United Utilities Group PLC

Annual Report and Financial Statements
for the year ended 31 March 2022

United Utilities

Water for the North West

Contents

Look out for our key icons throughout this report

Our strategic themes

The best service to customers

At the lowest sustainable cost

In a responsible manner

Read more about our strategic themes on pages 16 to 17

Our strategy is broken down into these three themes, which form the framework through which we provide great water and more for the North West.

Key stakeholders for whom we generate value

Communities

Environment

Customers

Investors

Employees

Suppliers

Read more about our stakeholders on pages 29 to 33

There are six key stakeholder groups for whom we create long-term value and it is essential we understand what matters most to them.

Keep in touch with us

Visit our corporate website at unitedutilities.com/corporate

twitter.com/unitedutilities

youtube.com/user/unitedutilities

linkedin.com/company/united-utilities/posts

Welcome to our Annual Report 2022

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

As the water and wastewater service provider for the North West region of England, our purpose is why we exist and it drives us to focus on what matters to our stakeholders.

Our approach to reporting

Being open, honest and transparent in our reporting is key to building trust and confidence in what we do.

Read more about our approach as a responsible business on pages 12 to 13

We're committed to being a responsible business.

We are in a unique position to make a real, positive contribution to society. We have proven to be resilient over the past year and will continue to rise to the challenges that lie ahead, playing our part in contributing to a sustainable water future.

Our purpose drives us to deliver 'more' for our stakeholders, which means creating value by understanding what matters to them through strong and constructive relationships.

We do this by:

- supporting communities to be stronger;
- caring for customers through trusted relationships;
- protecting and enhancing the environment;
- creating a great place to work for all our employees;
- delivering a sustainable return to investors; and
- innovating in partnership with suppliers.

See our report online

Use the link below or scan the QR code to view our online report and download the full annual report and financial statements.

Visit our online report at unitedutilities.annualreport2022.com

Our annual performance report

We report our regulatory performance in a format that helps customers and other stakeholders understand it and compare it with other companies in the sector.

Read our annual performance report at unitedutilities.com/corporate/about-us/performance/annual-performance-report

Stock Code: UU.

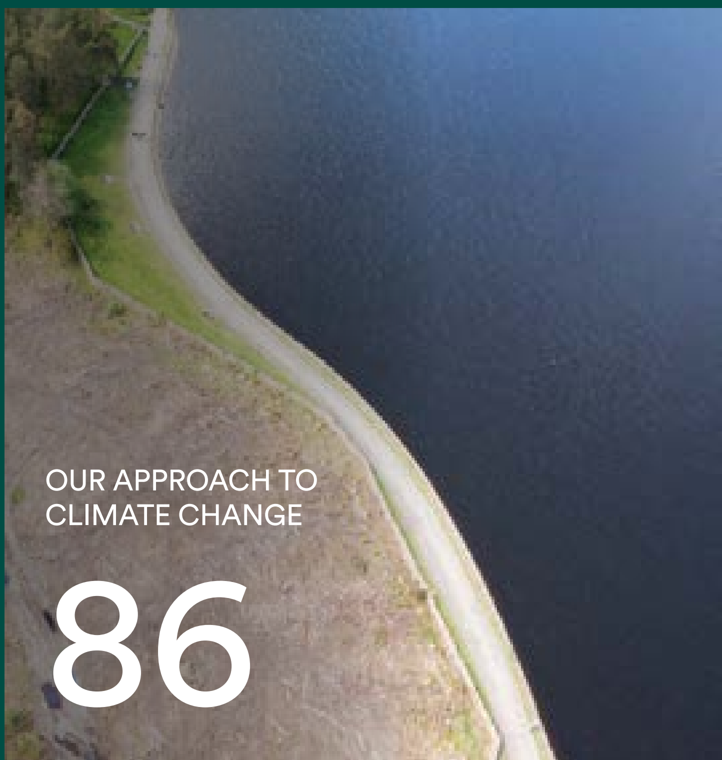
A snapshot of our report

Highlights of our annual report and financial statements.

