more resilient across our corporate, financial and operational structures. A key objective of our approach is to support the sustainable achievement of the strategic themes that underpin our vision to be the best UK water and wastewater company delivering:

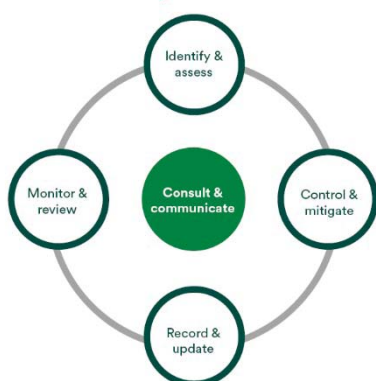
the best service to customers;  
at the lowest sustainable cost; and  
in a responsible manner.

Our risk management 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. These include an update to risk appetite statements, greater focus and analysis of cross-cutting themes and improved escalation of data from operational risk management systems.

### 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 determines 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 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.

### Governance and reporting process

The board ensures that its oversight of risk remains effective, and supports the UUG board in ensuring its compliance with the UK Corporate Governance Code, through a number of established reporting routes.

Twice yearly the UUG board receives an extensive update on the risk profile as part of the full and half year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks, and emphasises the most significant event-based risks in both their current state relative to the risk appetite, and target state of acceptable exposure. The board is also advised of new and emerging risks. In addition to the biannual risk reporting, specific risk topics are reported to the board to support decision-making.

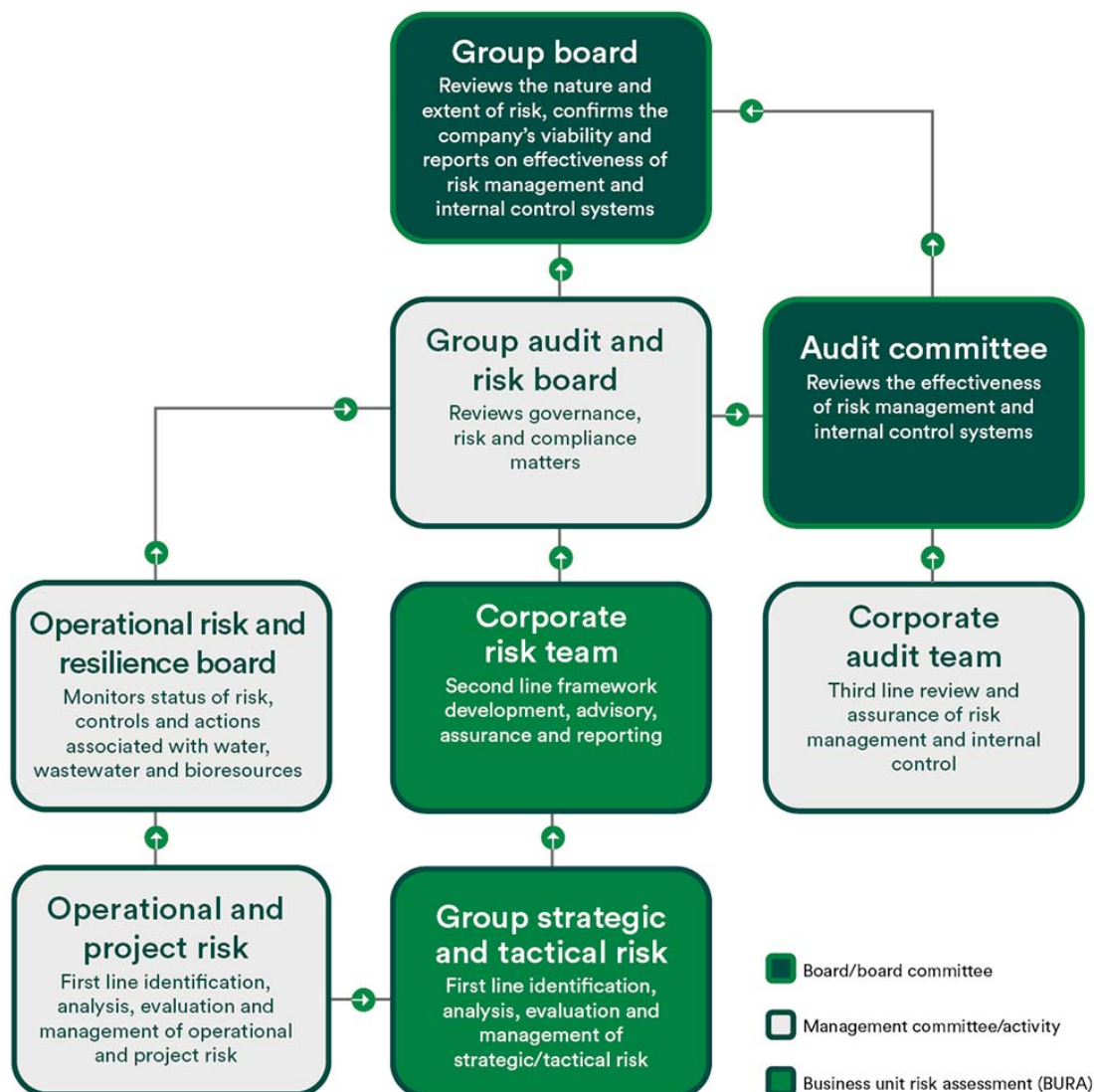
The UUG board is therefore able to:

- make decisions on the level of risk it is prepared to manage relative to risk appetite and tolerance in order to deliver on the group's strategy;
- engage with the business to ensure appropriate controls and mitigation are in place, and test the appropriateness of plans;
- report externally on the long-term viability of the company in an informed manner; and
- monitor and review the effectiveness of risk management procedures and internal control systems.

## Strategic report

### The governance and reporting process

#### The governance and reporting process



Risk-specific governance and steering groups manage ongoing individual risks. The operational risk and resilience board provides oversight of asset and operational process risk and resilience capability, escalates risks and issues to the group audit and risk board (GARB) and contributes to the BURA process.

The executive-led GARB focuses on: the adequacy, effectiveness and performance of governance processes; risk management and internal control; monitoring compliance and assurance activities; identification of emerging themes and trends; and resilience across the group.

The audit committee is also a fundamental component of the governance structure. Supported by company secretariat and the corporate audit teams, the audit committee reviews the effectiveness of risk management and internal controls before these are agreed by the board.

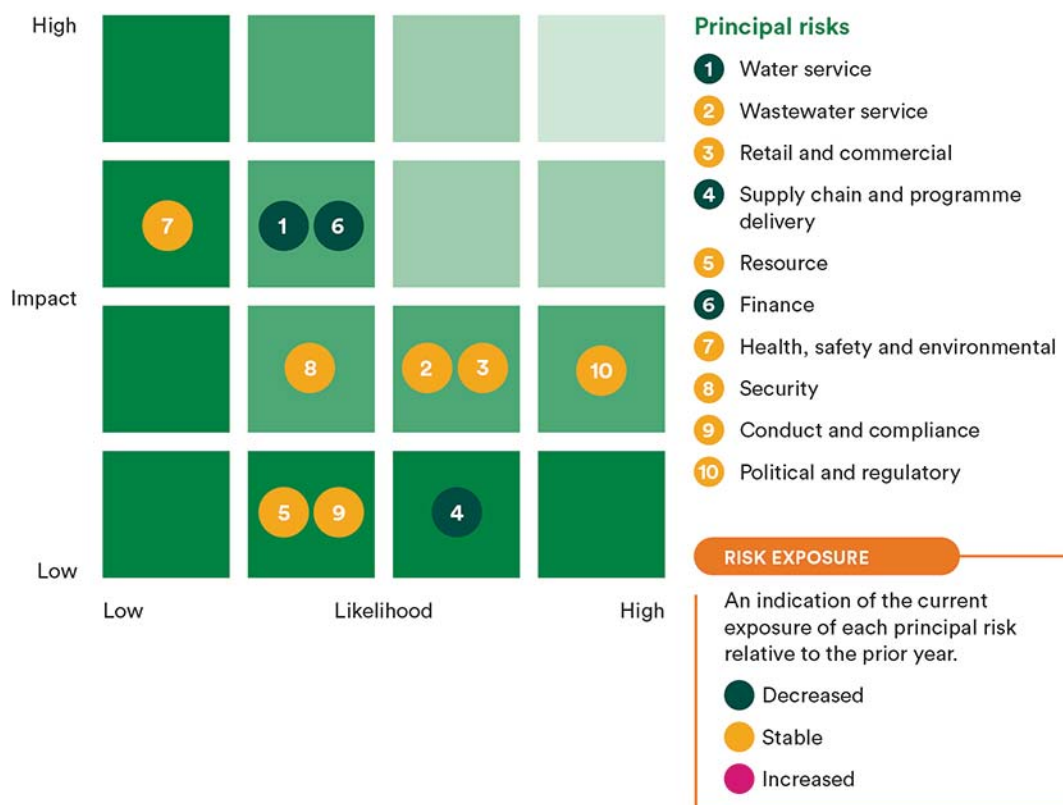
### Risk profile

The business risk profile consists of approximately 100 event-based risks, each of which relates to one of ten inherent risk areas, which we regard as our principal risks due to their potential to affect the performance, future prospects or reputation of the company. The allocation of event-based risks to

## Strategic report

principal risks enables the company to consider risks in the context of systems and production lines, in line with our Systems Thinking approach.

### Principal risk heat map



The heat map provides an indicative 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 ten principal risks have remained relatively stable in the last 12 months. Water service, Supply chain and programme delivery and Finance have reduced due to the replacement of a section of the Haweswater Aqueduct, the trade deal with the EU and improvement in the economic outlook, respectively.

### Common themes

Each of the event-based risks has multiple causes and consequences which in turn lead to financial and/or reputational impact. Preventative and responsive controls 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 to enable a more integrated, Systems Thinking approach to risk mitigation. Analysis of the control environment indicates the strengths, weaknesses and gaps in the mitigation of risk, as well as the interdependencies across the business to manage risk as part of the integrated approach.

### Common causal themes

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

- **Extreme weather/climate change:** In the majority of cases our water resources, asset base and operations can cope with extreme weather conditions, although these can become overwhelmed in intense situations. Climate change projections highlight increased temperatures, rainfall, wind and

## Strategic report

more frequent extreme variations in weather patterns. This means that climate change remains a key focus for us, because of its impact on our capacity and capability for service delivery, and because of the effect on the environment that we strive to protect and enhance. We are committed to the principles set by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

- **Demographic changes:** Demographic changes, including population growth 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.
- **Legislative and regulatory change:** Changes in legislation and/or regulation can have implications for the business model, asset base and ways of working. For example: the anticipated post-Brexit changes in law bring an element of uncertainty; and the introduction of competition, whilst positive to customers and markets, can affect ongoing revenue and the asset base.
- **Economic conditions:** Macro events, such as the financial crisis in 2008 and more recently COVID-19, can have multiple financial implications, including: lower revenue; increased bad debt; increased operational cost; increased cost of borrowing; and a reduction in the Regulatory Capital Value. The events can also impact the wider supply chain with knock-on effects to our service delivery and cost to serve.
- **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. Ageing assets therefore provide an underlying and cross-business risk and uncertainty both to efficiency and for the long-term resilience of asset integrity and the associated service capability.
- **Culture:** Embedded through processes, reward mechanisms, values and behaviours, culture cuts across the majority of risks in the profile. Our embedded corporate culture of innovation, customer service and behaving in a responsible manner provides an established platform, however, this is an area of ongoing focus to maintain high performance in an increasingly challenging business environment at the same time as being open and transparent.

### Common consequence themes

Each consequence is analysed for the financial and reputational implications relative to multiple stakeholders. Categorisation of the consequences illustrates three common impact themes:

- **Customer:** 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 sizable fleet of vehicles, the way we manage these also has environmental implications.
- **Employees:** Our employees are fundamental to delivering our service requirements as well as our strategic objectives. Equally, our employees can be affected by multiple risks across the business, but primarily in relation to employment and health, safety and wellbeing risks.

## Our principal risks

### 1. Water service - risk decreased

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.

#### Risk exposure

Covering the entire water system from source to customers' taps, threats include: extreme weather which not only affects supply and demand through reduced rainfall, but can also affect raw water quality through fire or flooding; demographic changes affecting demand; asset health contributes to the frequency and magnitude of failure; and legal and regulatory change potentially increases the quality standards which will require time and investment in order to maintain compliance.

## Strategic report

Potential impacts include: regulatory non-compliance; interruptions to water supply; or, in extreme cases, a danger to public health caused by poor water quality.

### Control and mitigation

Strict quality controls supplement the physical and chemical treatment including a rigorous sampling regime, alarm systems and 'shut down and start up to waste' processes. Asset inspections, regular maintenance and cleaning are undertaken across our water assets, supported by a prioritised replacement regime. Water resources management, production planning, pressure/flow management and leak detection are undertaken to maintain supply and minimise interruptions. The integrated network, alternative supply vehicles and maintenance crews provide a response capability.

### Performance indicators

- C-MeX
- Leakage
- Interruptions to supply
- Water quality compliance (CRI)

### Most significant event-based risks

- Failure of significant water supply systems
- Failure of the distribution system (leakage)
- Dam failure
- Water sufficiency (dry weather)
- Water network failure

## 2. Wastewater service - risk stable

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

### Risk exposure

Covering the entire wastewater and bioresource systems from customer properties to land, river or the sea, the key factors are: the capacity and capability of assets and operational processes; and the availability of sludge recycling outlets. Compounding issues include unauthorised third party discharges into the sewer network, changing demographics and extreme weather. Whilst generally designed to cope with the vast majority of storms, high intensity rainfall can overwhelm the system. Legal and regulatory change potentially increases standards or imposes restrictions which will require time and investment to maintain compliance.

Potential impacts include: regulatory non-compliance; interruptions to drainage services; pollution incidents (including odour nuisance and sewer flooding); and inability to dispose of sludge to land.

### Control and mitigation

The sewer network is managed through a combination of the drainage and wastewater management plans and the wastewater network operating model which include asset condition surveys to identify defects, sewer rehabilitation projects, customer campaigns and sewer cleaning programmes. Integrated drainage area studies and the adoption of a pollution incident reduction plan aim to make further enhancements. Proactive maintenance, operative training, sampling, compliance audits and odour management systems supplement the treatment processes across our wastewater and biosolids systems.

### Performance indicators

- C-MeX
- EA performance assessment
- Internal flooding incidents
- Pollution incidents

## Strategic report

### Most significant event-based risks

- Failure of wastewater network (sewer flooding)
- Failure to treat wastewater
- Failure of wastewater assets (serious pollution)
- Recycling of biosolids to agriculture

### **3. Retail and commercial - risk stable**

Failing to provide good and fair service to domestic customers and third-party retailers or a failure of or issue in relation to non-United Utilities Water operations or businesses.

#### Risk exposure

Key factors include the social deprivation across the North West, the macroeconomic environment, and the experience and perception of customers towards our operations and service. Commercial contractual terms and conditions and the structure, positioning and efficiency of joint ventures, subsidiaries and undertakings are also factors.

Potential impacts include financial losses and an impact on profitability associated with poor cash-flow and an increase in bad debt. Poor service and associated decreased customer satisfaction could result in regulatory penalties and reputational harm.

#### Control and mitigation

Our customer-focused initiatives aim to drive excellent service and enhance the experience of all our customers. We have an award-winning Priority Services scheme for vulnerable customers and those needing help to pay, which has driven up our success in recovering charges. Bad debt risk is managed through best practice collection techniques, segmentation of customers and the use of data sharing to determine the most effective and collaborative collection and support activities.

The wholesale business maintains processes, systems and data to deal fairly with market participants and the central market operator in the business retail market in order to generate and collect revenue. Similarly strong governance applies to non-United Utilities Water operations and businesses.

#### Performance indicators

- C-MeX
- Customer complaints
- D-MeX

### Most significant event-based risks

- Billing accuracy
- Customer experience

### **4. Supply chain and programme delivery - risk decreased**

The potential ineffective delivery of capital, operational and change programmes/processes.

#### Risk exposure

As the supplier of essential water and wastewater services with a significant asset base, key factors include the consistent supply of critical goods and services and the ongoing development of operational facilities, distribution networks and systems. Disruption and delay can occur through macro economic conditions, political issues or natural disasters in the country of origin. Contractual issues, technical or engineering complications, natural hazards such as extreme weather or legal aspects such as planning permission or access rights are also factors.

Potential impacts include: implications to cash-flow; failure to take opportunities and competitive advantage; and ultimately failure to meet our obligations and customer outcomes.

## Strategic report

### Control and mitigation

Category management and supplier relationship management are key areas of control underpinned by contract management across our extensive supply chain. Capital, change and operational programmes are undertaken in order of priority following approval. Within the capital programme we have created better alignment and integration between our capital delivery partners, engineering service providers and our operating model. Our programmes and project management include risk and issue management.

### Performance indicators

- Percentage invoices paid within 60 days
- Time, cost and quality index

### Most significant event-based risks

- Unfunded developer-led projects
- Dispute with supplier

## 5. Resource - risk stable

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

### Risk exposure

The nature and scale of our operations warrants a highly efficient, effective and competent set of resources that is adaptable to a constantly changing business environment. Key factors include: the recruitment and selection of talent, employee engagement, skill-set and knowledge; obsolescent systems due to innovative new ways of working and advances in technology; the quality of tools, equipment and vehicles; and ongoing deterioration of property, land and other assets.

Potential impacts include the inability to maintain efficiency, optimise opportunity and competitive advantage, or meet our obligations and customer outcomes.

### Control and mitigation

Developing our people with the right skills and knowledge, combined with delivering effective technology to support the business in meeting its objectives. Employees are kept informed regarding business strategy and progress through various communication channels. Training and personal development programmes exist for all employees in addition to talent management programmes and apprentice and graduate schemes. We focus on change programmes and innovative ways of working to deliver better, more resilient and more cost-effective operations. Resources are closely monitored because of COVID-19, with homeworking and safe site working practices being adopted. People with multiple skill sets are able to add resilience across the business.

### Performance indicators

- Employee engagement

### Most significant event-based risks

- Land management
- Business critical data

## 6. Finance - risk decreased

The potential inability to finance the business appropriately.

### Risk exposure

The extent of our capital programme and the scale of our operations means that it is important that we are able to raise finance when needed to preserve adequate liquidity. Key factors include unexpected and/or higher costs associated with an operational incident, fluctuations in commodity prices and our exposure to movements in interest rates and inflation. A reduction in credit ratings, the over payment of tax and a worsening of the

## Strategic report

pension scheme funding position are also factors. Contributing factors include the macroeconomy, the political and regulatory environments relative to the water sector, and our internal financial structure.

Potential impacts include cash flow implications, reduced profit and ultimately the solvency of the company in extreme cases.

### Control and mitigation

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

### Performance indicators

- Return on Regulated Equity (RoRE)
- Underlying operating profit
- Gearing (net debt : RCV)

### Most significant event-based risks

- Financial outperformance
- Credit ratings
- Pension deficit
- Fair payment of tax

## **7. Health, safety and environmental - risk stable**

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

### Risk exposure

The nature and scale of our operations presents multiple hazards to employees, contractors, the public and the environment. These include confined spaces, excavations, explosive atmospheres or high volume asset failures (e.g. dams or aqueducts), and polluting sewage and chemicals if accidentally or uncontrollably released.

Potential impacts include: serious injury or loss of life; catastrophic damage to property/infrastructure; and damage to, or destruction of, wildlife, fish or natural habitats. Environmental hazards, notably extreme weather, can affect our operational assets and service delivery.

### Control and mitigation

We have a strong health, safety and environmental culture supported by strong governance and management systems certified to OHSAS 18001 and ISO 14001 respectively. We actively seek to improve health, safety and wellbeing across the group through targeted improvements and benchmarking against our peers and seek to protect and improve the environment through the responsible delivery of our services. This includes helping to support rare species and habitats through targeted engagement and activity, as well as our commitment to reducing our carbon emissions by designing out waste from our operations, generating our own energy and looking at ways to reduce our use of raw materials. Due to the impact the environment can have on our services, extreme weather and climate change is being integrated into our risk, planning and decision-making processes.

### Performance indicators

- EA performance assessment
- Accident frequency rates

## Strategic report

### Most significant event-based risks

- Disease pandemic
- Process safety
- Personal safety
- Carbon commitments
- Failure of above-ground assets (flooding)

### **8. Security - risk stable**

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

#### Risk exposure

As the supplier of essential services and the owner and operator of critical national infrastructure, security is of paramount importance against an ever evolving and increasingly sophisticated threat through physical, technological, chemical or biological means. This could originate from rogue independent actors, nation states, organised crime, disgruntled employees, or as a result of commercial espionage.

Potential impacts include the loss or compromise of commercially sensitive data, the disruption of business activity and/or damage or destruction of systems, assets or infrastructure with a knock-on impact to service delivery and community infrastructure.

#### Control and mitigation

Security measures and awareness training combined with strong governance and inspection regimes aim to protect infrastructure, assets and operational capability. We work closely with our industry peers, the Centre for the Protection of National Infrastructure (CPNI), the National Cyber Security Centre (NCSC), the Drinking Water Inspectorate and Defra. We liaise with these organisations to shape the sector approach to security, understand how to better protect our business, and be compliant with the Network and Information Systems Directive (NIS). Ongoing system and network integration improves operational resilience and we maintain robust incident response, business continuity and disaster recovery procedures. We maintain insurance cover for loss and liability, and the instrument of appointment (licence) of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse in the event of a catastrophic incident.

#### Performance indicators

- Cyber incidents

### Most significant event-based risks

- Cybercrime
- Terrorism

### **9. Conduct and compliance - risk stable**

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

#### Risk exposure

Our business extends to multiple stakeholders and is subject to a significant amount of legislation and regulation. Long-term sustainability, resilience and reputation rely on responsible conduct and compliance across our business and extended supply chain.

Failure to comply with legal obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. Fines of up to 10 per cent of group turnover could be imposed, particularly in the areas of environmental, health and safety, competition, and information and data security. Ultimately sanctions could include, in extreme circumstances, revocation of the instrument of appointment (licence) and the imposition of a special administration regime.

## Strategic report

### Control and mitigation

We place high importance and focus on corporate responsibility. Our well-established internal forums and engagement activities with communities, landowners, environmental groups and other stakeholders allow us to be aware of current issues and concerns. These include ethical supply chains, modern slavery risks, the needs of vulnerable customers and diversity and equality within our own employee population.

### Performance indicators

- Community investment
- EA performance assessment
- C-MeX

### Most significant event-based risks

- Non-compliance with the Bribery Act
- Digital Service licensing

## **10. Political and regulatory - risk stable**

Developments connected with the political, regulatory and legislative environment.

### Risk exposure

As a regulated business, the political and regulatory environment shapes how we operate as a business. Factors include the public perception of the water industry and its legitimacy to provide value, increased challenges on efficiency and the imposition of increased levels of competition across the sector.

There is therefore the potential for increased costs of administration and for sources of income and funding to be impacted. There is also the potential for reduced Regulatory Capital Value (RCV) and for greater uncertainty of returns.

### Control and mitigation

We continue to take part in government and regulatory consultations in order to influence outcomes in respect of policy and legislation. We routinely communicate with customers so that their needs and expectations can be factored into our thinking and plans.