As well as the usual overview of how we operate, our performance in the year to 31 March 2022, and a section in line with the Task Force on Climate-related Financial Disclosures (TCFD) guidance, this year's report includes a new section in line with the Task Force on Nature-related Financial Disclosures (TNFD) guidance on pages 98 to 99. Several business insight case studies are included to help bring to life some of the ways we are delivering long-term value for stakeholders.

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 engage with stakeholders to understand what matters most to them through strong, open and constructive relationships.



We plan for the long term to ensure our activities, investment and innovation enhance the long-term resilience of the environment for future generations.

To measure how we are delivering our purpose, we monitor operational performance for each stakeholder group, as well as financial performance.

Our value chain outlines our key resources and how we respond to challenges and plan for the future to deliver value to our stakeholders.

Behaving in a responsible manner is one of our core values and is crucial to the long-term success of our business.

Successful management of risks and uncertainties, as well as seizing new opportunities that arise, enables us to deliver our purpose to provide great water and more for the North West.

Chair and Chief Executive Officer's review

Sir David Higgins
Chair

Steve Mogford
Chief Executive Officer

We are helping over 200,000 households currently struggling with their bills, and maintaining a high level of service for customers.

We are earning higher outperformance thanks to strong operational performance against customer outcome delivery incentives as well as financial outperformance.

As a responsible company, we are sharing our success with customers, like we did in 2010–20, by investing an additional £765 million to help accelerate further enhancements for customers and the environment.

(1) 50 per cent company funded.

(2) Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

(3) On a real, RPI/CPIH blended basis.

Our team has sustained a strong level of operational performance this year, delivering value for all our stakeholders. Customer satisfaction and employee engagement remain high, and we have achieved our best ever performance against customer outcome delivery incentives (ODIs). We are on track to deliver our environmental improvement programme for the 2020–25 regulatory period (AMP7), which will improve river and bathing water quality in the North West, and have made good progress against our carbon pledges. We are upper quartile across a suite of environmental, social and governance (ESG) indices, and our robust balance sheet provides long-term financial resilience.

Helping customers struggling with bills

Many people across the country are facing real challenges as we emerge from a global pandemic and are faced with significant rises in the cost of living. We serve many of the most deprived areas in England and Wales, so it is more important than ever that we are doing what we can to help customers.

Our average household bill for 2022/23 is not increasing, and we are offering more support than ever before through our extensive range of affordability and vulnerability schemes, helping over 200,000 households this year and providing around £280 million[(1)] of affordability support over AMP7.

There is still more we would like to be able to do, and we are a passionate supporter of the Consumer Council for Water's drive to introduce a national social tariff, which would help deliver a more equitable sharing of support for customers struggling to pay their bill regardless of where they live in the country.

Sustained high levels of operational and environmental performance

We were a sector-leading company on outcome delivery in Ofwat's Service Delivery Report for 2020/21, with nine of 11 outcomes[(2)] being at or better than target, and were recognised as a top performer on supply interruptions and pollution incidents – two areas where we are now seeing the benefits of targeted investment we made in AMP6. On the two outcomes[(2)] where our performance was poorer than target we have plans in place to improve this.

Our customer ODI performance has been strong across the board this year, meeting or beating over 80 per cent of our performance commitments. Based on our anticipated reward this year, we will have earned rewards in both the first two years of AMP7 against Ofwat's customer satisfaction measure, C-MeX, and we have achieved our lowest ever level of written complaints this year.

We were pleased to achieve a 4 star rating in the 2020 Environmental Performance Assessment from the Environment Agency (EA), meaning we were categorised as an industry-leading company in the most recent annual assessment by the EA, taking into account performance across a broad range of environmental metrics. It reflected our best ever performance, and we were the first water company to achieve green status across all measures since 2015.

We continue to be at the sector frontier on pollution performance, having reduced overall pollution by a third since the start of the AMP. Our treatment works compliance remains strong and we expect to remain green on this measure in the EA's assessment for 2021.