### Performance indicators

- Return on Regulated Equity (RoRE)
- Underlying operating profit

### Most significant event-based risks

- Reduced revenue at the next price review
- Upstream competition (bioresources)
- DPC – Haweswater Aqueduct Replacement Programme (HARP)

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

The most significant event-based risks represent: the ten highest-ranked risks by exposure relative to the likelihood of occurrence of the event and most likely financial impact (1 - 10 below); and those risks which have been assessed as having a significantly high impact, but low likelihood (A - F below). 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 is also assessed, reported and considered as part of the mitigation.

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### 1. Failure of significant water supply systems

Risk exposure: The Haweswater Aqueduct (HA) is a key asset with current low resilience due to deterioration, potentially resulting in water quality issues and/or supply interruptions to a large proportion of our customer base.

Control/mitigation: Capital projects for asset replacement (including HARP), as well as extensive programmes of asset monitoring, surveys and maintenance.

### 2. Failure of wastewater network (sewer flooding)

Risk exposure: Equipment failure, collapses/bursts or inadequate hydraulic/operational capacity to cope with extreme weather and population growth, resulting in sewer flooding.

Control/mitigation: Preventative maintenance and inspection regimes, customer campaigns and sewer rehabilitation programmes.

### 3. Cybercrime

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.

### 4. Reduced revenue at the next price review

Risk exposure: One of many potential issues relates to the Totex allowances through AMP8 revenues for labour costs, due to the Office of National Statistics ASHE Index taking account of lower wages associated with COVID-19.

Control/mitigation: Reviewing the rule book once published and liaising with Ofwat accordingly.

### 5. Failure to treat wastewater

Risk exposure: Inadequate capacity and capability of wastewater treatment works, leading to environmental permit breaches.

Control/mitigation: Improved Effective Operations & Maintenance (EO&M) programme and operating procedures including proactive maintenance, operative training and compliance audits.

### 6. 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 company business planning.

### 7. Credit ratings

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.

### 8. Failure of wastewater assets (serious pollution)

Risk exposure: The unintended introduction of pollutants (including sewage) into the environment, due the capacity and capability of wastewater assets.

## Strategic report

Control/mitigation: Proactive identification of asset defects through condition surveys, staff training, incident analysis, drainage area studies and improvement plans.

### 9. Upstream competition (bioresources)

Risk exposure: Competition in the bioresources market leading to a loss of business and reduced operational efficiency.

Control/mitigation: Delivering operational efficiency, continued engagement with Ofwat and a strategic review of the bioresources business.

### 10. Failure of the distribution system (leakage)

Risk exposure: Network characteristics, asset condition, extreme weather or third party damage resulting in the loss of treated water and failure of the leakage target.

Control/mitigation: Management of pressure and flow combined with traditional and innovative leakage detection techniques.

#### A) Pension deficit

Risk exposure: The potential for the pension scheme funding deficit 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.

#### B) Fair payment of tax

Risk exposure: Failure to maximise the available tax efficiencies and reliefs due to changing mechanisms.

Control/mitigation: Tax policies and objectives cover: efficient structuring of commercial activities; maintaining a robust governance and risk management framework; and an open and transparent relationship with tax authorities.

#### 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.

#### D) Disease pandemic

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

Control/mitigation: The incident management process would be invoked, supported by the Pandemic Response Plan. This includes the implementation of multi-channel communication with non-pharmaceutical interventions as per government guidance.

#### 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 Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.

## Strategic report

### F) Process safety

Risk exposure: The unintentional generation and/or release of dangerous substances and explosive atmospheres in sludge digestion or other processes, resulting in a catastrophic incident.

Control/mitigation: The design and engineering of facilities, training and maintenance of equipment. Effective control points exist with alarms monitored remotely and statutory inspections.

### New and emerging risks

We continue to review and monitor external and internal business environments in order to establish and understand risks and issues that are new, developing, growing or becoming more prominent. We do this through a combination of business unit risk assessments, a specific new and emerging risk forum and other horizon scanning forums such as a compliance working group. This enables us to plan our strategy and operations to minimise threats of this nature. Notable new and emerging risks and some possible impacts are set out below.

- **Post-Brexit supply chain:** Despite the successful negotiation of the trade deal with the EU there remains some uncertainty in relation to the supply of goods and services. We manage the supply chain through category management with chemicals and critical spares being two categories which are fundamental to the delivery of our service provision. We will continue to monitor how the supply chain emerges and will adapt accordingly through category management and supplier relationship management.
- **Post-Brexit legislative change:** Post-Brexit uncertainty remains in relation to how European legislation will transition into UK law, for example, data protections laws governing the flow of data and information between the EU and UK. Changes in UK law, such as the Environment Bill, Sewage (Inland Waters) Bill and changes to Public Procurement will all have implications for the water sector.
- **Regulatory change:** The political landscape remains challenging for the water sector. There remains uncertainty regarding the introduction of further competition and therefore the associated implications for revenue and the asset base. Looking ahead to Price Review 2024 (PR24), the methodology remains uncertain, particularly in light of the outcome of other water companies' PR19 CMA appeals.
- **Plastics:** Implications associated with the current attention on single use plastics and microplastic pollution in water, wastewater effluent discharge and sludge disposal (see biosolids recycling to agriculture).
- **Biosolids recycling to agriculture:** The practice of disposing of biosolids to agriculture could be banned (partially or in full) in the UK based on similar actions within Europe.
- **Water scarcity and water trading:** Water scarcity is an emerging issue within the UK, which has knock-on implications to UU in relation to the proposed strategic transfer of water from the North West to the South East of England, and the associated service, commercial and reputational impacts.
- **COVID-19:** To a large degree, COVID-19 has become business as usual, however, the longer-term implications of the economic downturn with potential corporate failures and high unemployment could affect cash collection. Continued lower inflation will affect revenues, financing costs and RCV, however, rising inflation will have an upside over the longer term.

### Material litigation

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

## 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 2021.

### Profit and dividends

The results for the year, set out in the consolidated income statement on page 107 show that profit for the year after tax was £472.9 million (2020: £133.6 million).

The directors have not recommended a final ordinary dividend (2020: £nil). Interim ordinary dividends of £291.9 million (2020: £284.5 million) have been declared and paid during the year.

### 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.

### Political donations

It is the group'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. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which 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, and occasional stakeholder engagement in Westminster. The group incurred expenditure during the year of £5,801 (2020: £23,627; 2019: £9,388) as part of this process. At the 2020 UUG AGM, an authority was taken to cover such expenditure. A similar resolution will be put to UUG shareholders at the 2021 UUG AGM to authorise such expenditure.

As the provider of services to 7 million people across the North West, customers can sometimes contact their constituency MP and ask that they raise an issue with the company on their behalf. In 2020/21, we received 379 contacts from MPs' offices covering topics such as flooding and planning. As part of our work to build constructive relationships with all our stakeholders, we encourage MPs and members of their offices to work closely with us to address constituency concerns and arrange case worker events to discuss such issues in detail. In 2020, this was a virtual event in which over 40 MP representatives accepted to join us. For those unable to participate in the live event, a link was sent so it could be viewed when convenient. There are two devolved administrations in the North West – the Greater Manchester Combined Authority and the Liverpool City Region (LCR) – we engage regularly with both, 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 Greater Manchester 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 in the North West extend to its membership of trade associations. This is described in the section below.

### Trade associations

We are members of a small number of trade associations. Some of these have a national focus, such as Water UK, the representative body of the UK water industry, which considers industry-wide priorities such as development of markets, customer trust, resilience, and legislation and regulation, and the Confederation of British Industry, which provides a policy-making voice for firms at a regional, national and international

## Directors' report

level. 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 GC 100, 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 to promote the sustainable economic development and long-term wellbeing of the North West. Our total contribution to these associations in 2020/21 was £420,403 (2019/20: £400,916).

In the past 12 months, the group has been involved in several engagements with political stakeholders through its membership of trade associations. Through Water UK, the group has supported efforts to interact with parliamentary bodies, such as select committees and chairs of other specific committees, to provide information on topics such as water efficiency labelling for white goods and the performance of combined sewer overflows in relation to river water quality. The group has supported Water UK in its effort to encourage the Government to ensure its forthcoming Environment Bill supports the sector's objectives to deliver resilient water services now and into the future.

Through our membership with both the CBI, in particular as a member of its North West regional council, and the North West Business Leadership Team, we have engaged with regional 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 have participated in consultations and discussions as part of the unlocking regional growth/levelling up agenda, bringing together views of industry and regional government on opportunities and barriers.

### 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 that we continue to be alert to emerging technological opportunities.

### Events after the reporting period

Details of events occurring after the reporting period are included in note 25 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 113.

### Directors

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

|            |                              |
|------------|------------------------------|
| PA Aspin   |                              |
| GL Baron   | (appointed 23 November 2020) |
| JR Houlden | (resigned 24 July 2020)      |
| RJ Lee     | (appointed 23 November 2020) |
| SL Mogford |                              |
| BF Murphy  | (appointed 23 November 2020) |

### 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

## Directors' report

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 employees can be found on pages 24 and 34 of the UUG annual report. 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 employees' engagement (see pages 24 and 34 of the UUG annual report). The effect of our regard towards employees in relation to the decisions taken during the financial year is included in the non-financial information section of our S172 (1) Statement on pages 15 to 16. Employees are encouraged to own shares in UUG 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 120.

### 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 purpose and stakeholder value on pages 5 to 14. Further information is available on our website at [www.unitedutilities.com/corporate/responsibility/](http://www.unitedutilities.com/corporate/responsibility/). Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 8 to 10. 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 page 16.

Our slavery and human trafficking statement can be found on our website at: [unitedutilities.com/human-rights](http://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 9 and 11. 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 14 to 16. Our United Supply 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-supplychain/](http://unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supplychain/); 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 2021, our average time taken to pay invoices was 14 days; in the previous six months it was 14 days.

### Energy and Carbon

Our TCFD reporting includes our energy and carbon report on pages 73 to 79 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 to the financial statements.

### Share capital

At 31 March 2021, the issued share capital of the company was £881,787,478 divided into 881,787,478 ordinary shares of £1 each. Details of our share capital and movements in our issued share capital are shown in note 23 to the financial statements on page 142.

### Internal controls and risk management

The board is responsible for ensuring that the company has sound risk management and internal control systems in place, and for reviewing its effectiveness. It is supported in this role by the audit committee of

## Directors' report

UUG, the internal audit function, the financial control team and the external auditor. The key features of this internal control framework include policies and procedures for planning, approving and monitoring major capital expenditure and clearly defined comprehensive business planning and financial reporting procedures, and monthly meetings by the executive team to review financial and non-financial performance and key operational issues. Alongside these processes, risk management is well embedded in our ongoing business as usual approach. All areas of the business and support departments are responsible for monitoring changes to their areas of activity, identifying any associated risks as a result of these changes which might prevent us from achieving our objectives, and identifying actions to mitigate those risks as far as is reasonably practicable and cost-effective to do so. These internal control and risk management systems, which are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss, have been in place continually for the year under review.

On behalf of the board, the audit committee of UUG completed its annual review of the effectiveness of the risk management and internal control processes up to the date of the annual report in accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. There were no significant failings or weaknesses identified in this review.

The principal risks and uncertainties to the business are explained on pages 79 to 92. We continue to work with all key parties to represent the best interests of our stakeholders, and where we can identify actions to mitigate the adverse consequences of these risks we work hard to address them.

### Information given to the auditor

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

1. so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. he has taken all the steps that he ought to have taken as a director in order to make himself 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.

### External auditor

KPMG are appointed as statutory auditor to all wholly owned companies in the United Utilities group. The company adheres to the UUG policy on non-audit services provided by the external auditor and in relation to auditor independence (see pages 150 to 151 of the UUG 2021 Annual report and financial statements).

The UUG board has decided to recommend KPMG LLP to be reappointed as external auditor to the company at the forthcoming UUG AGM of and an authority for the directors to set the remuneration of the auditor will be sought.

Approved by the board and signed on its behalf by:

PA Aspin  
Chief Financial Officer  
29 June 2021

## **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, Strategic Report, the Directors' 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 have elected to prepare the Group and parent Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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 the Group's 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 and a Directors' Report 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.

### **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 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.

Signed on behalf of the board:

PA Aspin  
Chief Financial Officer  
29 June 2021

## **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 2021 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 107 to 118 and 176 to 185.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

### **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 ten financial years ended 31 March 2021.

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 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

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| <p><b>Revenue recognition and allowance for household customer debt</b><br/> Revenue not recognised: £27.1 million (2020: £19.4 million)<br/> Provision for customer debts: £79.4 million (2020: £66.1 million)<br/> Refer to pages 115 to 116 and 177 (accounting policy), and pages 132 to 133 (financial disclosures).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>The Risk</b></p> <p><b>Subjective estimate:</b><br/> At each balance sheet date:</p> <ul style="list-style-type: none"> <li>- judgement is required to identify properties where there is little prospect that cash will be received for revenue that has been billed due to either the occupier not being able to be identified or a past history of non-payment of bills relating to that property and therefore whether the revenue should be recognised; and</li> <li>- assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables.</li> </ul> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of trade receivables has a high degree of estimation uncertainty in particular because of the potential effects of the COVID-19 pandemic, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (see pages 115 to 116 accounting policies) disclose the sensitivity estimated by the Group.</p> <p>The risk has increased in the current year due to the likelihood of cash collection profiles changing as a result of the Covid-19 pandemic, particularly when government assistance is withdrawn. This will introduce further uncertainty into the estimation.</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><b>Our procedures included:</b></p> <p><b>Accounting analysis:</b> assessed the derecognition of revenue for compliance with relevant accounting standards where the collection of consideration is not probable on the date of initial recognition;</p> <p><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;</p> <p><b>Sensitivity analysis:</b> considered the sensitivity of the key assumptions; and</p> <p><b>Assessing transparency:</b> assessed the adequacy of the Group's disclosures of its revenue recognition and customer debt provisioning policies, including the judgement involved in recording revenue and estimation uncertainty of the doubtful debts provision.</p> <p><b>Our results:</b></p> <ul style="list-style-type: none"> <li>- We found the amount of revenue recognised to be acceptable (2020: acceptable); and</li> <li>- We considered the level of doubtful debt provisioning to be acceptable (2020: acceptable).</li> </ul> |

## Independent auditor's report

to the members of United Utilities PLC

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| <p><b>Capitalisation of costs relating to the capital programme</b><br/> £677.5 million (2020: £759.5 million)<br/> Refer to page 116 to 117 and 178 to 179 (accounting policy), and pages 127 to 129 (financial disclosures).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p><b>The Risk</b></p> <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 judgmental. Costs capitalised include an allocation of overhead costs, relating to the proportion of time spent by support function staff, which is based on assumptions involving a high degree of judgement.</p> <p>The effect of these matters is that, as part of our risk assessment, 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. The financial statements (Accounting policies section) disclose the sensitivities estimated by the Group.</p> | <p><b>Our Response</b></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><b>Our procedures included:</b></p> <p><b>Accounting analysis</b> – assessed the group's capitalisation policy for compliance with relevant accounting standards;</p> <p><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, and forecast cost to complete;</p> <p><b>Tests of details</b> – identified and critically assessed the impact of changes in capitalisation rate for a sample of specific cost centres; and challenged the estimates made by management on the specific cost centres for year-on-year movements and rate changes.</p> <p><b>Historical comparisons</b> – critically assessed the proportion of capitalised overhead costs using historical comparisons and expected changes based upon enquiry and our sector knowledge;</p> <p><b>Sensitivity analysis</b> – assessed the impact of different capitalisation rates and the impact to capitalised overhead costs;</p> <p><b>Assessing transparency</b> – Assessing the adequacy of the group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital and the judgement relating to the allocation of overhead costs.</p> <p><b>Our results:</b></p> <p>We found the group's classification of expenditure as capital or operating to be acceptable (2020: acceptable).</p> |

# Independent auditor's report

to the members of United Utilities PLC

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| <p><b>Valuation of retirement benefit obligations</b><br/> £3,295.7 million (2020: £3,057.6 million)<br/> Refer to pages 117 and 183 (accounting policy), and pages 136 to 137 and 164 to 172 (financial disclosures).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><b>The Risk</b></p> <p><b>Subjective valuation:</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>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. The financial statements (Accounting policies section) disclose the sensitivities estimated by the Group.</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><b>Our procedures included:</b></p> <p><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;</p> <p><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;</p> <p><b>Assessing external actuary's credentials</b> – assessed the competence and independence of the external actuary engaged by the Group; and</p> <p><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, which are set out in note A5 to the financial statements.</p> <p><b>Our results:</b></p> <p>We found the resulting estimate of the retirement benefit obligations to be acceptable (2020: acceptable).</p> |
| <p><b>Recoverability of the parent company's investment in United Utilities North West Limited</b><br/> Investment in United Utilities North West Limited £3,907.1 million (2020: £3,907.1 million)<br/> Refer to page 175 to 176 (accounting policy), and page 131 (financial disclosures).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p><b>The Risk</b></p> <p><b>Low risk, high value</b></p> <p>The carrying amount of the parent company's investment in United Utilities North West Limited represents 52% (2020: 51%) of the company's total 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</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p><b>Our Response</b></p> <p>We performed the tests below rather than seeking to rely on any of the Group's controls because testing for recoverability through detailed testing is inherently the most effective means of obtaining audit evidence.</p> <p><b>Our procedures included:</b></p> <p><b>Tests of detail</b> –compared the carrying amount of the investment with the draft balance sheet of United Utilities North West Limited to identify</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

## Independent auditor's report

to the members of United Utilities PLC

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| <p>area that had the greatest effect on our overall parent company audit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>whether the net assets, being an approximation of the minimum recoverable amount, is in excess of the carrying amount and if not, comparing it with the expected value of the business based on a suitable premium to the regulatory capital value.</p> <p><b>Our results:</b></p> <p>We found the group's assessment of the recoverability of the investment in United Utilities North West Limited to be acceptable (2020: acceptable).</p> |
| <p>Following the impairment of the investment in Water Plus in the prior year, 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. We continue to perform procedures over accounting for Water Plus losses and expected credit losses</p> <p>Going concern was included as key audit matter in the prior period as a result of the uncertainty caused by the COVID-19 pandemic. However, there is now considered to be less uncertainty owing to the fact that the situation has moved on by a year and the group has continued to operate throughout. As a result, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

### 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 £19 million (2020: £22 million), determined with reference to a benchmark of Group profit before tax normalised to exclude net fair value gains or losses on debt and derivative instruments disclosed in note 6, of £500.7 million of which it represents 3.8% (2020: 4.1%). The Group team performed procedures on the items excluded from normalised Group profit before tax.

Materiality for the parent company financial statements as a whole was set at £9 million (2020: £12 million), determined with reference to a benchmark of company net assets, of which it represents 0.1% (2020: 0.3%).

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.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £14.25m (2020: £16.5m) for the Group and £6.75m (2020: £9m) for the parent company.

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 £0.5 million (2020: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 32 (2020: 33) reporting components, we subjected four (2020: five) to full scope audits for Group purposes and one (2020: one) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The work on all five components (2020: five of the six) was conducted by the Group team.

## Independent auditor's report

### to the members of United Utilities PLC

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 £8 million to £17.5 million (2020: £2.5 million to £20 million) having regard to the mix of size and risk profile of the Group across the components.

During the course of the audit we held video and telephone conference meetings with each of four (2020: six) components.

#### 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 Company or to cease their operations, and as they have concluded that the Group's and the 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 and Company'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 and Company's available financial resources and metrics related to the possible failure of the Haweswater water system resulting in a one-off totex impact.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

Our procedures included:

- **Assessing key assumptions in the forecasts:** critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics such as inflation rate growth compared to market forecasts, forecast bonus payments compared to historical bonus payments and forecast dividend payments compared to Group dividend policy. This included assessing whether downside scenarios applied assumptions which are mutually consistent, using our assessment of the possible range of each key assumption and our knowledge of inter-dependencies;
- **Funding assessment:** considering the availability of existing debt arrangements and committed loan facilities, including testing compliance with covenants and expected maturity dates;
- **Historical accuracy of managements forecasts:** comparing historical budgets to actual results to assess the directors' track record of budgeting accurately;
- **Evaluating directors' intent:** evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including assessment of mitigating actions within their control;
- **Assessing the completeness and accuracy of the matters covered in the going concern disclosure:** considering whether the going concern disclosure in the basis of preparation note to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

## **Independent auditor's report**

### **to the members of United Utilities PLC**

- 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 found the going concern disclosure in the basis of preparation section of the Accounting Policies note 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 Company will continue in operation.

### **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 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 meeting minutes and audit committee/risk committee minutes relating to the ultimate parent, United Utilities Group PLC.
- Considering remuneration incentive schemes and performance targets for directors including Long Term Plan awards.

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 and the risk of fraudulent revenue recognition, 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 revenue recognition and provisions for household customer debt, capitalisation of costs relating to the capital programme and valuation of retirement benefit obligations.

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 or treasury posted to unexpected or unrelated accounts.
- 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

## **Independent auditor's report**

### **to the members of United Utilities PLC**

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.

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 strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;
- in our opinion the information given in the strategic report and the directors' report 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.

## Independent auditor's report

to the members of United Utilities PLC

### 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
- 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 97, 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).

### 9. The purpose of our audit work and 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.

**Ian Griffiths (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor

*Chartered Accountants*

St Peter's Square, Manchester M2 3AE

29 June 2021

# Consolidated income statement

for the years ended 31 March

|                                                                    | Note | 2021<br>£m | 2020<br>£m |
|--------------------------------------------------------------------|------|------------|------------|
| <b>Revenue</b>                                                     | 2    | 1,808.0    | 1,859.3    |
| Employee benefits expense                                          | 3    | (161.8)    | (161.4)    |
| Other operating costs                                              | 4    | (431.9)    | (403.4)    |
| Allowance for expected credit losses – trade and other receivables | 4    | (28.7)     | (41.8)     |
| Other income                                                       | 4    | 3.6        | 3.4        |
| Depreciation and amortisation expense                              | 4    | (422.3)    | (482.8)    |
| Infrastructure renewals expenditure                                |      | (164.8)    | (143.0)    |
| <b>Total operating expenses</b>                                    |      | (1,205.9)  | (1,229.0)  |
| <b>Operating profit</b>                                            |      | 602.1      | 630.3      |
| Investment income                                                  | 5    | 49.2       | 56.9       |
| Finance expense                                                    | 6    | (107.2)    | (307.9)    |
| Allowance for expected credit losses – loans to joint ventures     |      | 3.7        | (5.0)      |
| <b>Investment income and finance expense</b>                       |      | (54.3)     | (256.0)    |
| Share of losses of joint ventures                                  | 11   | (9.3)      | (38.1)     |
| Profit on disposal of joint venture                                | 11   | 36.7       | -          |
| <b>Profit before tax</b>                                           |      | 575.2      | 336.2      |
| Current tax charge                                                 | 7    | (83.9)     | (44.6)     |
| Deferred tax charge                                                | 7    | (18.4)     | (157.5)    |
| <b>Tax</b>                                                         | 7    | (102.3)    | (202.6)    |
| <b>Profit after tax</b>                                            |      | 472.9      | 133.6      |

All of the results shown above relate to continuing operations.