Performance improvements earning outperformance

We earned a reported return on regulated equity (RoRE) of 7.9 per cent for 2021/22[3], driven by our continued improvements in operational performance together with high levels of inflation, which increases financing outperformance, and tax outperformance.

Underlying RoRE is slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.

Cumulative RoRE for the first two years of AMP7 is 6.2 per cent on both a reported and underlying basis.

Our strong performance this year earned a £25 million reward against customer ODIs[2], the highest annual reward we have achieved to date. We anticipate earning total customer ODI rewards over AMP7 of £200 million, a third higher than we estimated in last year's report.

We consistently issue debt at efficient rates, and we earned financing outperformance of 1.6 per cent of regulated equity this year. We also performed strongly on tax as a result of optimising government tax incentives. The economic environment as we emerge from a global pandemic, as well as the war in Ukraine, has driven higher costs in our supply chain and we are starting to see significant cost increases in power and chemicals. We continue to seek efficiencies and exploit technology and innovation to help us deliver our total expenditure (totex) efficiently.

Sharing our success with customers

As a responsible company it is right that we should share our success with customers, and we feel the best way for us to create more value for customers and other stakeholders is through investing to accelerate improvements in performance. This is in line with the approach we have taken historically, sharing over £600 million over the 2010–20 period.

We have increased the investment we are making by a further £400 million meaning that, over the 2020–25 period, we are investing £765 million beyond the scope of our final determination allowance to help us accelerate environmental and customer outcomes.

Investing to improve service for customers

£250 million of the additional investment is helping us deliver further improvements to service for customers and better performance against our customer ODIs.

As mentioned above, our performance has been strong across the majority of our customer outcomes, but this investment is targeted at delivering sustainable improvements for customers in two specific areas where we want to do better – sewer flooding and water quality (specifically discolouration).

It includes investment in Dynamic Network Management (DNM), an advancement of Systems Thinking in our wastewater network that will help us reduce sewer flooding and pollution incidents using real-time performance data from a network of sensors to enable predictive and preventative optimisation.

Investing outperformance for environmental improvements

A further £250 million of the additional investment is being used to deliver environmental outcomes. This includes delivering elements of the new Environment Act requirements earlier, and improving the health of rivers across the North West.

In July 2021, we launched a collaborative partnership with The Rivers Trust, a first for any water company in the United Kingdom. To help kickstart a river revival in the North West we published 'Better Rivers: Better North West', our plan to improve the health of rivers across our region in the next three years. We are delivering improvements that support at least a one-third sustainable reduction in the number of spills recorded from our storm overflows between 2020 and 2025, with all storm overflows monitored by 2023 and real-time data on their operation made publicly available. Our plans will lead to 184 kilometres of improved waterways across the region. We also continue to engage with the ongoing industry-wide investigations by Ofwat and the EA into possible unpermitted sewage discharges.

The remaining £265 million of the £765 million of additional investment is for projects where regulatory allowances and mechanisms have been secured, much of which will deliver further environmental benefits. For example, around £90 million will fund a project in Bolton that is part of our Water Industry National Environment Programme (WINEP), and £65 million will go towards supporting the country's green economic recovery in the wake of the pandemic.

Long-term investment needs for the environment

Protecting and enhancing the natural environment has always been a key priority for us and many of our stakeholders. In the last 12 months this has received increased public interest, particularly the health of rivers and the part the water industry can play in helping to improve this.

New and emerging requirements reflect the increased importance being given by the Government to the environmental agenda and we share the Government's ambitious improvement plans.

Read more about **our £765 million investment** on page 71

Read more about **Dynamic Network Management** on page 43

Read more about **our Better Rivers: Better North West plan** on page 67

£280m
affordability support being provided over 2020–25, helping 200,000 households in the North West

£765m
additional investment being made over 2020–25 to deliver customer and environmental improvements

£25m
net reward earned this year against customer ODIs[1], the highest we have achieved in any year to date

Chair and Chief Executive Officer's review

> The North West is home to some beautiful natural landscapes and we take our role in protecting them very seriously. We have published our plan to help improve the health of our rivers over the next three years."