## Consolidated statement of comprehensive income

for the years ended 31 March

|                                                                                     | Note | 2021<br>£m | 2020<br>£m |
|-------------------------------------------------------------------------------------|------|------------|------------|
| <b>Profit after tax</b>                                                             |      | 472.9      | 133.6      |
| <b>Other comprehensive income</b>                                                   |      |            |            |
| <i>Items that may be reclassified to profit or loss in subsequent periods:</i>      |      |            |            |
| Cash flow hedge effectiveness                                                       |      | 9.3        | (2.0)      |
| Tax on items taken directly to equity                                               | 7    | (1.8)      | 0.4        |
| Foreign exchange adjustment                                                         |      | (1.6)      | 1.3        |
| Foreign exchange adjustments reclassified to profit on disposal of joint ventures   |      | 4.0        | -          |
| <b>Other comprehensive income that may be reclassified to profit or loss</b>        |      | 9.9        | (0.3)      |
| <i>Items that will not be reclassified to profit or loss in subsequent periods:</i> |      |            |            |
| Remeasurement (losse)/gains on defined benefit pension schemes                      | 18   | (82.7)     | 154.6      |
| Change in credit assumptions for debt reported at fair value through profit or loss |      | (43.3)     | 34.2       |
| Cost of hedging – cross-currency basis spread adjustment                            |      | (12.7)     | 1.3        |
| Deferred tax adjustments in respect of prior years on net fair value gains          |      | -          | (2.4)      |
| Tax on items taken directly to equity                                               | 7    | 36.6       | (157.1)    |
| <b>Other comprehensive income that will not be reclassified to profit or loss</b>   |      | (102.1)    | 30.6       |
| <b>Total comprehensive income</b>                                                   |      | 380.7      | 163.9      |

# Consolidated and company statements of financial position

at 31 March

|                                                                           | Note | 2021<br>£m        | Group<br>2020<br>£m | 2021<br>£m       | Company<br>2020<br>£m |
|---------------------------------------------------------------------------|------|-------------------|---------------------|------------------|-----------------------|
| <b>ASSETS</b>                                                             |      |                   |                     |                  |                       |
| <b>Non-current assets</b>                                                 |      |                   |                     |                  |                       |
| Property, plant and equipment                                             | 9    | 11,799.0          | 11,510.9            | 2.8              | 3.0                   |
| Intangible assets                                                         | 10   | 181.1             | 189.0               | -                | -                     |
| Interests in joint ventures                                               | 11   | -                 | 46.8                | -                | -                     |
| Other investments                                                         | 12   | 0.1               | 0.1                 | 4,014.9          | 4,014.9               |
| Trade and other receivables                                               | 14   | 1,867.3           | 1,849.1             | 1,889.4          | 1,761.5               |
| Retirement benefit surplus                                                | 18   | 689.0             | 754.1               | 158.0            | 175.0                 |
| Derivative financial instruments                                          | A4   | 410.3             | 617.8               | -                | -                     |
|                                                                           |      | <u>14,946.8</u>   | <u>14,967.8</u>     | <u>6,065.1</u>   | <u>5,954.4</u>        |
| <b>Current assets</b>                                                     |      |                   |                     |                  |                       |
| Inventories                                                               | 13   | 18.3              | 16.6                | -                | -                     |
| Trade and other receivables                                               | 14   | 236.6             | 257.9               | 1,398.4          | 1,691.1               |
| Current tax asset                                                         |      | 6.9               | 37.7                | -                | -                     |
| Cash and short-term deposits                                              | 15   | 744.1             | 528.1               | 9.1              | 25.0                  |
| Derivative financial instruments                                          | A4   | 14.4              | 0.1                 | -                | -                     |
|                                                                           |      | <u>1,020.3</u>    | <u>840.4</u>        | <u>1,407.5</u>   | <u>1,716.1</u>        |
| <b>Total assets</b>                                                       |      | <u>15,967.1</u>   | <u>15,808.2</u>     | <u>7,472.6</u>   | <u>7,670.5</u>        |
| <b>LIABILITIES</b>                                                        |      |                   |                     |                  |                       |
| <b>Non-current liabilities</b>                                            |      |                   |                     |                  |                       |
| Trade and other payables                                                  | 20   | (798.3)           | (761.2)             | -                | (4.4)                 |
| Borrowings                                                                | 16   | (7,797.0)         | (7,518.1)           | (290.4)          | (322.4)               |
| Deferred tax liabilities                                                  | 19   | (1,449.5)         | (1,462.6)           | (54.6)           | (60.1)                |
| Derivative financial instruments                                          | A4   | (107.8)           | (135.4)             | -                | -                     |
|                                                                           |      | <u>(10,152.6)</u> | <u>(9,877.3)</u>    | <u>(345.0)</u>   | <u>(386.9)</u>        |
| <b>Current liabilities</b>                                                |      |                   |                     |                  |                       |
| Trade and other payables                                                  | 20   | (326.2)           | (339.8)             | (37.0)           | (43.2)                |
| Borrowings                                                                | 16   | (739.9)           | (924.2)             | (882.1)          | (755.8)               |
| Provisions                                                                | 20   | (11.1)            | (16.4)              | -                | -                     |
| Derivative financial instruments                                          | A4   | (6.9)             | (8.9)               | -                | (0.5)                 |
|                                                                           |      | <u>(1,084.1)</u>  | <u>(1,289.3)</u>    | <u>(919.1)</u>   | <u>(799.5)</u>        |
| <b>Total liabilities</b>                                                  |      | <u>(11,236.7)</u> | <u>(11,166.6)</u>   | <u>(1,264.1)</u> | <u>(1,186.4)</u>      |
| <b>Total net assets</b>                                                   |      | <u>4,730.4</u>    | <u>4,641.6</u>      | <u>6,208.5</u>   | <u>6,484.1</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                                                            |      | 6.6               | 7.0                 | -                | -                     |
| Retained earnings                                                         |      | <u>2,412.0</u>    | <u>2,322.8</u>      | <u>3,896.7</u>   | <u>4,172.3</u>        |
| <b>Shareholders' equity</b>                                               |      | <u>4,730.4</u>    | <u>4,641.6</u>      | <u>6,208.5</u>   | <u>6,484.1</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 29 June 2021, and signed on its behalf by:

PA Aspin  
Chief Financial Officer

**Consolidated statement of changes in equity****for the years ended 31 March**

|                                                                                    | Share capital<br>£m | Share premium<br>account<br>£m | Other reserves*<br>£m | Retained earnings<br>£m | Total<br>£m    |
|------------------------------------------------------------------------------------|---------------------|--------------------------------|-----------------------|-------------------------|----------------|
| <b>Group</b>                                                                       |                     |                                |                       |                         |                |
| At 1 April 2020                                                                    | 881.8               | 1,430.0                        | 7.0                   | 2,322.8                 | 4,641.6        |
| Profit after tax                                                                   | -                   | -                              | -                     | 472.9                   | 472.9          |
| <b>Other comprehensive income</b>                                                  |                     |                                |                       |                         |                |
| Remeasurement losses on defined benefit pension schemes (see note 18)              | -                   | -                              | -                     | (82.7)                  | (82.7)         |
| Change in credit assumption for debt reported at fair value through profit or loss | -                   | -                              | -                     | (43.3)                  | (43.3)         |
| Cash flow hedge effectiveness                                                      | -                   | -                              | 9.3                   | -                       | 9.3            |
| Cost of hedging – cross-currency basis spread adjustment                           | -                   | -                              | (12.7)                | -                       | (12.7)         |
| Tax on items taken directly to equity (see note 7)                                 | -                   | -                              | 0.6                   | 34.2                    | 34.8           |
| Foreign exchange adjustments                                                       | -                   | -                              | (1.6)                 | -                       | (1.6)          |
| Foreign exchange adjustments reclassified to profit on disposal of joint ventures  | -                   | -                              | 4.0                   | -                       | 4.0            |
| <b>Total comprehensive income</b>                                                  | -                   | -                              | (0.4)                 | 381.1                   | 380.7          |
| Dividends (see note 8)                                                             | -                   | -                              | -                     | (291.9)                 | (291.9)        |
| <b>At 31 March 2021</b>                                                            | <u>881.8</u>        | <u>1,430.0</u>                 | <u>6.6</u>            | <u>2,412.0</u>          | <u>4,730.4</u> |

|                                                                                    | Share capital<br>£m | Share premium<br>account<br>£m | Other reserves*<br>£m | Retained earnings<br>£m | Total<br>£m    |
|------------------------------------------------------------------------------------|---------------------|--------------------------------|-----------------------|-------------------------|----------------|
| <b>Group</b>                                                                       |                     |                                |                       |                         |                |
| At 1 April 2019                                                                    | 881.8               | 1,430.0                        | 8.6                   | 2,441.8                 | 4,762.2        |
| Profit after tax                                                                   | -                   | -                              | -                     | 133.6                   | 133.6          |
| <b>Other comprehensive income</b>                                                  |                     |                                |                       |                         |                |
| Remeasurement gains on defined benefit pension schemes (see note 18)               | -                   | -                              | -                     | 154.6                   | 154.6          |
| Change in credit assumption for debt reported at fair value through profit or loss | -                   | -                              | -                     | 34.2                    | 34.2           |
| Cash flow hedge effectiveness                                                      | -                   | -                              | (2.0)                 | -                       | (2.0)          |
| Cost of hedging – cross-currency basis spread adjustment                           | -                   | -                              | 1.3                   | -                       | 1.3            |
| Deferred tax adjustments in respect of prior years on net fair value gains         | -                   | -                              | (2.4)                 | -                       | (2.4)          |
| Tax on items taken directly to equity (see note 7)                                 | -                   | -                              | 0.2                   | (156.9)                 | (156.7)        |
| Foreign exchange adjustments                                                       | -                   | -                              | 1.3                   | -                       | 1.3            |
| <b>Total comprehensive income</b>                                                  | -                   | -                              | (1.6)                 | 165.5                   | 163.9          |
| Dividends (see note 8)                                                             | -                   | -                              | -                     | (284.5)                 | (284.5)        |
| <b>At 31 March 2020</b>                                                            | <u>881.8</u>        | <u>1,430.0</u>                 | <u>7.0</u>            | <u>2,322.8</u>          | <u>4,641.6</u> |

\* Other reserves comprise the group's cumulative exchange reserve, 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<br>capital<br>£m | Share<br>premium<br>account<br>£m | Retained<br>earnings<br>£m | Total<br>£m    |
|-----------------------------------------------------------------------|------------------------|-----------------------------------|----------------------------|----------------|
| <b>Company</b>                                                        |                        |                                   |                            |                |
| At 1 April 2020                                                       | 881.8                  | 1,430.0                           | 4,172.3                    | 6,484.1        |
| Profit after tax                                                      | -                      | -                                 | 30.2                       | 30.2           |
| <b>Other comprehensive income</b>                                     |                        |                                   |                            |                |
| Remeasurement losses on defined benefit pension schemes (see note 18) | -                      | -                                 | (20.5)                     | (20.5)         |
| Tax on items taken directly to equity (see note 7)                    | -                      | -                                 | 6.6                        | 6.6            |
| <b>Total comprehensive income</b>                                     | -                      | -                                 | 16.3                       | 16.3           |
| Dividends (see note 8)                                                | -                      | -                                 | (291.9)                    | (291.9)        |
| <b>At 31 March 2021</b>                                               | <u>881.8</u>           | <u>1,430.0</u>                    | <u>3,896.7</u>             | <u>6,208.5</u> |

|                                                                      | Share<br>capital<br>£m | Share<br>premium<br>account<br>£m | Retained<br>earnings<br>£m | Total<br>£m    |
|----------------------------------------------------------------------|------------------------|-----------------------------------|----------------------------|----------------|
| <b>Company</b>                                                       |                        |                                   |                            |                |
| At 1 April 2019                                                      | 881.8                  | 1,430.0                           | 3,938.1                    | 6,249.9        |
| Profit after tax                                                     | -                      | -                                 | 513.3                      | 513.3          |
| <b>Other comprehensive income</b>                                    |                        |                                   |                            |                |
| Remeasurement gains on defined benefit pension schemes (see note 18) | -                      | -                                 | 41.2                       | 41.2           |
| Tax on items taken directly to equity (see note 7)                   | -                      | -                                 | (35.8)                     | (35.8)         |
| <b>Total comprehensive income</b>                                    | -                      | -                                 | 518.7                      | 518.7          |
| Dividends (see note 8)                                               | -                      | -                                 | (284.5)                    | (284.5)        |
| <b>At 31 March 2020</b>                                              | <u>881.8</u>           | <u>1,430.0</u>                    | <u>4,172.3</u>             | <u>6,484.1</u> |

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 £30.2 million (2020: £513.3 million).

## Consolidated and company statements of cash flows

for the years ended 31 March

|                                                             |      | 2021           | Group<br>2020  | 2021           | Company<br>2020 |
|-------------------------------------------------------------|------|----------------|----------------|----------------|-----------------|
|                                                             | Note | £m             | £m             | £m             | £m              |
| <b>Operating activities</b>                                 |      |                |                |                |                 |
| Cash generated from operations                              | A1   | 1,004.6        | 969.3          | 318.5          | 299.1           |
| Interest paid                                               |      | (136.7)        | (149.4)        | (19.1)         | (28.9)          |
| Interest received and similar income                        |      | 36.3           | 43.3           | 1.8            | 1.8             |
| Tax paid                                                    |      | (81.6)         | (77.3)         | (70.5)         | (71.5)          |
| Tax received                                                |      | 26.9           | 15.8           | 65.3           | 76.9            |
| <b>Net cash generated from operating activities</b>         |      | <b>849.5</b>   | <b>801.7</b>   | <b>296.0</b>   | <b>277.4</b>    |
| <b>Investing activities</b>                                 |      |                |                |                |                 |
| Purchase of property, plant and equipment                   |      | (610.4)        | (652.8)        | -              | -               |
| Purchase of intangible assets                               |      | (33.6)         | (27.2)         | -              | -               |
| Proceeds from sale of property, plant and equipment         |      | -              | -              | -              | -               |
| Grants and contributions received                           | 21   | 5.0            | 34.7           | -              | -               |
| (Extension)/repayment of loans to joint ventures            | A6   | (2.0)          | 34.5           | -              | -               |
| Dividends received from joint ventures                      | 12   | 6.4            | 4.9            | -              | -               |
| Proceeds from disposal of investments                       | 12   | 85.3           | 12.0           | -              | -               |
| <b>Net cash used in investing activities</b>                |      | <b>(549.3)</b> | <b>(593.9)</b> | <b>-</b>       | <b>-</b>        |
| <b>Financing activities</b>                                 |      |                |                |                |                 |
| Proceeds from borrowings net of issuance costs              |      | 912.8          | 811.5          | -              | 20.0            |
| Repayment of borrowings                                     |      | (701.5)        | (545.9)        | (20.0)         | -               |
| Dividends paid to equity holders of the company             | 8    | (291.9)        | (284.5)        | (291.9)        | (284.5)         |
| <b>Net cash used in financing activities</b>                |      | <b>(80.6)</b>  | <b>(18.9)</b>  | <b>(311.9)</b> | <b>(264.5)</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |      | <b>219.6</b>   | <b>188.9</b>   | <b>(15.9)</b>  | <b>12.9</b>     |
| Cash and cash equivalents at beginning of the year          |      | 514.0          | 325.1          | 25.0           | 12.1            |
| Cash and cash equivalents at end of the year                | 15   | 733.6          | 514.0          | 9.1            | 25.0            |

## Accounting policies

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 international accounting standards in conformity with the requirements of the Companies Act 2006 (International Financial Reporting Standards (IFRSs) as adopted in the United Kingdom (UK)). 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 the expected impacts of COVID-19. 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 reasonable downside scenarios in order to assess the group's ability to operate within the amount 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 arising in the assessment period; lower CPIH inflation; elevated levels of bad debt; outcome delivery incentive penalties; 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 reasonable downside scenarios considered indicate that the group will be able to operate within the amount 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

The following standards, interpretations and amendments, effective for the year ended 31 March 2021, have had no material impact on the group's financial statements:

- Amendments to IFRS 3 'Definition of a Business' (issued on 22 October 2018);
- Amendments were made to IAS 1 and IAS 8 'Definition of Material' (issued on 31 October 2018);

The IASB issued its revised Conceptual Framework in March 2018 which is mandatory for annual reporting periods beginning on or after 1 January 2020. It is not a standard and does not override any standard, but its principles apply to arrangements not covered by IFRS standards. No arrangements have been identified by the group which require a change in accounting treatment under the revised Conceptual Framework.

## Accounting policies

### Early adopted new and revised standards

#### *'Phase Two' – IBOR reform*

In January 2021, the Secretary of State for BEIS and the EU endorsed the IASB-published amendments to IFRS 9 'Financial Instruments', and IFRS 7 'Financial Instruments: Disclosures' in respect of interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2021 with early adoption permitted ('Phase Two' IBOR Reform).

The amendments address the financial reporting impact from reform of the London Interbank Offered Rate (LIBOR) and similar benchmark interest rates (IBOR Reform). The Bank of England has asked UK market participants to complete the transition to alternative risk-free rates by the end of 2021, with the industry-led Working Group on Sterling Risk-Free Reference Rates having previously recommended the Sterling Overnight Index Average (SONIA) as the preferred risk-free rate in sterling markets.

The group chose to early-adopt the Phase Two reforms for the year ended 31 March 2021, though this has had no impact on the financial statements for the year then ended. When applicable, the group will take the relevant practical expedients from certain requirements in IFRS 9 and IFRS 7 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and hedge accounting.

At 31 March 2021, the group had a net balance of £591.3 million relating to financial instruments, along with an additional £700.0 million of undrawn committed facilities, still referencing LIBOR. Detail on the derivation of this net balance can be found in note A4, along with further information on the group's transition to alternative benchmarks. This figure is inclusive of £2,117.8 million nominal value of swaps designated within fair value hedging relationships. The group and company also had a £1,780.6 million loan receivable from its immediate parent, United Utilities Group PLC, at 31 March 2021, interest on which is calculated with reference to LIBOR.

These Phase Two amendments will be applicable on modification of the instruments to be linked to the alternative risk-free rate, as well as when changes to the fair value hedges are required as a result of the reform. The reliefs provided for in this amendment mean that on transition to the new risk-free rate, no one-off charge or credit to the income statement will be recognised, provided the transition has occurred on an economically equivalent basis. The amendments also mean that the group expects no discontinuation of hedge accounting to be required on transition to the new interest rate benchmarks, with modifications to the documentation permitted, provided these are directly related to the IBOR reform.

The group has previously adopted 'Phase One' – Amendments to IFRS 9 and IFRS 7 - Interest rate benchmark reform, which allowed temporary relief from applying specific hedge accounting requirements to hedging arrangements directly impacted by IBOR reform. This temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase Two reliefs begins.

As a result of the relief, the group expects that no material gain or loss will arise from the replacement of LIBOR with an alternative risk-free rate.

### 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

## Accounting policies

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.

As part of the evaluation of critical accounting judgements and key sources of estimation uncertainty, the group has considered the implications of climate change on its operations and activities, further details of which are set out below.

The following paragraphs detail the estimates and judgements the group believes to have the most significant impact on the annual results under IFRS, including specific considerations in light of the COVID-19 pandemic.

### ***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 different 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; and
- The customer has paid their bills in the preceding two years; however, has previously had statements de-recognised and has more than their current year debt outstanding.

This two-criteria approach resulted in £27.1 million 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 £7.9 million lower.

*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 based on experience. Estimates associated with these allowances are based on, amongst 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 2021, the allowance for doubtful receivables relating to household customer debt of £74.9 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 £1.3 million or reduced by £0.6 million respectively.

At the prior year balance sheet date, the expected future impact of the Covid-19 pandemic on the ability of some customers to pay their bills was specifically been taken into consideration as part of the expected credit loss assessment for trade receivables. This gave rise to a further £16.7 million incremental increase in the allowance for expected credit losses based on judgements around the likely impact of the pandemic on the non-payment risk profile of the group's customer base on a segmented basis.

A high level of uncertainty remains around how current economic conditions could impact the recoverability of household receivables, particularly in light of further lockdowns during the year. As government support schemes such as furlough unwind, this could result in increased unemployment and therefore further impact the ability of some customers to pay.

In recognition of this future uncertainty, the allowance for expected credit losses covering the group's household customer base has been determined based on the assumption that cash collection experienced over the last two years continues into the future. This assumption supports the reported household bad debt charge of 2.2 per cent of household revenue and is considered to be a reasonable estimate of future

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collection. Had the group assumed that future collection was maintained at levels experienced during the last 12 months alone, the charge would have been increased by £2.6 million to 2.4 per cent of household revenue. If the group had assumed that future collection improved to an average of actual collection experienced over the last 3 years, then the bad debt charge would have reduced by £3.8 million to 1.8% of household revenue.

*Accounting estimate* – The company 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 date of the last 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 2021 was £69.4 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 £4.8 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. Consumption patterns during the year have been significantly impacted by changes brought about by the COVID-19 pandemic, with household consumption having been above levels normally seen due to customers spending more time at home. As the year has progressed, the volume of household meter reads has gradually increased, resulting in the increased consumption during the pandemic period largely being captured in actual bills meaning that the level of estimation has reduced. By 31 March 2021, the system generated accrual had largely aligned to the independent automated meter read (AMR) data. AMR data is captured for around 25 per cent of all measured household customers, and this increase has been extrapolated across the remaining measured household customer base. The reasonableness of this approach has been validated through an assessment of bills raised in the period.

*Accounting estimate* – Due to temporary business closures required as a result of lockdown measures introduced by the UK Government, the level of non-household consumption has fallen significantly throughout the year ended 31 March 2021. Revenue in relation to wholesale charges billed to non-household retailers is recognised based on a series of settlement statements produced by the Central Market Operating System (CMOS), operated by Market Operator Services Ltd (MOSL). When generating bills in the absence of a current meter read, CMOS uses the 12 months prior to the last meter read to assess expected consumption. Depending on when a meter was last read, the calculated volumetric charge may not be wholly reflective of the consumption during the period estimated due to the impact that Covid-19 has had on different industries in the year. In recognition of this issue, MOSL advised non-household retailers in December 2020 that they should consider the trading status of their customers and amend their Yearly Volume Estimate to adjust the wholesale charges calculated by CMOS. The group has performed its own estimations of the adjustments required to these charges determined by CMOS, and has accrued for an additional £13.9 million of revenue in the year relating to non-household wholesale charges. This adjustment is based on an analysis of volume supplied for each particular end user at a supply point level, and comparing this with estimates in the CMOS system. Had this accrued income simply been based on the estimates calculated by CMOS, revenue would therefore have been £13.9 million lower, though based on the volumetric analysis performed management considers that this position would be overly prudent.

### ***Property, plant and equipment***

*Accounting judgement* - the group recognises property, plant and equipment (PPE) 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 it is incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 58 per cent of total spend in relation to infrastructure assets during the year. A change of +/- one per cent would have resulted in £4.0 million less/more expenditure being charged to the income statement during the period. In addition,

## Accounting policies

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 PPE represent 37 per cent of total support costs. A change in allocation of +/- 5 per cent would have resulted in £2.1 million less/more expenditure being charged to the income statement during the period.

*Accounting estimate* - the estimated useful economic lives of PPE 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 PPE 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 £422.3 million. A 10 per cent increase in average asset lives would have resulted in a £39.2 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £46.0 million increase in this figure.

### **Retirement benefits**

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

### **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 which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate. Sensitivities relating to derivative financial instruments are included in note A4.

### **Joint ventures – Water Plus**

*Accounting judgement* – The group's financial interests in Water Plus Group Limited, a joint venture with Severn Trent PLC, comprise an investment in the ordinary shares of Water Plus, and loans issued to the joint venture in the form of revolving credit facilities and a zero coupon shareholder loan note, further details of which are included in note A6.

Prior to 31 March 2021, it was proposed that existing working capital facilities extended to Water Plus by its shareholders would be restructured, resulting in each shareholder injecting a form of equity capital into the joint venture. United Utilities and Severn Trent would reconfigure an existing revolving credit facility, drawn-down to £32.5 million at the reporting date, into share capital, with the subscription price of this capital equalling the value of the cancelled revolving credit facility. On 23rd April 2021, the revolving credit facility was formally cancelled and the group completed the purchase of share capital.

Judgement is required in determining whether, at the reporting date, this revolving credit facility forms part of the group's long-term interest in Water Plus whose value would be reduced in accordance with the

## Accounting policies

group's share of joint venture losses in excess of the value of its equity investment when applying the equity method in accordance with IAS 28 'Investments in Associates and Joint Ventures'.

Notwithstanding the legal form, management view the revolving credit facility as forming part of the group's long-term interest in Water Plus at the balance sheet date. Timing differences existed between shareholder agreement to provide additional share capital (pre year-end) and the execution of the transaction (post year-end). The group has therefore determined that, in substance, it had an additional long-term interest in the Water Plus group at the reporting date.

In the year-ended 31 March 2020, the group's long-term interest in Water Plus was reduced to £nil. £5.3 million of unrecognised losses existed at the balance sheet date. These previously unrecognised losses, together with the group's share of the Water Plus's losses in the year ended 31 March 2021 of £8.9 million, have been allocated against the revolving credit facility at the balance sheet date. The £14.2 million total share of losses has been recognised in the group's income statement for the year-ended 31 March 2021.

Had an alternative judgement been applied such that this revolving credit facility was not considered to be part of the group's long-term interest in Water Plus, the group's £5.3 million unrecognised share of Water Plus's losses for the prior year and the group's £8.9 million share of Water Plus's losses for the current year would not have been recognised in the income statement resulting in a lower share of losses from joint ventures, and the carrying value of the amount owed by Water Plus in respect of the revolving credit facility would have been higher by this amount. See note A6 for further details.

### 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 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. In recent years depreciation was accelerated on a material value of bioresource facilities which were to be decommissioned in part as a result of the group's decarbonisation strategy. Following a robust series of asset life reviews in the period, no such material charges were deemed required for the year ended 31 March 2021.

The group is exposed to potential asset write-downs following flooding resulting from storms and other such 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.

The group has looked to further enhance the accuracy of its useful life assessment through the introduction of more forward-looking information in asset life reviews. This includes the use of data from the Pioneer Strategic Asset Planning System to assess the economic point of replacement for assets under future investment and performance scenarios. This information is to be used alongside other decommissioning data to inform useful economic 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.

## Notes to 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 predominantly arises from the provision of services within the United Kingdom, with less than one per cent of external revenue and non-current assets being overseas.

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

|                            | 2021<br>£m | 2020<br>£m |
|----------------------------|------------|------------|
| Salaries                   | 1.4        | 1.7        |
| Benefits                   | 0.3        | 0.4        |
| Bonus                      | 0.8        | 0.8        |
| Share-based payment charge | 1.7        | 1.0        |
|                            | <u>4.2</u> | <u>3.9</u> |

Included within the above are aggregate emoluments of £2.4 million (2020: £1.9 million) in respect of the highest paid director.

No directors accrued benefits under defined benefit schemes during the current year (2020: no directors). Four directors, including one who resigned during the year, opted for a cash allowance in lieu of their company pension scheme entitlement (2020: all directors).

## Notes to financial statements

### 3. Directors and employees (continued)

Six directors (2020: three directors), including one (2020: none) who resigned during the year, received shares in United Utilities Group PLC in respect of qualifying services. Six directors (2020: three directors), including one (2020: none) who resigned during the year, had long-term incentive plans which vested during the year. Aggregate amounts receivable relating to long-term incentive plans of £2.0 million (2020: £1.6 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 2021 Annual report and financial statements.

No payments for loss of office were made to the director who resigned during the year as he retired as a director of the United Utilities group.

#### Remuneration of key management personnel

|                                           | 2021<br>£m | 2020<br>£m |
|-------------------------------------------|------------|------------|
| Salaries and short-term employee benefits | 6.6        | 6.7        |
| Share-based payment charge                | 3.0        | 1.3        |
|                                           | <u>9.6</u> | <u>8.0</u> |

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

#### Employee benefits expense (including directors)

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

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

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 2021 UUG Annual report and financial statements. Included within wages and salaries is an expense of £3.6 million (2020: £1.5 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                                       | 2021<br>number | 2020<br>number |
|---------------------------------------------|----------------|----------------|
| Average number of employees during the year | <u>5,354</u>   | <u>5,302</u>   |

#### Company

The average number of employees during the year was 196 (2020: 211). These employees were engaged in the provision of services to United Utilities Water Limited, and as such employee costs of £17.8 million (2020: £17.0 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:

|                                                                                  | 2021<br>£m   | 2020<br>£m   |
|----------------------------------------------------------------------------------|--------------|--------------|
| <b>Other operating costs</b>                                                     |              |              |
| Hired and contracted services                                                    | 96.3         | 96.6         |
| Property rates                                                                   | 89.4         | 75.9         |
| Power                                                                            | 83.6         | 78.9         |
| Materials                                                                        | 82.2         | 75.1         |
| Regulatory fees                                                                  | 28.0         | 28.3         |
| Insurance                                                                        | 13.1         | 13.5         |
| Loss on disposal of property, plant and equipment                                | 10.7         | 13.9         |
| Accrued innovation costs                                                         | 6.2          | -            |
| Cost of properties disposed                                                      | 2.6          | 0.4          |
| Other expenses                                                                   | 19.8         | 20.8         |
|                                                                                  | <u>431.9</u> | <u>403.4</u> |
| <b>Allowance for expected credit losses – trade and other receivables</b>        |              |              |
| Allowance for expected credit losses – trade and other receivables (see note 14) | 28.7         | 41.8         |
|                                                                                  | <u>28.7</u>  | <u>41.8</u>  |
| <b>Other income</b>                                                              |              |              |
| Other income                                                                     | (3.6)        | (3.4)        |
|                                                                                  | <u>(3.6)</u> | <u>(3.4)</u> |
| <b>Depreciation and amortisation expense</b>                                     |              |              |
| Depreciation of property, plant and equipment (see note 9)                       | 379.8        | 441.6        |
| Amortisation of intangible assets (see note 10)                                  | 42.5         | 41.2         |
|                                                                                  | <u>422.3</u> | <u>482.8</u> |

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

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

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

## Notes to the financial statements

### 4. Operating profit (continued)

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

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

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

Other income relates primarily to property rental income.

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

|                                                             | 2021<br>£000 | 2020<br>£000 |
|-------------------------------------------------------------|--------------|--------------|
| <b>Audit services:</b>                                      |              |              |
| Statutory audit - group and company                         | 152          | 105          |
| Statutory audit - subsidiaries                              | 456          | 315          |
|                                                             | <u>608</u>   | <u>420</u>   |
| <b>Non-audit services:</b>                                  |              |              |
| Regulatory audit services provided by the statutory auditor | 71           | 62           |
| Other non-audit services                                    | 60           | 77           |
|                                                             | <u>739</u>   | <u>559</u>   |

### 5. Investment income

|                                                                                    | 2021<br>£m  | 2020<br>£m  |
|------------------------------------------------------------------------------------|-------------|-------------|
| Interest receivable on short-term bank deposits held at amortised cost             | 3.8         | 6.0         |
| Interest receivable on loan to joint ventures held at amortised cost (see note A6) | 3.7         | 4.0         |
| Net pension interest income (see note 18)                                          | 17.5        | 14.0        |
| Interest receivable from ultimate parent undertaking (see note A6)                 | 24.2        | 32.9        |
|                                                                                    | <u>49.2</u> | <u>56.9</u> |

## Notes to the financial statements

### 6. Finance expense

|                                                                                  | 2021<br>£m    | 2020<br>£m   |
|----------------------------------------------------------------------------------|---------------|--------------|
| <b>Interest payable</b>                                                          |               |              |
| Interest payable on borrowings held at amortised cost <sup>(1)</sup>             | 181.7         | 231.7        |
|                                                                                  | <u>181.7</u>  | <u>231.7</u> |
| <b>Fair value losses/(gains) on debt and derivative instruments</b>              |               |              |
| Fair value hedge relationships:                                                  |               |              |
| Borrowings <sup>(2)</sup>                                                        | (155.1)       | 87.1         |
| Designated swaps <sup>(2) (3)</sup>                                              | 132.8         | (68.6)       |
|                                                                                  | <u>(22.3)</u> | <u>18.5</u>  |
| Financial instruments at fair value through profit or loss:                      |               |              |
| Borrowings designated at fair value through profit or loss <sup>(4)</sup>        | (67.3)        | 57.8         |
| Associated swaps <sup>(5) (6)</sup>                                              | 67.8          | (49.8)       |
|                                                                                  | <u>0.5</u>    | <u>8.0</u>   |
| Fixed interest rate swaps <sup>(5)</sup>                                         | (36.0)        | 52.3         |
| Net receipts on swaps and debt under fair value option                           | (17.6)        | (15.3)       |
| Inflation swaps <sup>(5)</sup>                                                   | 3.4           | 13.4         |
| Other                                                                            | (2.5)         | (0.7)        |
|                                                                                  | <u>(52.7)</u> | <u>49.7</u>  |
| Net fair value (gains)/ losses on debt and derivative instruments <sup>(6)</sup> | <u>(74.5)</u> | <u>76.2</u>  |
|                                                                                  | <u>107.2</u>  | <u>307.9</u> |

Notes:

- (1) Includes a £52.6 million (2020: £100.8 million) non-cash inflation expense in relation to the group's index-linked debt and £1.8 million (2020: £1.6 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
- (2) Includes foreign exchange gains of £43.9 million (2020: £14.8 million losses) These gains/losses are largely offset by fair value losses/gains on derivatives.
- (3) Under the provisions of IFRS 9 'Financial instruments', a £12.7 million loss (2020: £1.3 million gain) resulting from changes to the foreign currency basis spread are recognised in other comprehensive income rather than profit or loss as they relate to items designated in an accounting hedge relationship.
- (4) Under the provisions of IFRS 9 'Financial instruments', a £43.3 million loss (2020: £34.2 million gain) due to 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, as a result, classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.
- (6) Includes £21.5 million income (2020: £16.0 million) due to net interest on derivatives and debt under fair value option and £1.3 million expense (2020: £0.5 million income) due to non-cash inflation changes on index-linked derivatives.

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

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

## Notes to the financial statements

### 7. Tax

|                                        | 2021<br>£m | 2020<br>£m |
|----------------------------------------|------------|------------|
| <b>Current tax</b>                     |            |            |
| UK corporation tax                     | 84.5       | 57.3       |
| Adjustments in respect of prior years  | (0.6)      | (12.2)     |
| Total current tax charge for the year  | 83.9       | 45.1       |
| <b>Deferred tax</b>                    |            |            |
| Current year                           | 20.2       | 16.4       |
| Adjustments in respect of prior years  | (1.8)      | 5.6        |
|                                        | 18.4       | 22.0       |
| Change in tax rate                     | -          | 135.5      |
| Total deferred tax charge for the year | 18.4       | 157.5      |
| Total tax charge for the year          | 102.3      | 202.6      |

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

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

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

|                                                      | 2021<br>£m | 2021<br>% | 2020<br>£m | 2020<br>% |
|------------------------------------------------------|------------|-----------|------------|-----------|
| Profit before tax                                    | 575.2      |           | 336.2      |           |
| Tax at the UK corporation tax rate                   | 109.3      | 19.0      | 63.8       | 19.0      |
| Adjustments in respect of prior years                | (2.4)      | (0.4)     | (6.6)      | (2.2)     |
| Change in tax rate                                   | -          | -         | 135.5      | 44.7      |
| Net (income)/expense not taxable                     | (4.6)      | (0.8)     | 9.9        | 3.2       |
| Total tax charge and effective tax rate for the year | 102.3      | 17.8      | 202.6      | 64.7      |

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

## Notes to the financial statements

### 7. Tax (continued)

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

|                                                                                | 2021   | 2020   |
|--------------------------------------------------------------------------------|--------|--------|
|                                                                                | £m     | £m     |
| Profit before tax                                                              | 575.2  | 336.2  |
| Profit before tax multiplied by the standard rate of UK corporation tax of 19% | 109.3  | 63.8   |
| Relief for capital allowances in place of depreciation                         | (78.6) | (82.1) |
| Disallowance of depreciation charged in the accounts                           | 70.0   | 81.6   |
| Financial transactions timing differences                                      | (7.8)  | 11.7   |
| Pension timing differences                                                     | -      | (22.5) |
| Relief for capitalised interest                                                | (5.8)  | (7.7)  |
| Other timing differences                                                       | 2.0    | 2.6    |
| Adjustments to tax charge in respect of prior years                            | (0.6)  | (12.2) |
| Joint venture net losses                                                       | 1.8    | 7.2    |
| Profit on disposal of joint venture                                            | (7.0)  | -      |
| (Income not taxable)/expenses not deductible for tax purposes                  | (1.7)  | 0.5    |
| Depreciation charged on non-qualifying assets                                  | 2.3    | 2.2    |
| Current tax charge for the year                                                | 83.9   | 45.1   |

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.

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

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

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

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

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

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

## Notes to the financial statements

### 7. Tax (continued)

#### Tax on items taken directly to equity

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

|                                                                    | 2021<br>£m   | 2020<br>£m  |
|--------------------------------------------------------------------|--------------|-------------|
| <b>Company</b>                                                     |              |             |
| <b>Current tax</b>                                                 |              |             |
| Relating to other pension movements                                | (0.7)        | -           |
| <b>Deferred tax (see note 19)</b>                                  |              |             |
| On remeasurement (losses)/gains on defined benefit pension schemes | (6.6)        | 35.8        |
| Relating to other pension movements                                | 0.7          | -           |
| Total tax charge on items taken directly to equity                 | <u>(6.6)</u> | <u>35.8</u> |

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

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

### 8. Dividends

Amounts recognised as distributions to equity holders of the company in the year comprise:

|                                                                                                | 2021<br>£m   | 2020<br>£m   |
|------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Ordinary shares</b>                                                                         |              |              |
| Final dividend for the year ended 31 March 2020 at 21.96 pence per share (2019: 21.29 pence)   | 193.6        | 187.7        |
| Interim dividend for the year ended 31 March 2021 at 11.15 pence per share (2020: 10.98 pence) | 98.3         | 96.8         |
|                                                                                                | <u>291.9</u> | <u>284.5</u> |

## Notes to the financial statements

### 9. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

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

#### Property, plant and equipment –owned

| Group                           | Land and<br>buildings<br>£m | Infra-<br>structure<br>assets<br>£m | Operational<br>assets<br>£m | Fixtures,<br>fittings,<br>tools and<br>equipment<br>£m | Assets in<br>course of<br>construction<br>£m | Total<br>£m |
|---------------------------------|-----------------------------|-------------------------------------|-----------------------------|--------------------------------------------------------|----------------------------------------------|-------------|
| <b>Cost</b>                     |                             |                                     |                             |                                                        |                                              |             |
| At 1 April 2019                 | 359.7                       | 5,490.4                             | 7,422.1                     | 538.2                                                  | 1,625.4                                      | 15,435.8    |
| Additions                       | 1.8                         | 140.5                               | 157.1                       | 9.7                                                    | 445.4                                        | 754.5       |
| Transfers                       | 6.0                         | 131.1                               | 358.8                       | 24.1                                                   | (520.0)                                      | -           |
| Disposals                       | (13.6)                      | (31.5)                              | (251.2)                     | (13.0)                                                 | -                                            | (309.3)     |
| At 31 March 2020                | 353.9                       | 5,730.5                             | 7,686.8                     | 559.0                                                  | 1,550.8                                      | 15,881.0    |
| Additions                       | 1.7                         | 100.8                               | 136.7                       | 8.4                                                    | 430.3                                        | 677.9       |
| Transfers                       | 9.8                         | 67.5                                | 362.7                       | (3.3)                                                  | (438.7)                                      | (2.0)       |
| Disposals                       | (1.6)                       | -                                   | (167.1)                     | (47.6)                                                 | -                                            | (216.3)     |
| At 31 March 2021                | 363.8                       | 5,898.8                             | 8,019.1                     | 516.5                                                  | 1,542.4                                      | 16,340.6    |
| <b>Accumulated depreciation</b> |                             |                                     |                             |                                                        |                                              |             |
| At 1 April 2019                 | 126.9                       | 421.4                               | 3,333.9                     | 400.3                                                  | -                                            | 4,282.4     |
| Charge for the year             | 8.8                         | 44.4                                | 353.4                       | 33.0                                                   | -                                            | 439.6       |
| Disposals                       | (13.5)                      | (31.2)                              | (237.1)                     | (12.8)                                                 | -                                            | (294.6)     |
| At 31 March 2020                | 122.2                       | 434.5                               | 3,450.2                     | 420.5                                                  | -                                            | 4,427.4     |
| Charge for the year             | 8.6                         | 43.3                                | 297.3                       | 29.5                                                   | -                                            | 378.7       |
| Transfers                       | -                           | -                                   | -                           | (1.0)                                                  | -                                            | (1.0)       |
| Disposals                       | (1.5)                       | -                                   | (155.7)                     | (47.0)                                                 | -                                            | (204.2)     |
| At 31 March 2021                | 129.3                       | 477.8                               | 3,591.8                     | 402.0                                                  | -                                            | 4,600.9     |
| <b>Net book value</b>           |                             |                                     |                             |                                                        |                                              |             |
| At 31 March 2020                | 231.7                       | 5,296.0                             | 4,236.6                     | 138.5                                                  | 1,550.8                                      | 11,453.6    |
| At 31 March 2021                | 234.5                       | 5,421.0                             | 4,427.3                     | 114.5                                                  | 1,542.4                                      | 11,739.7    |

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

## Notes to the financial statements

### 9. Property, plant and equipment (continued)

#### Property, plant and equipment – leased

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

Note:

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

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

At 31 March 2021, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £335.8 million (2020: £432.6 million).

In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by regulators and to provide for future growth.

## Notes to the financial statements

### 9. Property, plant and equipment (continued)

#### Company

At 1 April 2019 the company recognised property, plant and equipment at a cost of £3.2 million as an opening balance adjustment on adoption of IFRS 16 'Leases'. This adjustment was in respect of leased land and buildings. Depreciation of £0.2 million was charged during the year ended 31 March 2021 (2020: £0.2 million), resulting in a net book value of £2.8 million at 31 March 2021 (2020: £3.0 million).

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

### 10. Intangible assets

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

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

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

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

#### Company

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

## Notes to the financial statements

### 11. Investment in joint ventures

| <b>Group</b>                                                                                | <b>Total<br/>£m</b> |
|---------------------------------------------------------------------------------------------|---------------------|
| At 1 April 2019                                                                             | 79.0                |
| Share of profit/(losses) of joint ventures                                                  | (38.1)              |
| Less: share of losses allocated to other components of long-term interest in joint ventures | 9.5                 |
| Dividends received from joint ventures                                                      | (4.9)               |
| Currency translation differences                                                            | 1.3                 |
| At 31 March 2020                                                                            | 46.8                |
| Share of profit/(losses) of joint ventures                                                  | (9.3)               |
| Less: share of losses allocated to other components of long-term interest in joint ventures | 14.2                |
| Dividends received from joint ventures                                                      | (6.4)               |
| Currency translation differences                                                            | (1.6)               |
| Disposal of joint venture                                                                   | (43.7)              |
| <b>At 31 March 2021</b>                                                                     | <b>-</b>            |

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

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

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

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

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

#### Company

At 31 March 2021 and 31 March 2020 the carrying value of the company's investments in joint ventures was £nil. In both years the investment in joint ventures related entirely to the company's investment in Water Plus, which is held at cost less provision for impairment in the company's separate financial statements. This £nil balance reflects a £39.1 million impairment recognised in during the prior year following a deterioration in the working capital position of Water Plus, and in light of the significant impact of the COVID-19 pandemic on the non-household market and its participants. No impairment in relation to the investment in the joint venture had been recognised in previous years.

## Notes to the financial statements

### 11. Investment in joint ventures (continued)

As the company does not account for its investments in joint ventures using the equity method, unlike in the consolidated group's financial statements the zero coupon shareholder loan notes are not considered to be part of the company's long-term interest in Water Plus subject to impairment or write down to reflect a share of the joint venture's losses. These zero coupon shareholder loan notes and revolving credit facilities are instead subject only to an assessment for expected credit losses in accordance with IFRS 9 'Financial Instruments'. See note A6 for further details.

### 12. Other investments

| Group                            | Total<br>£m |
|----------------------------------|-------------|
| At 1 April 2019                  | 11.5        |
| Change in fair value             | 0.6         |
| Reduction in investment stake    | (1.1)       |
| Disposal of investment           | (10.9)      |
| Currency translation differences | -           |
| At 31 March 2020                 | 0.1         |
| Change in fair value             | -           |
| <b>At 31 March 2021</b>          | <b>0.1</b>  |

During the prior year, the group completed its disposal of its overseas investment in the Muharraq sewerage treatment plant. Consideration for the disposal was equal to the fair value at which the asset was carried resulting in no gain or loss on disposal.

| Company                                | Shares in subsidiary<br>undertakings<br>£m |
|----------------------------------------|--------------------------------------------|
| At 1 April 2019                        | 4,008.3                                    |
| Reversal of impairment                 | 6.6                                        |
| At 31 March 2020                       | 4,014.9                                    |
| Change in fair value                   | -                                          |
| <b>Net book value at 31 March 2021</b> | <b>4,014.9</b>                             |

During the prior year, impairments of £1.6 million and £5.0 million recognised in the years ended 31 March 2019 and 31 March 2018 respectively in relation to the company's investment in United Utilities (Tallinn) B.V. reversed. This was due to an increase in the fair value of that company's investment in AS Tallinna Vesi.