Read **our TCFD and TNFD disclosures** on pages 86 to 99

Read more about **our financial risk management policies** on pages 242 to 249

Read more about **our approach to diversity and inclusion** on pages 44 to 45

The Environment Act 2021 introduces several new challenges for the sector, including a requirement for water companies to secure a progressive but very substantial reduction in the average number of spills from storm overflows, and controlling nutrient pollution by reducing phosphate release from wastewater treatment works. The Industrial Emissions Directive broadens the scope of activities covered by compliance requirements, and the EA's recent interpretation of Farming Rules for Water restricts the application of biosolids to land in certain areas at certain times, requiring more storage capacity or alternative means of disposal.

We have delivered significant improvements in environmental performance in recent years, and through our original plans for AMP7 we will deliver further improvements, with good progress already having been made. The additional investment we are making will help accelerate improvements, but there is more that the industry will need to do.

Specific targets for the next regulatory period have not yet been agreed, but it is already clear that there is an ambition to deliver a fundamental change in the way drainage network systems were originally configured. The investment needed to deliver these changes will be significant for the industry as a whole, but particularly for the North West, where we have a much higher proportion of combined sewers. We are working with the Government and regulators to determine how these bold ambitions can be met and by when, recognising that the pace of change must consider customer affordability.

Resilience to climate change and population growth remains a material issue for many stakeholders, even more so since COP26, and this is something that will need to be addressed by water companies both regionally and nationally. Our Systems Thinking approach and investment are helping to deliver increased resilience across the North West, and longer term we are involved in strategic planning for a national water transfer scheme.

We have committed to achieve net zero by 2030 with six pledges to reduce our carbon footprint, underpinned by ambitious science-based targets for reducing our greenhouse gas emissions, and we are making good progress against these. We are linking executive remuneration more tightly to our carbon commitments with four targets added to the Long Term Plan, and in this year's report we also include nature-related financial disclosures.

Haweswater Aqueduct Resilience Programme (HARP)

We have continued to develop HARP, an industry-first Direct Procurement for Customers (DPC) programme to design and build six replacement tunnel sections of the Haweswater Aqueduct, which transports water from Cumbria to Manchester.

We have undertaken extensive market engagement throughout the process – challenging for a project of this scale during the pandemic – and used innovative ways to manage stakeholder engagement, including the use of digital channels and a virtual exhibition giving people access to information and the ability to ask questions remotely.

We developed the initial design following extensive ground investigation work to plot the best route, and planning applications have all been submitted with decisions expected later this year. During early 2022, we have been finalising tender documents, and we expect to start procurement in the summer of 2022.

Strong financial performance in a turbulent economic climate

We have delivered another good financial performance this year, underpinned by a strong balance sheet.

Underlying earnings per share is 53.8 pence, a decrease of 4 per cent primarily due to the inflationary impact on our underlying net finance expense. With inflation increasing, this impacts interest charges and therefore earnings, but our regulatory capital value will benefit from higher indexation. This higher finance expense is partially offset by a tax credit following a review of our innovation-related capital expenditure.

Reported earnings per share is (8.3) pence, with the difference mainly due to a one-off deferred taxation charge which occurs from a restatement of the liability following a change in the headline rate of corporation tax from 19 per cent to 25 per cent, effective from 1 April 2023. Adjusting items are outlined in the reconciliation table on pages 82 and 83.

The board has proposed a final dividend of 29.0 pence per ordinary share, taking the total dividend for 2021/22 to 43.5 pence. This is an increase of 0.6 per cent*, in line with our AMP7 policy of targeting an annual growth rate of CPIH inflation through to 2025.