### 13. Inventories

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

#### Company

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

## Notes to the financial statements

### 14. Trade and other receivables

|                                                           | 2021<br>£m     | Group<br>2020<br>£m | 2021<br>£m     | Company<br>2020<br>£m |
|-----------------------------------------------------------|----------------|---------------------|----------------|-----------------------|
| Trade receivables                                         | 63.5           | 81.2                | -              | -                     |
| Amounts owed by subsidiary undertakings                   | -              | -                   | 1,390.9        | 1,679.0               |
| Amounts owed by ultimate parent undertaking (see note A6) | 1,788.0        | 1,764.1             | 1,788.0        | 1,764.1               |
| Amounts owed by other related parties (see note A6)       | 113.8          | 147.9               | 108.8          | 9.5                   |
| Other debtors and prepayments                             | 34.3           | 39.1                | -              | -                     |
| Accrued income                                            | 104.3          | 74.7                | -              | -                     |
|                                                           | <u>2,103.9</u> | <u>2,107.0</u>      | <u>3,287.7</u> | <u>3,452.6</u>        |

At 31 March 2021 the group had £1,867.3 million (2020: £1,849.1 million) and the company had £1,889.4 million (2020: £1,761.5 million) of trade and other receivables classified as non-current. These included £1,780.6 million (2020: £1,752.0 million) relating to a loan owed by the ultimate parent, whose repayment date falls not less than 366 days after the date of a repayment request, with the remaining £108.8 million relating to amounts owed by other related parties, further details of which can be found in note A6.

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 2021 and 31 March 2020.

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

| Group                                              | 2021<br>£m  | 2020<br>£m  |
|----------------------------------------------------|-------------|-------------|
| At the start of the year                           | 71.4        | 56.5        |
| Amounts charged to operating expenses (see note 4) | 28.7        | 41.8        |
| Trade receivables written off                      | (20.2)      | (28.0)      |
| Amounts charged to deferred income                 | 0.5         | 1.1         |
| <b>At the end of the year</b>                      | <u>80.4</u> | <u>71.4</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. In the year ended 31 March 2020, an allowance for expected credit losses of £18.1 million was recognised in relation to trade and other receivables, reflecting the direct impact of COVID-19 estimated at the onset of the pandemic. In the year ended 31 March 2021, a further charge of around £5 million was recognised due to increased risk associated with cash collection as government support schemes are withdrawn.

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

## Notes to the financial statements

### 14. Trade and other receivables (continued)

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>                        | 2021<br>£m  | 2020<br>£m  |
|---------------------------------------|-------------|-------------|
| At the start of the year              | 97.4        | 95.9        |
| Amounts charged to operating expenses | 0.7         | 1.5         |
| <b>At the end of the year</b>         | <b>98.1</b> | <b>97.4</b> |

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.

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

| <b>Group</b>                         | Aged<br>less than<br>one year<br>£m | Aged<br>between<br>one year and<br>two years<br>£m | Aged<br>greater than<br>two years<br>£m | Carrying<br>value<br>£m |
|--------------------------------------|-------------------------------------|----------------------------------------------------|-----------------------------------------|-------------------------|
| <b>At 31 March 2021</b>              |                                     |                                                    |                                         |                         |
| Gross trade receivables              | 61.9                                | 35.3                                               | 44.4                                    | 141.7                   |
| Allowance for expected credit losses | (19.9)                              | (16.5)                                             | (43.9)                                  | (80.4)                  |
| Net trade receivables                | 42.0                                | 18.8                                               | 0.5                                     | 61.3                    |
|                                      |                                     |                                                    |                                         |                         |
| <b>At 31 March 2020</b>              |                                     |                                                    |                                         |                         |
| Gross trade receivables              | 72.8                                | 31.6                                               | 43.4                                    | 147.8                   |
| Allowance for expected credit losses | (19.3)                              | (15.7)                                             | (36.4)                                  | (71.4)                  |
| Net trade receivables                | 53.5                                | 15.9                                               | 7.0                                     | 76.4                    |

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

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

#### Company

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

## Notes to the financial statements

### 15. Cash and cash equivalents

|                                                                 | <b>Group</b> |              | <b>Company</b> |             |
|-----------------------------------------------------------------|--------------|--------------|----------------|-------------|
|                                                                 | 2021<br>£m   | 2020<br>£m   | 2021<br>£m     | 2020<br>£m  |
| Cash at bank and in hand                                        | 88.9         | 33.0         | 0.1            | 0.0         |
| Short-term bank deposits                                        | 655.2        | 495.1        | 9.0            | 25.0        |
| <b>Cash and short-term deposits</b>                             | <b>744.1</b> | <b>528.1</b> | <b>9.1</b>     | <b>25.0</b> |
| Book overdrafts (included in borrowings, see note 16)           | (10.5)       | (14.1)       | (0.1)          | -           |
| <b>Cash and cash equivalents in the statement of cash flows</b> | <b>733.6</b> | <b>514.0</b> | <b>9.0</b>     | <b>25.0</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.

### 16. Borrowings

|                                             | 2021<br>£m     | 2020<br>£m     |
|---------------------------------------------|----------------|----------------|
| <b>Group</b>                                |                |                |
| <b>Non-current liabilities</b>              |                |                |
| Bonds                                       | 6,029.9        | 5,648.5        |
| Bank and other term borrowings              | 1,710.4        | 1,814.9        |
| Lease liabilities                           | 56.7           | 54.7           |
|                                             | <b>7,797.0</b> | <b>7,518.1</b> |
| <b>Current liabilities</b>                  |                |                |
| Bonds                                       | 388.5          | -              |
| Bank and other term borrowings              | 252.5          | 827.2          |
| Book overdrafts (see note 15)               | 10.5           | 14.1           |
| Lease liabilities                           | 3.3            | 2.9            |
| Amounts owed to ultimate parent undertaking | 85.1           | 80.0           |
|                                             | <b>739.9</b>   | <b>924.2</b>   |
|                                             | <b>8,536.9</b> | <b>8,442.3</b> |

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

|                                | 2021<br>£m   | 2020<br>£m   |
|--------------------------------|--------------|--------------|
| <b>Company</b>                 |              |              |
| <b>Non-current liabilities</b> |              |              |
| Bonds                          | 287.9        | 319.7        |
| Lease liabilities              | 2.5          | 2.7          |
|                                | <b>290.4</b> | <b>322.4</b> |

## Notes to the financial statements

### 16. Borrowings (continued)

#### Company (continued)

##### Current liabilities

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Bank and other term borrowings              | 100.0          | 120.0          |
| Bank overdrafts (see note 15)               | 0.1            | -              |
| Lease liabilities                           | 0.3            | 0.3            |
| Amounts owed to subsidiary undertakings     | 696.6          | 555.5          |
| Amounts owed to ultimate parent undertaking | 85.1           | 80.0           |
|                                             | <u>882.1</u>   | <u>755.8</u>   |
|                                             | <u>1,172.5</u> | <u>1,078.2</u> |

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

### 17. Leases

As part of its activities, the group typically leases items such as land, buildings and vehicles. The group does not typically lease assets on a short-term basis or enter into leases for low value assets 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.

Lease terms range from one year to 999 years. Due to the nature of the group's operations, many of the group's leases have extremely long terms.

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

|                                         | <b>Group</b> |              | <b>Company</b> |            |
|-----------------------------------------|--------------|--------------|----------------|------------|
|                                         | 2021         | 2020         | 2021           | 2020       |
|                                         | £m           | £m           | £m             | £m         |
| Less than 1 year                        | 3.3          | 2.9          | 0.3            | 0.3        |
| 1 to 5 years                            | 10.5         | 8.9          | 1.1            | 1.1        |
| 5 to 10 years                           | 7.8          | 9.7          | 1.4            | 1.4        |
| 10 to 25 years                          | 25.5         | 25.2         | 0.3            | 0.7        |
| 25 to 50 years                          | 41.0         | 40.5         | -              | -          |
| 50 to 100 years                         | 81.0         | 80.1         | -              | -          |
| 100 to 500 years                        | 107.6        | 106.9        | -              | -          |
| Longer than 500 years                   | 3.2          | 3.2          | -              | -          |
| <b>Total undiscounted cash payments</b> | <u>279.9</u> | <u>277.4</u> | <u>3.1</u>     | <u>3.5</u> |
| Effect of discounting                   | (219.9)      | (219.9)      | (0.3)          | (0.5)      |
| <b>Present value of cash payments</b>   | <u>60.0</u>  | <u>57.5</u>  | <u>2.8</u>     | <u>3.0</u> |

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

The total cash outflow for leases for the year ended 31 March 2021 was £3.5 million for the group (2020: £3.3 million), of which £1.8 million was payment of interest (2020: £1.6 million) and £1.7 million payment of principal (2020: £1.7 million). Total cash outflows for the company were £0.3 million in relation to payments of principal (2020: £0.2 million).

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.

## Notes to the financial statements

### 18. Retirement benefit surplus

#### Defined benefit schemes

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

|                                                                        | 2021<br>£m   | Group<br>2020<br>£m | 2021<br>£m   | Company<br>2020<br>£m |
|------------------------------------------------------------------------|--------------|---------------------|--------------|-----------------------|
| Current service cost                                                   | 4.9          | 6.1                 | 0.3          | 0.5                   |
| Curtailments/settlements                                               | 0.6          | 4.6                 | 0.2          | 1.0                   |
| Administrative expenses                                                | 3.0          | 1.6                 | 1.0          | 0.6                   |
| <b>Pension expense charged to operating profit</b>                     | <b>8.5</b>   | <b>12.3</b>         | <b>1.5</b>   | <b>2.1</b>            |
| Net pension interest income credited to investment income (see note 5) | (17.5)       | (14.0)              | (4.1)        | (3.1)                 |
| <b>Net pension income credited to the income statement before tax</b>  | <b>(9.0)</b> | <b>(1.7)</b>        | <b>(2.6)</b> | <b>(1.0)</b>          |

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £7.9 million (2020: £7.7 million) for the group and £1.3 million (2020: £1.1 million) for the company, comprising current service costs and administrative expenses.

Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £31.3 million (2020: £30.2 million) for the group and £1.3 million (2020: £1.1 million) for the company comprise the defined benefit costs described above of £7.9 million (2020: £7.7 million) for the group and £1.3 million (2020: £1.1 million) for the company, and defined contribution pension costs of £23.4 million (2020: £22.5 million) for the group and £nil (2020: £nil) for the company (see note 3).

Included within curtailments/settlements is £0.5 million (2020: £nil) for the group and £0.2 million (2020: £nil) for the company relating to the equalisation of GMP benefits (see note A5 for further details).

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

|                                           | 2021<br>£m   | Group<br>2020<br>£m | 2021<br>£m   | Company<br>2020<br>£m |
|-------------------------------------------|--------------|---------------------|--------------|-----------------------|
| At the start of the year                  | 754.1        | 483.9               | 175.0        | 110.1                 |
| Income recognised in the income statement | 9.0          | 1.7                 | 2.6          | 1.0                   |
| Contributions                             | 8.6          | 113.9               | 0.9          | 22.7                  |
| Remeasurement (losses)/gains gross of tax | (82.7)       | 154.6               | (20.5)       | 41.2                  |
| <b>At the end of the year</b>             | <b>689.0</b> | <b>754.1</b>        | <b>158.0</b> | <b>175.0</b>          |

Included in the group contributions paid of £8.6 million (2020: £113.9 million) and company contributions paid of £0.9 million (2020: £22.7 million) were deficit repair contributions for the group of £nil (2020: £103.0 million) and for the company of £nil (2020: £21.6 million), enhancements to benefits provided on redundancy for the group of £0.9 million (2020: £1.9 million) and for the company of £0.3 million (2020: £0.3 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.7 million (2020: £1.4 million) for the group and £nil (2020: £nil) for the company, and administration expenses for the group of £0.4 million (2020: £0.4 million) and for the company of £0.2 million (2020: £0.2 million). Following the 2018 actuarial valuation, contributions in relation to current service cost remained broadly stable at £6.6 million (2020: £7.2 million) for the group and £0.4 million (2020: £0.6 million) for the company.

## Notes to the financial statements

### 18. Retirement benefit surplus (continued)

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

|                                                                          | 2021<br>£m | Group<br>2020<br>£m | 2021<br>£m | Company<br>2020<br>£m |
|--------------------------------------------------------------------------|------------|---------------------|------------|-----------------------|
| The return on plan assets, excluding amounts included in interest        | 241.0      | (131.6)             | 55.6       | (35.3)                |
| Actuarial (losses)/gains arising from changes in financial assumptions   | (429.7)    | 257.3               | (106.2)    | 69.3                  |
| Actuarial gains/(losses) arising from changes in demographic assumptions | 80.6       | (7.2)               | 20.1       | (1.9)                 |
| Actuarial gains arising from experience                                  | 25.4       | 36.1                | 10.0       | 9.1                   |
| Remeasurement (losses)/gains on defined benefit pension schemes          | (82.7)     | 154.6               | (20.5)     | 41.2                  |

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

### Defined contribution schemes

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

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

## Notes to the financial statements

### 19. Deferred tax liabilities (continued)

| Company                         | Accelerated<br>tax<br>depreciation<br>£m | Retirement<br>benefit<br>obligations<br>£m | Other<br>£m  | Total<br>£m |
|---------------------------------|------------------------------------------|--------------------------------------------|--------------|-------------|
| At 1 April 2019                 | (0.1)                                    | 18.7                                       | (1.5)        | 17.1        |
| Charged to the income statement | -                                        | 4.6                                        | 0.6          | 5.2         |
| Change in tax rate              | -                                        | 2.1                                        | (0.1)        | 2.0         |
| Charged to equity (see note 7)  | -                                        | 35.8                                       | -            | 35.8        |
| At 31 March 2020                | (0.1)                                    | 61.2                                       | (1.0)        | 60.1        |
| Charged to the income statement | -                                        | -                                          | 0.4          | 0.4         |
| Charged to equity (see note 7)  | -                                        | (5.9)                                      | -            | (5.9)       |
| <b>At 31 March 2021</b>         | <b>(0.1)</b>                             | <b>55.3</b>                                | <b>(0.6)</b> | <b>54.6</b> |

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

The deferred tax charge in the prior year of £135.5 million for the group and £2.0 million for the company reflects the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

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

Due to the group's continued significant annual capital expenditure, the deductions for capital allowances are expected to exceed depreciation for the medium term and continue to impact future corporation tax payments.

Given the fully funded nature of the group's defined benefit pension schemes, the retirement benefit obligations primarily 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.

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

## Notes to the financial statements

### 20. Provisions

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

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

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

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

#### Company

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

### 21. Trade and other payables

|                                         | 2021<br>£m   | <b>Group</b><br>2020<br>£m | 2021<br>£m | <b>Company</b><br>2020<br>£m |
|-----------------------------------------|--------------|----------------------------|------------|------------------------------|
| <b>Non-current</b>                      |              |                            |            |                              |
| Deferred grants and contributions       | 780.4        | 736.8                      | -          | -                            |
| Other creditors                         | 17.9         | 24.4                       | -          | -                            |
| Amounts owed to subsidiary undertakings | -            | -                          | -          | 4.4                          |
|                                         | <u>798.3</u> | <u>761.2</u>               | <u>-</u>   | <u>4.4</u>                   |

|                                             | 2021<br>£m   | <b>Group</b><br>2020<br>£m | 2021<br>£m  | <b>Company</b><br>2020<br>£m |
|---------------------------------------------|--------------|----------------------------|-------------|------------------------------|
| <b>Current</b>                              |              |                            |             |                              |
| Trade payables                              | 33.3         | 36.7                       | -           | -                            |
| Amounts owed to ultimate parent undertaking | 6.8          | 7.4                        | 4.6         | 6.2                          |
| Amounts owed to subsidiary undertakings     | -            | -                          | 29.9        | 26.4                         |
| Amounts owed to other related parties       | 2.4          | 4.8                        | 1.1         | 4.5                          |
| Other tax and social security               | 5.9          | 5.8                        | -           | -                            |
| Deferred grants and contributions           | 15.4         | 14.5                       | -           | -                            |
| Accruals and other creditors                | 217.9        | 225.9                      | 5.9         | 6.1                          |
| Deferred income                             | 44.6         | 44.7                       | -           | -                            |
|                                             | <u>326.2</u> | <u>339.8</u>               | <u>41.6</u> | <u>43.2</u>                  |

The average credit period taken for trade purchases for the group is 13 days (2020: 15 days) and for the company is nil days (2020: nil days).

## Notes to the financial statements

### 21. Trade and other payables (continued)

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

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

#### Deferred grants and contributions

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

### 22. Other reserves

|                                                                                   | Cumulative<br>exchange<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m | Cash flow<br>hedging<br>reserve<br>£m | Total<br>£m |
|-----------------------------------------------------------------------------------|-----------------------------------------|-------------------------------------|---------------------------------------|-------------|
| At 1 April 2020                                                                   | (2.4)                                   | 10.7                                | (1.3)                                 | 7.0         |
| <b>Other comprehensive income</b>                                                 |                                         |                                     |                                       |             |
| Change in fair value recognised in other comprehensive income                     | -                                       | (12.7)                              | 9.3                                   | (3.4)       |
| Tax on items taken directly to equity                                             | -                                       | 2.4                                 | (1.8)                                 | 0.6         |
| Foreign exchange adjustments                                                      | (1.6)                                   | -                                   | -                                     | (1.6)       |
| Foreign exchange adjustments reclassified to profit on disposal of joint ventures | 4.0                                     | -                                   | -                                     | 4.0         |
| <b>At 31 March 2021</b>                                                           | <b>-</b>                                | <b>0.4</b>                          | <b>6.2</b>                            | <b>6.6</b>  |
|                                                                                   |                                         |                                     |                                       |             |
|                                                                                   | Cumulative<br>exchange<br>reserve<br>£m | Cost of<br>hedging<br>reserve<br>£m | Cash flow<br>hedging<br>reserve<br>£m | Total<br>£m |
| At 1 April 2019                                                                   | (3.7)                                   | 12.0                                | 0.3                                   | 8.6         |
| <b>Other comprehensive income</b>                                                 |                                         |                                     |                                       |             |
| Change in fair value recognised in other comprehensive income                     | -                                       | 1.3                                 | (7.6)                                 | (6.3)       |
| Amounts reclassified from other comprehensive income to profit or loss            | -                                       | -                                   | 5.6                                   | 5.6         |
| Deferred tax adjustments in respect of prior years on net fair value gains        | -                                       | (2.4)                               | -                                     | (2.4)       |
| Tax on items taken directly to equity                                             | -                                       | (0.2)                               | 0.4                                   | 0.2         |
| Foreign exchange adjustments                                                      | 1.3                                     | -                                   | -                                     | 1.3         |
| <b>At 31 March 2020</b>                                                           | <b>(2.4)</b>                            | <b>10.7</b>                         | <b>(1.3)</b>                          | <b>7.0</b>  |

## Notes to the financial statements

### 22. 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 2021, 31 March 2020 or 1 April 2019.

### 23. Share capital

|                                         | 2021<br>number     | 2021<br>£          | 2020<br>number     | 2020<br>£          |
|-----------------------------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Group and Company</b>                |                    |                    |                    |                    |
| <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.

### 24. Contingent liabilities

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

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

As explained further in note A6, in the prior year, the company had a guarantee in favour of United Utilities Water Limited in respect of a revolving credit facility issued by that company to the group's joint venture, Water Plus, on which £98.0 million was outstanding at 31 March 2020. In the prior year, the company had a liability of £4.4 million in respect of expected credit losses relating to this balance. This revolving credit facility transferred to the company from United Utilities Water Limited during the year ended 31 March 2021, and therefore the previous guarantee and related liability are no longer in place.

## Notes to the financial statements

### 25. Events after the reporting period

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

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

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

### 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 - Appendices

### A1. Cash generated from operations

|                                                                              | <b>Group</b>   |              | <b>Company</b> |              |
|------------------------------------------------------------------------------|----------------|--------------|----------------|--------------|
|                                                                              | 2021           | 2020         | 2021           | 2020         |
|                                                                              | £m             | £m           | £m             | £m           |
| Profit before tax                                                            | 575.2          | 336.2        | 35.2           | 523.9        |
| Adjustment for investment income and finance expense (see notes 5, 6 and A6) | 54.3           | 256.0        | (35.8)         | (42.5)       |
| Adjustment for share of losses of joint ventures (see note 11)               | 9.3            | 38.1         | -              | -            |
| Adjustment for profit on disposal of joint ventures                          | (36.7)         | -            | -              | -            |
| Operating profit                                                             | 602.1          | 630.3        | (0.6)          | 481.4        |
| Adjustments for:                                                             |                |              |                |              |
| Depreciation of property, plant and equipment (see note 9)                   | 379.8          | 441.6        | 0.2            | 0.2          |
| Amortisation of intangible assets (see note 10)                              | 42.5           | 41.2         | -              | -            |
| Loss on disposal of property, plant and equipment (see note 4)               | 10.7           | 13.9         | -              | -            |
| Amortisation of deferred grants and contributions (see note 21)              | (15.0)         | (13.8)       | -              | -            |
| Impairment of investments (see note 12)                                      | -              | -            | -              | 32.5         |
| Changes in working capital:                                                  |                |              |                |              |
| Increase in inventories (see note 13)                                        | (1.7)          | (1.7)        | -              | -            |
| (Increase)/decrease in trade and other receivables                           | (9.8)          | 4.6          | 144.3          | (280.9)      |
| Increase/(decrease) in trade and other payables                              | 1.4            | (44.8)       | 174.0          | 86.5         |
| Decrease in provisions (see note 20)                                         | (5.3)          | (0.4)        | -              | -            |
| Pension contributions paid less pension expense charged to operating profit  | (0.1)          | (101.6)      | 0.6            | (20.6)       |
| <b>Cash generated from operations</b>                                        | <b>1,004.6</b> | <b>969.3</b> | <b>318.5</b>   | <b>299.1</b> |

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

#### Owned property, plant and equipment<sup>(1)</sup>

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

## Notes to the financial statements - Appendices

### A1. Cash generated from operations (continued)

#### Intangible assets

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

The company had no property, plant and equipment or intangible asset additions during the years ended 31 March 2021 and 31 March 2020.

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

### A2. Net Debt

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

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

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 therefore be read in conjunction with the consolidated statement of cash flows.

## Notes to the financial statements - Appendices

### 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 2020                                                  | (5,648.5)        | (2,642.1)                      | (57.6)            | (80.0)                                      | 395.7                 | 80.1                                 | (7,952.4)                                   | 514.0                     | 131.7                                              | (7,306.7)        |
| <b>Non-cash movements</b>                                        |                  |                                |                   |                                             |                       |                                      |                                             |                           |                                                    |                  |
| Inflation uplift on index-linked debt                            | (32.4)           | (20.2)                         | -                 | -                                           | -                     | -                                    | (52.6)                                      | -                         | -                                                  | (52.6)           |
| Fair value movements                                             | 123.8            | 11.3                           | -                 | -                                           | (140.6)               | (39.6)                               | (45.1)                                      | -                         | (33.3)                                             | (78.4)           |
| Foreign exchange                                                 | 38.7             | 5.2                            | -                 | -                                           | -                     | -                                    | 43.9                                        | -                         | -                                                  | 43.9             |
| Other                                                            | 0.7              | -                              | (5.9)             | -                                           | -                     | -                                    | (5.2)                                       | -                         | -                                                  | (5.2)            |
| <b>Cash flows used in financing activities:</b>                  |                  |                                |                   |                                             |                       |                                      |                                             |                           |                                                    |                  |
| Receipts in respect of borrowings and derivatives                | (900.7)          | (6.1)                          | -                 | (5.1)                                       | (2.9)                 | -                                    | (914.8)                                     | 912.8                     | -                                                  | (2.0)            |
| Payments in respect of borrowings and derivatives <sup>(1)</sup> | -                | 689.0                          | 1.7               | -                                           | 10.8                  | -                                    | 701.5                                       | (701.5)                   | -                                                  | -                |
| Dividends paid                                                   | -                | -                              | -                 | -                                           | -                     | -                                    | -                                           | (291.9)                   | -                                                  | (291.9)          |
| <b>Changes arising from financing activities</b>                 | <b>(769.9)</b>   | <b>679.2</b>                   | <b>(4.2)</b>      | <b>(5.1)</b>                                | <b>(132.7)</b>        | <b>(39.6)</b>                        | <b>(272.3)</b>                              | <b>(80.6)</b>             | <b>(33.3)</b>                                      | <b>(386.2)</b>   |
| Cash flows used in investing activities                          | -                | -                              | -                 | -                                           | -                     | -                                    | -                                           | (549.3)                   | -                                                  | (549.3)          |
| Cash flows generated from operating activities                   | -                | -                              | 1.8               | -                                           | -                     | -                                    | 1.8                                         | 849.5                     | -                                                  | 851.3            |
| <b>At 31 March 2021</b>                                          | <b>(6,418.4)</b> | <b>(1,962.9)</b>               | <b>(60.0)</b>     | <b>(85.1)</b>                               | <b>263.0</b>          | <b>40.5</b>                          | <b>(8,222.9)</b>                            | <b>733.6</b>              | <b>98.4</b>                                        | <b>(7,390.9)</b> |

# Notes to the financial statements - Appendices

## 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 31 March 2019                                                 | (5,256.5)        | (2,544.6)                      | -                 | (74.1)                                      | 327.1                 | 82.6                                 | (7,465.5)                                   | 325.1                     | 76.4                                               | (7,064.0)        |
| Adjustment on initial application of IFRS 16                     | -                | -                              | (54.4)            | -                                           | -                     | -                                    | (54.4)                                      | -                         | -                                                  | (54.4)           |
| At 1 April 2019                                                  | (5,256.5)        | (2,544.6)                      | (54.4)            | (74.1)                                      | 327.1                 | 82.6                                 | (7,519.9)                                   | 325.1                     | 76.4                                               | (7,118.4)        |
| <b>Non-cash movements</b>                                        |                  |                                |                   |                                             |                       |                                      |                                             |                           |                                                    |                  |
| Inflation uplift on index-linked debt                            | (58.2)           | (42.6)                         | -                 | -                                           | -                     | -                                    | (100.8)                                     | -                         | -                                                  | (100.8)          |
| Fair value movements                                             | (93.4)           | (2.0)                          | -                 | -                                           | 57.8                  | (4.7)                                | (42.3)                                      | -                         | 55.3                                               | 13.0             |
| Foreign exchange                                                 | (9.5)            | (5.3)                          | -                 | -                                           | -                     | -                                    | (14.8)                                      | -                         | -                                                  | (14.8)           |
| Other                                                            | (1.5)            | -                              | (6.5)             | 0.2                                         | -                     | -                                    | (7.8)                                       | -                         | -                                                  | (7.8)            |
| <b>Cash flows used in financing activities:</b>                  |                  |                                |                   |                                             |                       |                                      |                                             |                           |                                                    |                  |
| Receipts in respect of borrowings and derivatives                | (651.1)          | (157.1)                        | -                 | (6.1)                                       | -                     | -                                    | (814.3)                                     | 814.3                     | -                                                  | -                |
| Payments in respect of borrowings and derivatives <sup>(1)</sup> | 421.7            | 109.5                          | 1.7               | -                                           | 10.8                  | 2.2                                  | 545.9                                       | (545.9)                   | -                                                  | -                |
| Dividends paid                                                   | -                | -                              | -                 | -                                           | -                     | -                                    | -                                           | (284.5)                   | -                                                  | (284.5)          |
| Other                                                            | -                | -                              | -                 | -                                           | -                     | -                                    | -                                           | (2.8)                     | -                                                  | (2.8)            |
| <b>Changes arising from financing activities</b>                 | <b>(392.0)</b>   | <b>(97.5)</b>                  | <b>(4.8)</b>      | <b>(5.9)</b>                                | <b>68.6</b>           | <b>(2.5)</b>                         | <b>(434.1)</b>                              | <b>(18.9)</b>             | <b>55.3</b>                                        | <b>(397.7)</b>   |
| Cash flows used in investing activities                          | -                | -                              | -                 | -                                           | -                     | -                                    | -                                           | (593.9)                   | -                                                  | (593.9)          |
| Cash flows generated from operating activities                   | -                | -                              | 1.6               | -                                           | -                     | -                                    | 1.6                                         | 801.7                     | -                                                  | 803.3            |
| <b>At 31 March 2020</b>                                          | <b>(5,648.5)</b> | <b>(2,642.1)</b>               | <b>(57.6)</b>     | <b>(80.0)</b>                               | <b>395.7</b>          | <b>80.1</b>                          | <b>(7,952.4)</b>                            | <b>514.0</b>              | <b>131.7</b>                                       | <b>(7,306.7)</b> |

## Notes to the financial statements - Appendices

### A3. Borrowings

#### Terms and debt repayment schedule

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

| Group                                                             | Currency | Year of final repayment | Fair value 2021<br>£m | Carrying value 2021<br>£m | Fair value 2020<br>£m | Carrying value 2020<br>£m |
|-------------------------------------------------------------------|----------|-------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| <b>Borrowings in fair value hedge relationships</b>               |          |                         | <b>2,913.6</b>        | <b>2,895.5</b>            | <b>2,440.0</b>        | <b>2,590.5</b>            |
| 5.75% 375m bond                                                   | GBP      | 2022                    | 394.6                 | 388.6                     | 405.1                 | 399.4                     |
| 2.0% 450m bond                                                    | GBP      | 2025                    | 470.6                 | 465.3                     | 451.8                 | 468.5                     |
| 2.867% 320m bond                                                  | HKD      | 2026                    | 31.7                  | 32.0                      | 33.4                  | 35.9                      |
| 2.92% 739m bond                                                   | HKD      | 2026                    | 73.2                  | 74.1                      | 77.2                  | 83.4                      |
| 1.129% 52m bond                                                   | EUR      | 2027                    | 46.9                  | 46.6                      | 44.2                  | 48.6                      |
| 2.37% 830m bond                                                   | HKD      | 2027                    | 79.6                  | 81.9                      | 82.7                  | 93.3                      |
| 5.625% 300m bond                                                  | GBP      | 2027                    | 388.0                 | 380.4                     | 380.6                 | 398.7                     |
| 5.02% JPY 10bn dual currency loan                                 | JPY/USD  | 2029                    | 87.2                  | 90.2                      | 94.5                  | 106.8                     |
| 0.875% 300m bond                                                  | GBP      | 2029                    | 284.8                 | 295.8                     | -                     | -                         |
| 2.058% 30m bond                                                   | EUR      | 2030                    | 28.9                  | 28.6                      | 26.8                  | 30.2                      |
| 2.625% 350m bond                                                  | GBP      | 2031                    | 460.8                 | 440.5                     | 366.4                 | 380.5                     |
| 1.641% 30m bond                                                   | EUR      | 2031                    | 28.0                  | 27.4                      | 25.7                  | 28.9                      |
| 2.9% 600m bond                                                    | HKD      | 2031                    | 60.4                  | 56.4                      | 62.2                  | 67.2                      |
| 1.474% 35m bond                                                   | USD      | 2031                    | 23.5                  | 22.7                      | -                     | -                         |
| 1.707% 28m bond                                                   | EUR      | 2032                    | 26.1                  | 27.0                      | 23.8                  | 28.7                      |
| 1.653% 26m bond                                                   | EUR      | 2032                    | 24.0                  | 24.7                      | 21.9                  | 26.2                      |
| 1.70% 30m bond                                                    | EUR      | 2033                    | 27.8                  | 29.0                      | 25.3                  | 30.8                      |
| 2.0% 50m bond                                                     | GBP      | 2033                    | 103.8                 | 98.4                      | 51.4                  | 53.3                      |
| 5.0% 200m bond                                                    | GBP      | 2035                    | 273.7                 | 285.9                     | 267.0                 | 310.1                     |
| <b>Borrowings designated at fair value through profit or loss</b> |          |                         | <b>373.6</b>          | <b>397.5</b>              | <b>397.5</b>          | <b>397.5</b>              |
| 6.875% 400m bond                                                  | USD      | 2028                    | 373.6                 | 397.5                     | 397.5                 | 397.5                     |
| <b>Borrowings measured at amortised cost</b>                      |          |                         | <b>6,653.2</b>        | <b>5,243.9</b>            | <b>6,075.2</b>        | <b>5,454.3</b>            |
| 1.61% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.1                  | 67.0                      |
| 1.73% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.1                  | 66.9                      |
| 1.84% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.1                  | 66.9                      |
| 1.90% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.1                  | 66.8                      |
| 1.93% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.0                  | 66.7                      |
| 1.88% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 67.9                  | 66.6                      |
| 2.10% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 67.9                  | 66.5                      |
| 2.46% + RPI 50m EIB IL loan                                       | GBP      | 2020                    | -                     | -                         | 68.2                  | 66.6                      |
| Short-term bank borrowings - fixed                                | GBP      | 2021                    | 150.7                 | 150.7                     | 192.2                 | 192.2                     |
| 0.80% + LIBOR 100m loan                                           | GBP      | 2022                    | 101.1                 | 100.0                     | 99.7                  | 100.0                     |
| 0.47% + RPI 100m IL loan                                          | GBP      | 2023                    | 125.2                 | 119.7                     | 121.2                 | 118.1                     |
| 0.49% + RPI 100m IL loan                                          | GBP      | 2025                    | 126.6                 | 115.2                     | 118.9                 | 113.6                     |
| 0.013% + RPI 25m IL bond                                          | GBP      | 2025                    | 30.7                  | 28.7                      | 29.1                  | 28.3                      |
| 0.1275% + RPI 100m IL loan                                        | GBP      | 2026                    | 125.0                 | 113.6                     | 116.2                 | 112.1                     |
| 0.01% + RPI 20m IL bond                                           | GBP      | 2028                    | 25.0                  | 23.7                      | 23.1                  | 23.6                      |
| 1.23% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2029                    | 40.5                  | 36.8                      | 43.6                  | 40.8                      |
| 0.288% + CPI 100m IL loan                                         | GBP      | 2029                    | 113.9                 | 102.1                     | 110.3                 | 101.3                     |
| 1.29% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2029                    | 42.9                  | 38.8                      | 45.9                  | 42.8                      |
| 1.12% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2029                    | 42.4                  | 38.5                      | 45.3                  | 42.5                      |
| 1.10% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2029                    | 42.3                  | 38.5                      | 45.2                  | 42.4                      |
| 0.75% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2029                    | 43.6                  | 39.8                      | 46.1                  | 43.7                      |
| 0.76% + RPI 50m EIB (amortising) IL loan                          | GBP      | 2030                    | 43.6                  | 39.7                      | 46.0                  | 43.5                      |

## Notes to the financial statements - Appendices

### A3. Borrowings (continued)

|                                                          | Currency | Year of<br>final<br>repayment | Fair<br>value<br>2021<br>£m | Carrying<br>value<br>2021<br>£m | Fair<br>value<br>2020<br>£m | Carrying<br>value<br>2020<br>£m |
|----------------------------------------------------------|----------|-------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| <b>Borrowings measured at amortised cost (continued)</b> |          |                               |                             |                                 |                             |                                 |
| 1.15% + RPI 50m EIB (amortising) IL loan                 | GBP      | 2030                          | 44.1                        | 39.6                            | 46.6                        | 43.4                            |
| 1.11% + RPI 50m EIB (amortising) IL loan                 | GBP      | 2030                          | 44.2                        | 39.7                            | 46.7                        | 43.5                            |
| 0.178% + RPI 35m IL bond                                 | GBP      | 2030                          | 46.1                        | 40.2                            | 42.2                        | 39.6                            |
| 0.245% + CPI 20m IL bond                                 | GBP      | 2031                          | 24.0                        | 21.5                            | 20.7                        | 21.4                            |
| 0.01% + RPI 38m IL bond                                  | GBP      | 2031                          | 48.6                        | 44.5                            | 43.8                        | 44.2                            |
| 3.375% + RPI 50m IL bond                                 | GBP      | 2032                          | 140.2                       | 83.1                            | 105.1                       | 81.7                            |
| 0.709% + LIBOR 100m EIB (amortising) loan                | GBP      | 2032                          | 68.7                        | 68.8                            | 71.3                        | 75.0                            |
| 0.691% + LIBOR 150m EIB (amortising) loan                | GBP      | 2032                          | 107.6                       | 107.8                           | 110.4                       | 117.2                           |
| 0.573% + LIBOR 100m EIB (amortising) loan                | GBP      | 2033                          | 74.2                        | 75.0                            | 75.5                        | 81.3                            |
| 0.511% + LIBOR 150m EIB (amortising) loan                | GBP      | 2033                          | 115.7                       | 117.2                           | 117.7                       | 126.6                           |
| 2.0% 250m bond(1)                                        | GBP      | 2033                          | 259.4                       | 245.7                           | 257.0                       | 245.7                           |
| 0.01% + RPI 100m EIB (amortising) IL loan                | GBP      | 2033                          | 100.3                       | 92.2                            | 100.1                       | 98.0                            |
| 0.01% + RPI 75m EIB (amortising) IL loan                 | GBP      | 2034                          | 75.3                        | 69.1                            | 75.0                        | 73.4                            |
| 0.01% + RPI 75m EIB (amortising) IL loan                 | GBP      | 2034                          | 77.9                        | 71.4                            | 75.0                        | 75.6                            |
| 0.01% + RPI 75m EIB (amortising) IL loan                 | GBP      | 2034                          | 77.9                        | 71.4                            | 75.0                        | 75.6                            |
| 1.9799% + RPI 100m IL bond                               | GBP      | 2035                          | 243.9                       | 155.2                           | 204.0                       | 152.7                           |
| 0.873%+LIBOR 100m EIB (amortising) loan                  | GBP      | 2035                          | 91.6                        | 90.6                            | 91.3                        | 96.9                            |
| 0.840%+LIBOR 75m EIB (amortising) loan                   | GBP      | 2035                          | 71.2                        | 70.3                            | 69.3                        | 75.0                            |
| 0.01% + RPI 26.5m IL bond(1)                             | GBP      | 2036                          | 35.7                        | 33.0                            | 30.3                        | 32.8                            |
| 0.379% + CPI 20m IL bond(1)                              | GBP      | 2036                          | 25.6                        | 21.5                            | 20.1                        | 21.3                            |
| 0.01% + RPI 29m IL bond(1)                               | GBP      | 2036                          | 38.9                        | 34.2                            | 32.4                        | 33.9                            |
| 0.093% + CPI 60m IL bond(1)                              | GBP      | 2037                          | 73.7                        | 64.1                            | 57.3                        | 63.6                            |
| 1.66% + RPI 35m IL bond                                  | GBP      | 2037                          | 68.2                        | 49.6                            | 60.5                        | 49.0                            |
| 1.75% 250m bond(1)                                       | GBP      | 2038                          | 236.7                       | 248.1                           | 232.1                       | 248.0                           |
| 2.40% + RPI 70m IL bond                                  | GBP      | 2039                          | 148.8                       | 96.8                            | 129.6                       | 95.5                            |
| 1.7829% + RPI 100m IL bond                               | GBP      | 2040                          | 237.4                       | 153.5                           | 193.5                       | 151.1                           |
| 0.01% + CPI 125m IL bond(1)                              | GBP      | 2040                          | 144.5                       | 145.6                           | -                           | -                               |
| 1.3258% + RPI 50m IL bond                                | GBP      | 2041                          | 117.8                       | 76.6                            | 100.7                       | 75.4                            |
| 1.5802% + RPI 100m IL bond                               | GBP      | 2042                          | 205.1                       | 153.1                           | 147.3                       | 150.6                           |
| 1.875% 300m bond(1)                                      | GBP      | 2042                          | 287.7                       | 295.3                           | -                           | -                               |
| 1.5366% + RPI 50m IL bond                                | GBP      | 2043                          | 49.6                        | 30.6                            | 37.9                        | 30.1                            |
| 1.397% + RPI 50m IL bond                                 | GBP      | 2046                          | 113.6                       | 76.5                            | 94.2                        | 75.3                            |
| 0.359% + CPI 32m IL bond(1)                              | GBP      | 2048                          | 41.0                        | 33.8                            | 28.2                        | 33.5                            |
| 1.7937% + RPI 50m IL bond                                | GBP      | 2049                          | 122.4                       | 76.2                            | 97.1                        | 75.0                            |
| Commission for New Towns<br>(amortising) loan – fixed    | GBP      | 2053                          | 52.6                        | 26.2                            | 50.7                        | 26.8                            |
| 1.847% + RPI 100m IL bond                                | GBP      | 2056                          | 255.0                       | 149.8                           | 194.6                       | 147.7                           |
| 1.815% + RPI 100m IL bond                                | GBP      | 2056                          | 251.9                       | 149.1                           | 188.8                       | 147.1                           |
| 1.662% + RPI 100m IL bond                                | GBP      | 2056                          | 241.6                       | 148.8                           | 186.1                       | 146.8                           |
| 1.5865% + RPI 50m IL bond                                | GBP      | 2056                          | 122.0                       | 74.4                            | 92.8                        | 73.4                            |
| 1.591% + RPI 25m IL bond                                 | GBP      | 2056                          | 60.5                        | 37.1                            | 46.3                        | 36.6                            |
| 1.556% + RPI 50m IL bond                                 | GBP      | 2056                          | 121.6                       | 74.0                            | 92.4                        | 73.0                            |
| 1.435% + RPI 50m IL bond                                 | GBP      | 2056                          | 119.4                       | 73.7                            | 90.0                        | 72.7                            |
| 1.3805% + RPI 35m IL bond                                | GBP      | 2056                          | 82.4                        | 51.6                            | 62.3                        | 50.9                            |
| 1.585% + RPI 100m IL bond                                | GBP      | 2057                          | 311.2                       | 143.2                           | 284.1                       | 141.3                           |
| 0.387% + CPI 33m IL bond(1)                              | GBP      | 2057                          | 44.4                        | 34.5                            | 26.7                        | 34.2                            |
| 1.702% + RPI 50m IL bond                                 | GBP      | 2057                          | 124.5                       | 72.2                            | 93.6                        | 71.3                            |
| Amounts owed to ultimate parent undertaking              | GBP      | 2021                          | 85.1                        | 85.1                            | 80.0                        | 80.0                            |
| Book overdrafts (see note 15)                            | GBP      | 2021                          | 10.5                        | 10.5                            | 14.1                        | 14.1                            |
| Lease liabilities                                        | GBP      | various                       | 60.0                        | 60.0                            | 57.6                        | 57.6                            |
|                                                          |          |                               | <b>9,941.0</b>              | <b>8,536.9</b>                  | <b>8,912.7</b>              | <b>8,442.3</b>                  |

## Notes to the financial statements - Appendices

### A3. Borrowings (continued)

|     |                                                                                                                                                                |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.

During the year, the group issued £75 million fixed rate notes as a fungible increase to £350 million fixed rate notes issued in prior years, due February 2031 with a coupon of 2.625 per cent. The group issued £50 million fixed rate notes as a fungible increase to £300 million fixed rate notes issued in the prior year, due July 2033 with a coupon of 2 per cent.

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

|                                              | Currency | Year of<br>final<br>repayment | Fair<br>value<br>2021<br>£m | Carrying<br>value<br>2021<br>£m | Fair<br>value<br>2020<br>£m | Carrying<br>value<br>2020<br>£m |
|----------------------------------------------|----------|-------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| <b>Company</b>                               |          |                               |                             |                                 |                             |                                 |
| <b>Borrowings measured at amortised cost</b> |          |                               |                             |                                 |                             |                                 |
| Short-term bank borrowings – fixed           | GBP      | 2021                          | 100.0                       | 100.0                           | 120.0                       | 120.0                           |
| Amounts owed to subsidiary undertakings      | GBP      | 2021                          | 696.5                       | 696.5                           | 555.0                       | 555.0                           |
| Amounts owed to ultimate parent undertaking  | GBP      | 2021                          | 85.1                        | 85.1                            | 80.0                        | 80.0                            |
| 6.875% 400m bond                             | USD      | 2028                          | 373.6                       | 288.0                           | 397.5                       | 319.7                           |
| Lease liabilities                            | GBP      | Various                       | 2.8                         | 2.8                             | 3.0                         | 3.0                             |
|                                              |          |                               | <b>1,258.0</b>              | <b>1,172.4</b>                  | <b>1,155.5</b>              | <b>1,078.2</b>                  |

Borrowings are unsecured. Funding raised in currencies other than sterling is swapped to sterling to match funding costs to income and assets.

## Notes to the financial statements - Appendices

### 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 2021, the group had £1,444.1 million (2020: £1,208.1 million) of available liquidity, which comprised £744.1 million (2020: £528.1 million) of cash and short-term deposits and £700.0 million (2020: £680.0 million) of undrawn committed borrowing facilities. Short-term deposits mature within three months.

The group and company had available committed borrowing facilities as follows:

|                                                    | <b>Group</b> |         | <b>Company</b> |         |
|----------------------------------------------------|--------------|---------|----------------|---------|
|                                                    | 2021         | 2020    | 2021           | 2020    |
|                                                    | £m           | £m      | £m             | £m      |
| Expiring within one year                           | 100.0        | 50.0    | 20.0           | 10.0    |
| Expiring after one year but in less than two years | 100.0        | 100.0   | 20.0           | 20.0    |
| Expiring after more than two years                 | 600.0        | 650.0   | 205.0          | 215.0   |
| Total borrowing facilities                         | 800.0        | 800.0   | 245.0          | 245.0   |
| Facilities drawn <sup>(1)</sup>                    | (100.0)      | (120.0) | (100.0)        | (120.0) |
| Undrawn borrowing facilities                       | 700.0        | 680.0   | 145.0          | 125.0   |

Note:

<sup>(1)</sup> Facilities expiring after more than two years.

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### 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 for which the maturity profile has been disclosed in note 17.

|                                             | Total <sup>(1)</sup><br>£m | Adjust-<br>ment <sup>(2)</sup><br>£m | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
|---------------------------------------------|----------------------------|--------------------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>Group</b>                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| <b>At 31 March 2021</b>                     |                            |                                      |                         |                    |                    |                    |                    |                               |
| Bonds                                       | 11,368.2                   | -                                    | 528.1                   | 132.6              | 133.6              | 584.7              | 255.6              | 9,733.6                       |
| Bank and other term borrowings              | 2,274.8                    | -                                    | 280.4                   | 348.7              | 122.4              | 254.3              | 257.3              | 1,011.7                       |
| Amounts owed to ultimate parent undertaking | 85.1                       | -                                    | 85.1                    | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | (5,251.2)                  | (5,251.2)                            | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Borrowings</b>                           | <u>8,476.9</u>             | <u>(5,251.2)</u>                     | <u>893.6</u>            | <u>481.3</u>       | <u>256.0</u>       | <u>839.0</u>       | <u>512.9</u>       | <u>10,745.3</u>               |
| Derivatives:                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| Payable                                     | 1,001.2                    | -                                    | 133.4                   | 43.1               | 38.0               | 36.0               | 129.2              | 621.5                         |
| Receivable                                  | (1,499.7)                  | -                                    | (186.0)                 | (125.6)            | (92.0)             | (99.7)             | (202.3)            | (794.1)                       |
| Adjustment to carrying value <sup>(2)</sup> | 188.5                      | 188.5                                | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Derivatives – net assets</b>             | <u>(310.0)</u>             | <u>188.5</u>                         | <u>(52.6)</u>           | <u>(82.5)</u>      | <u>(54.0)</u>      | <u>(63.7)</u>      | <u>(73.1)</u>      | <u>(172.6)</u>                |
|                                             |                            |                                      |                         |                    |                    |                    |                    |                               |
|                                             | Total <sup>(1)</sup><br>£m | Adjust-<br>ment <sup>(2)</sup><br>£m | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
| <b>Group</b>                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| <b>At 31 March 2020</b>                     |                            |                                      |                         |                    |                    |                    |                    |                               |
| Bonds                                       | 10,685.2                   | -                                    | 144.3                   | 520.4              | 124.9              | 126.0              | 577.2              | 9,192.4                       |
| Bank and other term borrowings              | 2,894.1                    | -                                    | 884.1                   | 122.0              | 352.1              | 122.7              | 255.8              | 1,157.4                       |
| Amounts owed to ultimate parent undertaking | 80.0                       | -                                    | 80.0                    | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | (5,274.6)                  | (5,274.6)                            | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Borrowings</b>                           | <u>8,384.7</u>             | <u>(5,274.6)</u>                     | <u>1,108.4</u>          | <u>642.4</u>       | <u>477.0</u>       | <u>248.7</u>       | <u>833.0</u>       | <u>10,349.8</u>               |
| Derivatives:                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| Payable                                     | 952.7                      | -                                    | 67.4                    | 45.7               | 41.8               | 38.2               | 35.4               | 724.2                         |
| Receivable                                  | (1,508.6)                  | -                                    | (105.7)                 | (90.2)             | (116.9)            | (82.6)             | (165.3)            | (947.9)                       |
| Adjustment to carrying value <sup>(2)</sup> | 82.3                       | 82.3                                 | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Derivatives – net assets</b>             | <u>(473.6)</u>             | <u>82.3</u>                          | <u>(38.3)</u>           | <u>(44.5)</u>      | <u>(75.1)</u>      | <u>(44.4)</u>      | <u>(129.9)</u>     | <u>(223.7)</u>                |

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Maturity analysis (continued)

Notes:

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

| Company                                     | Total <sup>(1)</sup><br>£m | Adjust-<br>ment <sup>(2)</sup><br>£m | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
|---------------------------------------------|----------------------------|--------------------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 March 2021</b>                     |                            |                                      |                         |                    |                    |                    |                    |                               |
| Bonds                                       | 422.0                      | -                                    | 19.9                    | 19.9               | 19.8               | 19.7               | 19.6               | 323.1                         |
| Bank and other term borrowings              | 100.3                      | -                                    | 100.3                   | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to ultimate parent undertaking | 85.1                       | -                                    | 85.1                    | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to subsidiary undertakings     | 696.5                      | -                                    | 696.5                   | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | 134.2                      | (134.2)                              | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Borrowings</b>                           | <b>1,169.7</b>             | <b>(134.2)</b>                       | <b>901.8</b>            | <b>19.9</b>        | <b>19.8</b>        | <b>19.7</b>        | <b>19.6</b>        | <b>323.1</b>                  |
| Derivatives:                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| Payable                                     | 84.0                       | -                                    | 84.0                    | -                  | -                  | -                  | -                  | -                             |
| Receivable                                  | (84.1)                     | -                                    | (84.1)                  | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | 0.1                        | -                                    | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Derivatives – net liabilities</b>        | <b>-</b>                   | <b>-</b>                             | <b>-</b>                | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>                      |

| Company                                     | Total <sup>(1)</sup><br>£m | Adjust-<br>ment <sup>(2)</sup><br>£m | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
|---------------------------------------------|----------------------------|--------------------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 March 2020</b>                     |                            |                                      |                         |                    |                    |                    |                    |                               |
| Bonds                                       | 176.5                      | -                                    | 22.1                    | 22.1               | 22.1               | 22.1               | 22.1               | 66.0                          |
| Bank and other term borrowings              | 120.5                      | -                                    | 120.5                   | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to ultimate parent undertaking | 80.0                       | -                                    | 80.0                    | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to subsidiary undertakings     | 555.5                      | -                                    | 555.5                   | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | 142.7                      | 142.7                                | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Borrowings</b>                           | <b>1,075.2</b>             | <b>142.7</b>                         | <b>778.1</b>            | <b>22.1</b>        | <b>22.1</b>        | <b>22.1</b>        | <b>22.1</b>        | <b>66.0</b>                   |
| Derivatives:                                |                            |                                      |                         |                    |                    |                    |                    |                               |
| Payable                                     | 16.1                       | -                                    | 16.1                    | -                  | -                  | -                  | -                  | -                             |
| Receivable                                  | (15.6)                     | -                                    | (15.6)                  | -                  | -                  | -                  | -                  | -                             |
| Adjustment to carrying value <sup>(2)</sup> | -                          | -                                    | -                       | -                  | -                  | -                  | -                  | -                             |
| <b>Derivatives – net liabilities</b>        | <b>0.5</b>                 | <b>-</b>                             | <b>0.5</b>              | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>                      |

Notes:

- (1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year-end and are therefore susceptible to changes in market conditions.
- (2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £2.8 million (2020: £3.0 million) of lease liabilities.

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Credit risk

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

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

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

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

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

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

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

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

|                                            | <b>Group</b>   |                | <b>Company</b> |                |
|--------------------------------------------|----------------|----------------|----------------|----------------|
|                                            | 2021           | 2020           | 2021           | 2020           |
|                                            | £m             | £m             | £m             | £m             |
| Cash and short-term deposits (see note 15) | 744.1          | 528.1          | 9.1            | 25.0           |
| Trade and other receivables (see note 14)  | 2,103.9        | 2,107.0        | 3,287.8        | 3,452.6        |
| Investments (see note 12)                  | 0.1            | 0.1            | -              | -              |
| Derivative financial instruments           | 424.7          | 617.9          | -              | -              |
|                                            | <u>3,272.8</u> | <u>3,253.1</u> | <u>3,296.9</u> | <u>3,477.6</u> |

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Credit risk (continued)

Included within trade and other receivables for the group are amounts owed by the ultimate parent undertaking of £1,788.0 million (2020: £1,764.1 million), and £86.7 million (2020: £95.0 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 2021 the group held £50.7 million (2020: £72.2 million) and the company held £nil (2020: £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.

#### Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. For the 2020–2025 regulatory period, from 1 April 2020 the group's RCV is 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

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

The group believes this is an appropriate inflation hedging policy taking into account a balanced assessment of the following factors: economic hedge of United Utilities Water Limited's (UW) 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 £4,093.3 million at 31 March 2021 (2020: £4,082.2 million).

#### Sensitivity analysis

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

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Inflation risk (continued)

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 2021 or 31 March 2020.

#### Interest rate risk

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

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

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

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

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

This interest rate hedging policy dovetails with our revised 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.

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Interest rate risk (continued)

|                                                            | 2021<br>£m | Group<br>2020<br>£m | 2021<br>£m | Company<br>2020<br>£m |
|------------------------------------------------------------|------------|---------------------|------------|-----------------------|
| <b>Increase/(decrease) in profit before tax and equity</b> |            |                     |            |                       |
| 1 per cent increase in interest rate                       | 121.9      | 121.9               | (8.7)      | (2.2)                 |
| 1 per cent decrease in interest rate                       | (133.9)    | (130.2)             | 8.7        | 2.2                   |

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.

#### Hedge accounting

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

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

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

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

#### Risk exposure

##### Interest rate risk on borrowings

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

Note:

(1) 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.

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Currency risk (continued)

##### Hedge accounting

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

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

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

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                                                                                  | 469.6                                                 |
| Carrying amount of hedging instruments                                                                                 | 59.9                                                  |
| Accumulated fair value (gains)/losses on hedged items                                                                  | 66.6                                                  |
| Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2021 <sup>(1)</sup> : |                                                       |
| Hedged items                                                                                                           | (66.2)                                                |
| Hedging instrument                                                                                                     | 66.5                                                  |
| Hedge ineffectiveness recognised in the income statement                                                               | 0.3                                                   |
| Nominal amount of hedging instruments directly impacted by the IBOR reform                                             | 442.8                                                 |

Note:

(1) 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 rate such as the Sterling Overnight Index Average (SONIA).

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

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

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Interest rate benchmark reform (continued)

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

\* Future dated transition to RFR contractually agreed.

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

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

#### Repricing analysis

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

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

| Group                                                             | Total<br>£m    | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than<br>5 years<br>£m |
|-------------------------------------------------------------------|----------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 March 2021</b>                                           |                |                         |                    |                    |                    |                    |                               |
| <b>Borrowings in fair value hedge relationships</b>               |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                                            | 2,895.5        | 388.6                   | -                  | -                  | 465.3              | 106.1              | 1,935.5                       |
| Effect of swaps                                                   | -              | 2,506.9                 | -                  | -                  | (465.3)            | (106.1)            | (1,935.5)                     |
|                                                                   | <u>2,895.5</u> | <u>2,895.5</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                                            | 373.6          | -                       | -                  | -                  | -                  | -                  | 373.6                         |
| Effect of swaps                                                   | -              | 373.6                   | -                  | -                  | -                  | -                  | (373.6)                       |
|                                                                   | <u>373.6</u>   | <u>373.6</u>            | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>                      |
| <b>Borrowings measured at amortised cost</b>                      |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                                            | 1,026.0        | 51.2                    | 1.0                | 1.1                | 0.9                | 3.7                | 968.1                         |
| Floating rate instruments                                         | 725.4          | 725.4                   | -                  | -                  | -                  | -                  | -                             |
| Index-linked instruments                                          | 3,516.5        | 3,516.5                 | -                  | -                  | -                  | -                  | -                             |
|                                                                   | <u>5,267.9</u> | <u>4,293.1</u>          | <u>1.0</u>         | <u>1.1</u>         | <u>0.9</u>         | <u>3.7</u>         | <u>968.1</u>                  |
| Effect of fixed interest rate swaps                               | -              | (2,332.3)               | 164.5              | 575.0              | 350.0              | 200.0              | 1,042.8                       |
| <b>Total external borrowings</b>                                  | <u>8,537.9</u> | <u>5,229.9</u>          | <u>165.5</u>       | <u>576.1</u>       | <u>350.9</u>       | <u>203.7</u>       | <u>2,010.9</u>                |
| Amounts owed to ultimate parent undertaking                       | 85.1           | 85.1                    | -                  | -                  | -                  | -                  | -                             |
| <b>Total borrowings</b>                                           | <u>8,622.1</u> | <u>5,315.0</u>          | <u>165.5</u>       | <u>576.1</u>       | <u>350.9</u>       | <u>203.7</u>       | <u>2,010.9</u>                |
| Cash and short-term deposits                                      | (744.1)        | (744.1)                 | -                  | -                  | -                  | -                  | -                             |
| <b>Net borrowings</b>                                             | <u>7,878.0</u> | <u>4,570.9</u>          | <u>165.5</u>       | <u>576.1</u>       | <u>350.9</u>       | <u>203.7</u>       | <u>2,010.9</u>                |
| <b>At 31 March 2020</b>                                           |                |                         |                    |                    |                    |                    |                               |
| <b>Borrowings in fair value hedge relationships</b>               |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                                            | 2,590.5        | -                       | 399.4              | -                  | -                  | 468.5              | 1,722.6                       |
| Effect of swaps                                                   | -              | 2,590.5                 | (399.4)            | -                  | -                  | (468.5)            | (1,722.6)                     |
|                                                                   | <u>2,590.5</u> | <u>2,590.5</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                                            | 397.5          | -                       | -                  | -                  | -                  | -                  | 397.5                         |
| Effect of swaps                                                   | -              | 397.5                   | -                  | -                  | -                  | -                  | (397.5)                       |
|                                                                   | <u>397.5</u>   | <u>397.5</u>            | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>                      |
| <b>Borrowings measured at amortised cost</b>                      |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                                            | 770.3          | 193.2                   | 1.0                | 1.1                | 0.7                | 0.8                | 573.5                         |
| Floating rate instruments                                         | 686.1          | 686.1                   | -                  | -                  | -                  | -                  | -                             |
| Index-linked instruments                                          | 3,917.9        | 3,917.9                 | -                  | -                  | -                  | -                  | -                             |
|                                                                   | <u>5,374.3</u> | <u>4,797.2</u>          | <u>1.0</u>         | <u>1.1</u>         | <u>0.7</u>         | <u>0.8</u>         | <u>573.5</u>                  |
| Effect of fixed interest rate swaps                               | -              | (2,382.3)               | 50.0               | 164.5              | 575.0              | 350.0              | 1,242.8                       |
| <b>Total external borrowings</b>                                  | <u>8,362.3</u> | <u>5,402.9</u>          | <u>51.0</u>        | <u>165.6</u>       | <u>575.7</u>       | <u>350.8</u>       | <u>1,816.3</u>                |
| Amounts owed to ultimate parent undertaking                       | 80.0           | 80.0                    | -                  | -                  | -                  | -                  | -                             |
| <b>Total borrowings</b>                                           | <u>8,442.3</u> | <u>5,482.9</u>          | <u>51.0</u>        | <u>165.6</u>       | <u>575.7</u>       | <u>350.8</u>       | <u>1,816.3</u>                |
| Cash and short-term deposits                                      | (528.1)        | (528.1)                 | -                  | -                  | -                  | -                  | -                             |
| <b>Net borrowings</b>                                             | <u>7,914.2</u> | <u>4,954.8</u>          | <u>51.0</u>        | <u>165.6</u>       | <u>575.7</u>       | <u>350.8</u>       | <u>1,816.3</u>                |

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

| Company                                      | Total<br>£m    | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
|----------------------------------------------|----------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 March 2021</b>                      |                |                         |                    |                    |                    |                    |                               |
| <b>Borrowings measured at amortised cost</b> |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                       | 388.0          | -                       | -                  | -                  | -                  | -                  | 388.0                         |
| <b>Total external borrowings</b>             | <b>388.0</b>   | <b>388.0</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>388.0</b>                  |
| Amounts owed to subsidiary undertakings      | 696.6          | 696.6                   | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to ultimate parent undertaking  | 85.1           | 85.1                    | -                  | -                  | -                  | -                  | -                             |
| <b>Total borrowings</b>                      | <b>1,172.5</b> | <b>881.8</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>290.7</b>                  |
| Cash and short-term deposits                 | (9.1)          | (9.1)                   | -                  | -                  | -                  | -                  | -                             |
| <b>Net borrowings</b>                        | <b>1,160.5</b> | <b>772.5</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>290.7</b>                  |

| Company                                      | Total<br>£m    | 1 year<br>or less<br>£m | 1-2<br>years<br>£m | 2-3<br>years<br>£m | 3-4<br>years<br>£m | 4-5<br>years<br>£m | More<br>than 5<br>years<br>£m |
|----------------------------------------------|----------------|-------------------------|--------------------|--------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 March 2020</b>                      |                |                         |                    |                    |                    |                    |                               |
| <b>Borrowings measured at amortised cost</b> |                |                         |                    |                    |                    |                    |                               |
| Fixed rate instruments                       | 442.7          | 120.0                   | -                  | -                  | -                  | -                  | 322.7                         |
| <b>Total external borrowings</b>             | <b>442.7</b>   | <b>120.0</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>322.7</b>                  |
| Amounts owed to subsidiary undertakings      | 555.5          | 555.5                   | -                  | -                  | -                  | -                  | -                             |
| Amounts owed to ultimate parent undertaking  | 80.0           | 80.0                    | -                  | -                  | -                  | -                  | -                             |
| <b>Total borrowings</b>                      | <b>1,078.2</b> | <b>755.5</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>322.7</b>                  |
| Cash and short-term deposits                 | (25.0)         | (25.0)                  | -                  | -                  | -                  | -                  | -                             |
| <b>Net borrowings</b>                        | <b>1,053.2</b> | <b>730.5</b>            | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>-</b>           | <b>322.7</b>                  |

#### Electricity price risk

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Hedge accounting (continued)

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

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

Note:

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

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

#### Capital risk management

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

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

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

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

#### 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.

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Fair values (continued)

| <b>Group</b>                                                          | <b>Level 1</b>   | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
|-----------------------------------------------------------------------|------------------|------------------|----------------|------------------|
| <b>2021</b>                                                           | <b>£m</b>        | <b>£m</b>        | <b>£m</b>      | <b>£m</b>        |
| <b>Financial assets at fair value through profit or loss</b>          |                  |                  |                |                  |
| Derivative financial assets – fair value hedge                        | -                | 275.6            | -              | 275.6            |
| Derivative financial assets – held for trading <sup>(1)</sup>         | -                | 142.6            | -              | 142.6            |
| Derivative financial assets – cash flow hedge                         | -                | 6.5              | -              | 6.5              |
| Investments                                                           | -                | 0.1              | -              | 0.1              |
| <b>Financial liabilities at fair value through profit or loss</b>     |                  |                  |                |                  |
| Derivative financial liabilities – fair value hedge                   | -                | (12.6)           | -              | (12.6)           |
| Derivative financial liabilities – held for trading <sup>(1)</sup>    | -                | (102.1)          | -              | (102.1)          |
| Derivative financial assets – cash flow hedge                         | -                | -                | -              | -                |
| Financial liabilities designated as fair value through profit or loss | -                | (373.6)          | -              | (373.6)          |
| <b>Financial instruments for which fair value has been disclosed</b>  |                  |                  |                |                  |
| Financial liabilities in fair value hedge relationships               | (2,766.0)        | (147.6)          | -              | (2,913.6)        |
| Other financial liabilities at amortised cost                         | (2,321.6)        | (4,789.9)        | -              | (6,653.2)        |
|                                                                       | <b>(5,087.6)</b> | <b>(5,001.1)</b> | <b>-</b>       | <b>(9,630.4)</b> |
|                                                                       |                  |                  |                |                  |
| <b>Group</b>                                                          | <b>Level 1</b>   | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
| <b>2020</b>                                                           | <b>£m</b>        | <b>£m</b>        | <b>£m</b>      | <b>£m</b>        |
| <b>Financial assets at fair value through profit or loss</b>          |                  |                  |                |                  |
| Derivative financial assets – fair value hedge                        | -                | 395.7            | -              | 395.7            |
| Derivative financial assets – held for trading <sup>(1)</sup>         | -                | 222.0            | -              | 222.0            |
| Derivative financial assets – cash flow hedge                         | -                | 0.2              | -              | 0.2              |
| Investments                                                           | -                | 0.1              | -              | 0.1              |
| <b>Financial liabilities at fair value through profit or loss</b>     |                  |                  |                |                  |
| Derivative financial liabilities – fair value hedge                   | -                | -                | -              | -                |
| Derivative financial liabilities – held for trading <sup>(1)</sup>    | -                | (141.9)          | -              | (141.9)          |
| Derivative financial assets – cash flow hedge                         | -                | (2.4)            | -              | (2.4)            |
| Financial liabilities designated as fair value through profit or loss | -                | (397.5)          | -              | (397.5)          |
| <b>Financial instruments for which fair value has been disclosed</b>  |                  |                  |                |                  |
| Financial liabilities in fair value hedge relationships               | (1,981.5)        | (458.5)          | -              | (2,440.0)        |
| Other financial liabilities at amortised cost                         | (199.9)          | (5,875.3)        | -              | (6,075.2)        |
|                                                                       | <b>(2,181.4)</b> | <b>(6,257.6)</b> | <b>-</b>       | <b>(8,439.0)</b> |

Note:

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

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

## Notes to the financial statements - Appendices

### A4. Financial risk management (continued)

#### Fair values (continued)

| Company<br>2021                                                      | Level 1<br>£m         | Level 2<br>£m         | Level 3<br>£m         | Total<br>£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                        | -                     | (1,258.0)             | -                     | (1,258.0)           |
|                                                                      | <b>-</b>              | <b>(1,258.0)</b>      | <b>-</b>              | <b>(1,258.0)</b>    |
| <b>Company<br/>2020</b>                                              | <b>Level 1<br/>£m</b> | <b>Level 2<br/>£m</b> | <b>Level 3<br/>£m</b> | <b>Total<br/>£m</b> |
| <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>   | -                     | (0.5)                 | -                     | (0.5)               |
| <b>Financial instruments for which fair value has been disclosed</b> |                       |                       |                       |                     |
| Financial liabilities in fair value hedge relationships              | -                     | -                     | -                     | -                   |
| Other financial liabilities at amortised cost                        | -                     | (1,155.5)             | -                     | (1,155.5)           |
|                                                                      | <b>-</b>              | <b>(1,156.0)</b>      | <b>-</b>              | <b>(1,156.0)</b>    |

Note:

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

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

## Notes to the financial statements - Appendices

### A5. Retirement benefits

#### Defined benefit schemes

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

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

The Principal Employer for both the UUPS and ESPS is United Utilities PLC (UUPLC), with UUW being a Participating Employer. For accounting purposes the assets and liabilities for both schemes are split between UUW and United Utilities PLC based on information stemming from the results of the funding valuations for the schemes as at 31 March 2013 for both UUPS and ESPS, which has been updated based on the results of the funding valuation as at 31 March 2018 and rolled forward to 31 March 2021 based on an approximation of changes in the status of scheme members. Percentage splits between the two companies in terms of defined benefit contributions has remained stable since the 2013 funding valuations and therefore are deemed relevant for the year ended 31 March 2021.

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

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

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

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

|                                           | <b>Group</b>   |                | <b>Company</b> |              |
|-------------------------------------------|----------------|----------------|----------------|--------------|
|                                           | 2021           | 2020           | 2021           | 2020         |
|                                           | £m             | £m             | £m             | £m           |
| Total value of current employees benefits | 783.5          | 665.6          | 66.4           | 55.2         |
| Deferred members benefits                 | 574.4          | 521.9          | 254.4          | 228.2        |
| Pensioner members benefits                | 1,937.8        | 1,870.1        | 539.6          | 517.7        |
| <b>Total defined benefit obligation</b>   | <b>3,295.7</b> | <b>3,057.6</b> | <b>860.4</b>   | <b>801.1</b> |

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

#### Funding requirements

The latest finalised funding valuations of the schemes were carried out by independent qualified actuaries as at 31 March 2018, earlier than originally planned due to the aforementioned changes to the pension scheme, and determined that the schemes were both in a deficit position on a funding basis. The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19, with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

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

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The group had plans in place with the schemes' trustees to address the funding deficits by 31 December 2021 for the UUPS and 30 September 2024 for the ESPS, through a series of deficit recovery contributions. This timescale has been accelerated, with accelerated deficit repair contributions of £97.6 million and £5.4 million made to the UUPS and ESPS respectively in April 2019. These payments represent the final acceleration of deficit repair contributions set out in the schedules of contributions agreed with the schemes' trustees as part of the 31 March 2018 valuation process, and reduce the deficit repair contributions payable, due from the company, to £nil. Accordingly, no deficit repair contributions were required during the year ended 31 March 2021.

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

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

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

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

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

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

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

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

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

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

#### Impact of scheme risk management on IAS 19 disclosures (continued)

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

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

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

#### Guaranteed Minimum Pensions (GMP) equalisation

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

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

#### Reporting and assumptions

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

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

#### Financial assumptions

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

|                                      | 2020   | 2019   |
|--------------------------------------|--------|--------|
| Group and Company                    | % p.a. | % p.a. |
| Discount rate                        | 2.05   | 2.30   |
| Pension increases                    | 3.35   | 2.80   |
| Pensionable salary growth:           |        |        |
| ESPS                                 | 3.35   | 2.80   |
| UUPS                                 | 2.45   | 1.60   |
| Price inflation - RPI                | 3.35   | 2.80   |
| Price inflation - CPI <sup>(1)</sup> | 2.75   | 1.60   |

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

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

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

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistics Authority's proposals to change RPI to align with CPIH (Consumer Prices Index, including housing costs). Plans to reform RPI and bring it in line with CPIH from 2030 were confirmed on 25 November 2020. Broadly CPIH increases are expected to average around 1 per cent per annum below RPI in the long-term (about the same as CPI), so this change could have a significant impact on many pension schemes. In arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2020: nil) has been deducted from the breakeven inflation rate for the year ended 31 March 2021.

The impact of this is a decrease in the defined benefit obligation of around £120 million and therefore an increase in the net defined benefit surplus compared with no inflation risk premium being deducted. There is no allowance for any further change in the inflation risk premium post 2030 as a result of RPI reform.

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

#### **Demographic assumptions**

At both 31 March 2021 and 31 March 2020, mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S2PA year of birth tables, with a scaling factor of 106 per cent and 109 per cent for male pensioners and non-pensioners respectively and 104 per cent and 105 per cent for female pensioners and non-pensioners respectively, reflecting actual mortality experience. At 31 March 2021, mortality in retirement is based on CMI 2020 (2020: CMI 2019) long-term improvement factors, with a long-term annual rate of improvement of 1.25 per cent (2020: 1.50 per cent). It is too early at this stage to analytically determine the long-term impact of the COVID-19 pandemic on future mortality trends

#### **Demographic assumptions (continued)**

for the schemes' membership, therefore no explicit adjustment to the mortality assumptions have been made in this regard.

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

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

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

#### Sensitivity of the key scheme assumptions

The measurement of the group's defined benefit surplus is sensitive to changes in key assumptions, which are described above. The sensitivity calculations presented below allow for the specified movement in the relevant key assumption, while all other assumptions are held constant.

This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted.

- **Asset volatility**

If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.

- **Discount rate**

Discount rate – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £142.1/£151.9 million (2020: £132.8 million) decrease/increase in the schemes' liabilities at 31 March 2021, although as long as credit spreads remain stable this will be largely offset by an increase/decrease in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on high-quality corporate bond yields of a similar duration to the schemes' liabilities.

- **Price inflation**

An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £144.3/£136.1 million (2020: £124.5 million) increase/decrease in the schemes' liabilities at 31 March 2021, as a significant proportion of the schemes' benefit obligations are linked to inflation. However, nearly all of the schemes' liabilities were hedged for RPI in the external market at 31 March 2021, meaning that this sensitivity is likely to be insignificant as a result. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation.

#### **Mortality long-term improvement rate**

An increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £33.2 million decrease in the schemes' liabilities at 31 March 2021 (2020: £31.1 million decrease based on an increase in the mortality long-term improvement rate from 1.50 per cent to 1.75 per cent).

#### **Life expectancy**

An increase/decrease in life expectancy of one year would have resulted in a £152.8 million (2020: £116.6 million) increase/decrease in the schemes' liabilities at 31 March 2021. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

## Notes to the financial statements - Appendices

### 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                                        | Schemes' assets % | 2021 £m      | Schemes' assets % | 2020 £m      |
|----------------------------------------------|-------------------|--------------|-------------------|--------------|
| Non-equity growth assets                     | 10.2              | 406.6        | 9.3               | 356.4        |
| Gilts <sup>(1)</sup>                         | 34.5              | 1,374.5      | 47.1              | 1,795.8      |
| Bonds                                        | 46.5              | 1,853.4      | 48.0              | 1,828.1      |
| Other <sup>(1)</sup>                         | 8.8               | 350.2        | (4.4)             | (168.6)      |
| Total fair value of schemes' assets          | 100.0             | 3,984.7      | 100.0             | 3,811.7      |
| Present value of defined benefit obligations |                   | (3,295.7)    |                   | (3,057.6)    |
| <b>Net retirement benefit surplus</b>        |                   | <b>689.0</b> |                   | <b>754.1</b> |

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

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

| Company                                      | Schemes' assets % | 2021 £m      | Schemes' assets % | 2020 £m      |
|----------------------------------------------|-------------------|--------------|-------------------|--------------|
| Non-equity growth assets                     | 9.7               | 99.1         | 9.0               | 88.3         |
| Gilts <sup>(1)</sup>                         | 34.3              | 348.9        | 43.8              | 427.1        |
| Bonds                                        | 47.3              | 481.8        | 48.4              | 472.7        |
| Other <sup>(1)</sup>                         | 8.7               | 88.9         | (1.2)             | (12.0)       |
| Total fair value of schemes' assets          | 100.0             | 1,018.4      | 100.0             | 976.1        |
| Present value of defined benefit obligations |                   | (860.4)      |                   | (801.1)      |
| <b>Net retirement benefit surplus</b>        |                   | <b>158.0</b> |                   | <b>175.0</b> |

(1) Following a review of the fair value of the schemes' assets and derivatives during the year, the fair value of the schemes' assets at 31 March 2020 have been re-presented such that £70.8 million fair value of derivatives have been included in gilts where they were previously included in other. The effect of this is that the fair value of the schemes' assets classified as gilts is £70.8 million lower at 31 March 2020 compared with that presented in the prior year financial statements, and the fair value of the schemes' assets classified as other is £407.1 million higher.

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

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

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

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

The fair value derivatives included within pension scheme asset classification are analysed as follows:

| At 31 March 2021                           | Group                   |                                    |                | Company                 |                                    |                |
|--------------------------------------------|-------------------------|------------------------------------|----------------|-------------------------|------------------------------------|----------------|
|                                            | Underlying assets<br>£m | Fair value of<br>Derivatives<br>£m | Combined<br>£m | Underlying assets<br>£m | Fair value of<br>Derivatives<br>£m | Combined<br>£m |
| Non-equity growth assets                   | 406.6                   | -                                  | 406.6          | 99.1                    | -                                  | 99.1           |
| Gilts                                      | 2,784.3                 | (1,409.8)                          | 1,374.5        | 595.5                   | (246.6)                            | 348.9          |
| Bonds                                      | 1,859.2                 | (5.8)                              | 1,853.4        | 480.7                   | 1.1                                | 481.8          |
| Other                                      | 376.2                   | (26.0)                             | 350.2          | 96.0                    | (7.5)                              | 88.5           |
| <b>Total fair value of schemes' assets</b> | <b>5,426.3</b>          | <b>(1,441.6)</b>                   | <b>3,984.7</b> | <b>1,271.3</b>          | <b>(253.0)</b>                     | <b>1,018.3</b> |

| At 31 March 2020                           | Group                   |                                    |                | Company                 |                                    |                |
|--------------------------------------------|-------------------------|------------------------------------|----------------|-------------------------|------------------------------------|----------------|
|                                            | Underlying assets<br>£m | Fair value of<br>Derivatives<br>£m | Combined<br>£m | Underlying assets<br>£m | Fair value of<br>Derivatives<br>£m | Combined<br>£m |
| Non-equity growth assets                   | 356.4                   | -                                  | 356.4          | 88.3                    | -                                  | 88.3           |
| Gilts                                      | 1,795.8                 | (407.1)                            | 1,388.7        | 427.1                   | (70.8)                             | 356.3          |
| Bonds                                      | 1,865.0                 | (36.9)                             | 1,828.1        | 485.2                   | (12.5)                             | 472.7          |
| Other                                      | 330.0                   | (91.5)                             | 238.5          | 82.6                    | (23.8)                             | 58.8           |
| <b>Total fair value of schemes' assets</b> | <b>4,347.2</b>          | <b>(535.5)</b>                     | <b>3,811.7</b> | <b>1,083.2</b>          | <b>(107.1)</b>                     | <b>976.1</b>   |

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

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

| Group                                                                                                 | UUPS<br>£m | ESPS<br>£m | 2021<br>Total<br>£m | UUPS<br>£m | ESPS<br>£m | 2020<br>Total<br>£m |
|-------------------------------------------------------------------------------------------------------|------------|------------|---------------------|------------|------------|---------------------|
| <b>Gilts</b>                                                                                          |            |            |                     |            |            |                     |
| Repurchase agreements                                                                                 | (1,403.6)  | (6.2)      | (1,409.8)           | (405.9)    | (1.2)      | (407.1)             |
|                                                                                                       | (1,403.6)  | (6.2)      | (1,409.8)           | (405.9)    | (1.2)      | (407.1)             |
| <b>Bond – hedging non-sterling exposure back to sterling</b>                                          |            |            |                     |            |            |                     |
| Currency forwards                                                                                     | (8.9)      | -          | (8.9)               | (27.7)     | -          | (27.7)              |
| Interest rate swaps                                                                                   | -          | 3.1        | 3.1                 | -          | (9.2)      | (9.2)               |
|                                                                                                       | (8.9)      | 3.1        | (5.8)               | (27.7)     | (9.2)      | (36.9)              |
| <b>Other – managing liability risks targeting a high level of interest rate and inflation hedging</b> |            |            |                     |            |            |                     |
| Asset swaps                                                                                           | (26.6)     | -          | (26.6)              | (30.2)     | -          | (30.2)              |
| Interest rate swaps                                                                                   | 23.2       | 0.1        | 23.3                | 25.7       | (0.4)      | 25.3                |
| RPI inflation swaps                                                                                   | (18.0)     | (3.5)      | (21.5)              | (75.0)     | (10.6)     | (85.6)              |
| Total return swaps                                                                                    | -          | (1.2)      | (1.2)               | -          | (1.0)      | (1.0)               |
|                                                                                                       | (21.4)     | (4.6)      | (26.0)              | (79.5)     | (12.0)     | (91.5)              |
| Total fair value of derivatives                                                                       | (1,433.9)  | (7.7)      | (1,441.6)           | (513.1)    | (22.4)     | (535.5)             |
|                                                                                                       |            |            |                     |            |            |                     |
| Company                                                                                               | UUPS<br>£m | ESPS<br>£m | 2021<br>Total<br>£m | UUPS<br>£m | ESPS<br>£m | 2020<br>Total<br>£m |
| <b>Gilts</b>                                                                                          |            |            |                     |            |            |                     |
| Repurchase agreements                                                                                 | (241.4)    | (5.2)      | (246.6)             | (69.8)     | (1.0)      | (70.8)              |
|                                                                                                       | (241.4)    | (5.2)      | (246.6)             | (69.8)     | (1.0)      | (70.8)              |
| <b>Bond – hedging non-sterling exposure back to sterling</b>                                          |            |            |                     |            |            |                     |
| Currency forwards                                                                                     | (1.5)      | -          | (1.5)               | (4.8)      | -          | (4.8)               |
| Interest rate swaps                                                                                   | -          | 2.6        | 2.6                 | -          | (7.7)      | (7.7)               |
|                                                                                                       | (1.5)      | 2.6        | 1.1                 | (4.8)      | (7.7)      | (12.5)              |
| <b>Other – managing liability risks targeting a high level of interest rate and inflation hedging</b> |            |            |                     |            |            |                     |
| Asset swaps                                                                                           | (4.6)      | -          | (4.6)               | (5.2)      | -          | (5.2)               |
| Interest rate swaps                                                                                   | 4.0        | 0.1        | 4.1                 | 4.4        | (0.3)      | 4.1                 |
| RPI inflation swaps                                                                                   | (3.1)      | (2.9)      | (6.0)               | (12.9)     | (8.9)      | (21.8)              |
| Total return swaps                                                                                    | -          | (1.0)      | (1.0)               | -          | (0.9)      | (0.9)               |
|                                                                                                       | (3.7)      | (3.8)      | (7.5)               | (13.7)     | (10.1)     | (23.8)              |
| Total fair value of derivatives                                                                       | (246.6)    | (6.4)      | (253.0)             | (88.3)     | (18.8)     | (107.1)             |

## Notes to the financial statements - Appendices

### A5. Retirement benefits (continued)

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, as these are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes' assets was £667.2 million (2020: £698.3 million) for the group and £144.7 million (2020: £166.4 million) for the company.

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:

|                                                                          | <b>Group</b>   |                | <b>Company</b> |              |
|--------------------------------------------------------------------------|----------------|----------------|----------------|--------------|
|                                                                          | 2021           | 2020           | 2021           | 2020         |
|                                                                          | £m             | £m             | £m             | £m           |
| At the start of the year                                                 | 3,811.7        | 3,909.1        | 976.1          | 1,003.5      |
| Interest income on schemes' assets                                       | 86.0           | 94.3           | 22.1           | 24.1         |
| The return/(loss) on plan assets, excluding amounts included in interest | 241.0          | (131.6)        | 55.6           | (35.3)       |
| Member contributions                                                     | 2.4            | 2.6            | 0.1            | 0.1          |
| Benefits paid                                                            | (162.0)        | (175.0)        | (35.4)         | (38.4)       |
| Administrative expenses                                                  | (3.0)          | (1.6)          | (1.0)          | (0.6)        |
| Company contributions                                                    | 8.6            | 113.9          | 0.9            | 22.7         |
| <b>At the end of the year</b>                                            | <b>3,984.7</b> | <b>3,811.7</b> | <b>1,018.4</b> | <b>976.1</b> |

The actual return on the schemes' assets was a gain of £327.0 million (2020: £37.3 million loss) for the group and a gain of £77.7 million (2019: £11.2 million loss) for the company, largely as a result of the schemes' investment strategies hedging increases in the technical provisions due to change in financial conditions.

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

|                                                                          | <b>Group</b>     |                  | <b>Company</b> |                |
|--------------------------------------------------------------------------|------------------|------------------|----------------|----------------|
|                                                                          | 2021             | 2020             | 2021           | 2020           |
|                                                                          | £m               | £m               | £m             | £m             |
| At the start of the year                                                 | (3,057.6)        | (3,425.2)        | (801.1)        | (893.4)        |
| Interest cost on schemes' obligations                                    | (68.5)           | (80.3)           | (18.0)         | (21.0)         |
| Actuarial (losses)/gains arising from changes in financial assumptions   | (429.7)          | 257.3            | (106.2)        | 69.3           |
| Actuarial gains/(losses) arising from changes in demographic assumptions | 80.6             | (7.2)            | 20.1           | (1.9)          |
| Actuarial gains arising from experience                                  | 25.4             | 36.1             | 10.0           | 9.1            |
| Curtailements/settlements                                                | (0.6)            | (4.6)            | (0.2)          | (1.0)          |
| Member contributions                                                     | (2.4)            | (2.6)            | (0.1)          | (0.1)          |
| Benefits paid                                                            | 162.0            | 175.0            | 35.4           | 38.4           |
| Current service cost                                                     | (4.9)            | (6.1)            | (0.3)          | (0.5)          |
| <b>At the end of the year</b>                                            | <b>(3,295.7)</b> | <b>(3,057.6)</b> | <b>(860.4)</b> | <b>(801.1)</b> |

## Notes to the financial statements - Appendices

### 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:

|                                                                | 2021<br>£m | 2020<br>£m |
|----------------------------------------------------------------|------------|------------|
| Sales of services                                              | 362.9      | 438.3      |
| Charitable contributions advanced to related parties           | -          | 0.4        |
| Purchase of goods and services                                 | -          | 0.1        |
| Interest income and fees recognised on loans to joint ventures | 3.7        | 4.0        |
| Amounts owed by related parties                                | 113.8      | 147.9      |
| Amounts owed to related parties                                | 2.4        | 4.8        |

Sales of services to related parties during the year mainly represent non-household wholesale charges to Water Plus that were billed during the period. These transactions were on 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 2021, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £113.8 million (2020: £147.9 million), comprising £27.1 million (2020: £52.9 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £86.7 million (2020: £95.0 million) relating to loans.

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

- £66.3 million (2020: £93.6 million) outstanding on a £100.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2023, bearing a floating interest rate of the Bank of England base rate plus a credit margin (2020: provided by United Utilities Water Limited and guaranteed by United Utilities PLC, with a maturity date of September 2021, bearing a floating interest rate of LIBOR plus a credit margin). This balance comprises £67.5 million outstanding net of a £1.2 million allowance for expected credit losses (2020: £98.0 million outstanding net of a £4.6 million allowance for expected credit losses);
- £18.3 million (2020: £nil) outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, with a maturity date of 30 September 2021, bearing a floating interest rate of LIBOR plus a credit margin. This balance comprises £32.5 million outstanding net of the group's £8.9 million share of Water Plus losses for the year ended 31 March 2021 and the group's £5.3 million previously unrecognised share of joint venture losses relating to the year ended 31 March 2020 (2020: £nil outstanding, with no share of joint venture losses or allowance for expected credit losses allocated against the facility). This facility forms part of the group's long-term interest in the Water Plus joint venture given that at 31 March 2021 there was a clear expectation that it would be replaced with additional equity share capital. This additional share capital was issued by Water Plus on 23 April 2021, with the group's subscription to £32.5 million of new equity shares and the simultaneous cancellation of the revolving credit facility taking place on this same date. The balance has therefore been recorded as a non-current receivable in the statement of financial position at 31 March 2021; and

## Notes to the financial statements - Appendices

### A6. Related party transactions (continued)

- £0.7 million (2020: £nil) receivable being the £10.3 million (2020: £10.0 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.1 million (2020: £0.5 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to the year ended 31 March 2020 as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2021 and 31 March 2020 of £12.5 million, comprising the £10.3 million (2020: £10.0 million) receivable measured at fair value, and £2.2 million (2020: £2.5 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

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

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

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

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

The following transactions were carried out with the group's ultimate parent undertaking, United Utilities Group PLC:

|                             | <b>Interest receivable</b> |      |
|-----------------------------|----------------------------|------|
|                             | 2021                       | 2020 |
|                             | £m                         | £m   |
| Ultimate parent undertaking | 24.2                       | 32.9 |

|                             | <b>Intercompany group tax relief payable</b> |      |
|-----------------------------|----------------------------------------------|------|
|                             | 2021                                         | 2020 |
|                             | £m                                           | £m   |
| Ultimate parent undertaking | 4.6                                          | 6.2  |

|                             | <b>Amounts owed by related parties</b> |         | <b>Amounts owed to related parties</b> |      |
|-----------------------------|----------------------------------------|---------|----------------------------------------|------|
|                             | 2021                                   | 2020    | 2021                                   | 2020 |
|                             | £m                                     | £m      | £m                                     | £m   |
| Ultimate parent undertaking | 1,788.0                                | 1,764.1 | 91.9                                   | 89.1 |

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

## Notes to the financial statements - Appendices

### 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 £6.3 million (2020: £517.9 million), including dividends totalling £nil (2020: £513.2 million) received from United Utilities North West and a dividend of £6.3 million (2020: £4.7 million) received from United Utilities (Tallinn) BV.

Total net interest receivable during the year from subsidiary undertakings was £27.6 million (2020: £31.1 million), and total fair value losses during the year relating to balances with subsidiary undertakings were £39.0 million (2020: £17.6 million gains). In addition, total net interest receivable during the year from the ultimate parent company was £24.2 million (2020: £32.9 million). Amounts outstanding at 31 March 2021 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 16, 21 and A3.

An allowance for doubtful receivables of £98.1 million (2020: £97.4 million) has been made for amounts owed by subsidiary undertakings (see note 14). In the year ended 31 March 2021, a charge of £0.7 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2020: £1.5 million charge).

As at 31 March 2021, total guarantees given by the company to its related parties were £1,206.8 million (2020: £1,934.5 million). Included within these guarantees were the following amounts:

- £1,145.2 million (2020: £1,771.2 million) relating to United Utilities Water Limited's loans from the European Investment Bank;
- £nil (2020: £98.0 million) relating to Water Plus's revolving credit facility from United Utilities Water Limited;
- Guarantees with an aggregate limit of £54.1 million (2020: £54.1 million) relating to Water Plus in respect of certain amounts owed to wholesalers, of which £32.1 million (2020: £32.1 million) related to guarantees to United Utilities Water Limited; and
- Performance guarantees with an aggregate limit of £7.5 million (2020: £11.2 million) given to subsidiaries.

### 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 113 to 118.

#### 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

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.

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

#### Revenue recognition

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

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

- the provision of core water and wastewater services, accounting for more than 97 per cent of the group's revenue; and
- capital income streams relating to diversions work, and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The core water and wastewater services, which are deemed to be 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

#### **Borrowing costs and finance income**

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

#### **Tax**

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

#### ***Current tax***

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

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

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

#### ***Deferred tax (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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

#### **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 77 years;
- buildings 10 to 60 years;
- operational assets 5 to 80 years; and
- fixtures, fittings, tools and equipment 3 to 40 years.

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

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

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

#### ***Water and wastewater infrastructure assets***

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

#### *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.

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

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

#### **Impairment of assets**

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

#### **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.

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

### **Financial instruments (continued)**

#### ***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.

## Notes to the financial statements - Appendices

### 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.

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

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

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

#### ***Derivative financial instruments***

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

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

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

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

#### ***Derivatives and borrowings – valuation***

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

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

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

#### **Inventories**

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

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

#### **Employee benefits**

##### ***Retirement benefit obligations***

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

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

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

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

In addition, the group 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

#### 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.

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 are instead 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.

## Notes to the financial statements - Appendices

### A7. Accounting policies (continued)

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, that result in the expansion of the group's water and wastewater network and therefore its fixed asset base. Given that these grants and contributions are used to fund expenditure that results in the enhancement of the group's network assets, the cash inflows are classified within investing activities in the period.

##### ***Interest payments and receipts***

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

##### ***Support costs***

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

##### ***Cash flows on derivatives***

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

##### ***Taxes paid***

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

##### ***Dividend receipts***

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

## Notes to the financial statements - Appendices

### A8. Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings, joint ventures and associates are set out below. Unless otherwise specified, the registered address for each entity is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP, United Kingdom. For further details of joint ventures and associates please see 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 Renewable Energy Limited               | Ordinary                    | 100.0                                             | Renewable energy generation                |
| United Utilities Total Solutions Limited                | Ordinary                    | 100.0                                             | Non-trading                                |
| United Utilities Utility Solutions (Industrial) Limited | Ordinary                    | 100.0                                             | Holding company                            |
| United Utilities Water Finance PLC*                     | Ordinary                    | 100.0                                             | Financing company                          |
| United Utilities Water Limited*                         | Ordinary                    | 100.0                                             | Water and wastewater services              |
| UU (ESPS) 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)     |

|                                                                                                                                                      | Class of share capital held | Proportion of share capital owned/voting rights % | Nature of business                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---------------------------------------------------|----------------------------------------------------|
| <b>Joint ventures</b> - all joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees. |                             |                                                   |                                                    |
| 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