Our balance sheet remains one of the strongest in the sector as a result of the responsible and prudent approach we take to financial risk management. Gearing, measured as net debt to regulatory capital value, is 61 per cent, remaining comfortably within our target range of 55 to 65 per cent. This supports United Utilities Water Limited's A3 credit rating with Moody's, and at year end we have liquidity to February 2025, giving us a high level of flexibility and resilience.

While we are not immune to the effects of the current high inflation environment, our risk management policies have been effective at helping to shield us in certain areas. Our fully funded, low dependency pension schemes protect employees and shareholders from the risk and deficit repair contributions that come with having a large pension deficit.

* The dividend increase is based on the CPIH element included within allowed regulated revenue for the 2021/22 financial year (i.e. the movement in CPIH between November 2019 and November 2020).

Our energy hedging policy locked in commodity prices on the majority of our estimated power consumption for AMP7 prior to the recent significant increases. We have over 90 per cent of our AMP7 base capital programme on contract under target price arrangements, with sharing of cost overruns incentivising our partners to deliver within budget.

Supported by a diverse and highly motivated workforce

We pride ourselves on being a quality employer, and are committed to maintaining a diverse and inclusive team of people, recruiting from every part of our community. We scored equal to the UK high performance norm with 87 per cent employee engagement this year, are rated 4.6 out of five by Glassdoor, and were the leading utility company in The Inclusive Top 50 UK Employers List 2021/22.

We believe in the importance of developing younger generations to keep the talent pool flowing. We have active graduate and apprentice schemes, including 30 green apprentices helping us work towards our climate and environmental ambitions. We support young people not in education, employment or training (NEETs), as well as being part of the Government's Kickstart Scheme providing opportunities to unemployed 16–24 year olds claiming universal credit.

Our commitment to health, safety and wellbeing has been recognised with our tenth consecutive Royal Society for the Prevention of Accidents (RoSPA) gold standard medal, meaning we have achieved the RoSPA President's award.

Outlook

We have continued a momentum of performance improvement in recent years, giving us confidence in our ability to continue to create value for customers, the environment, and other stakeholders.

The additional investment we are making will help us deliver even more sustainable improvements in customer and environmental performance, and to get ahead of the requirements coming into force through the Environment Act.

Our Systems Thinking approach, digital advancements, and financial risk management give us robust long-term resilience.

Thank you to our stakeholders

We are grateful to our employees for their continued hard work, and as we look forward at the many new challenges we and the rest of the sector will be meeting in the next AMP and beyond, we are delighted to have such a great team behind us. We would also like to extend our gratitude to our customers and other stakeholders for their continued support.

Sir David Higgins
Chair

Steve Mogford
Chief Executive Officer

The strategic report on pages 14 to 109 was approved at a meeting of the board on 25 May 2022 and signed on its behalf by Steve Mogford, Chief Executive Officer.

Read more about **our performance in 2021/22** on pages 52 to 83

Integrated Report and TCFD disclosure

This annual report contains information consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and is an Integrated Report prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council in December 2013, as applicable to the year ended 31 March 2022. The board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the <IR> Framework.

Materiality

Our annual report and financial statements aim to meet the information needs of our investors to help them make informed decisions regarding their participation – for example, whether to buy, hold or sell our shares or bonds, whether to engage with management on issues, and how to vote their shares. We have included information that we believe is material to these decisions, which is presented in a way that we believe is fair, balanced and understandable. We engage with – and recognise that this report will be read by – a wide variety of other stakeholders including customers, suppliers, employees, analysts, regulators, community bodies, politicians, non-governmental organisations, and devolved authorities. Where we believe that a topic is material to a large number of them, which is assessed in part through a matrix approach to stakeholder materiality as set out on pages 34 and 35, we either include it in this report or refer the reader to other reports and information (such as our regulatory reports, customer communications, or corporate responsibility web pages). We believe this approach meets the requirements of company law, the UK Corporate Governance Code, IFRS and the International <IR> Framework, and that we go beyond those requirements where we feel it is particularly helpful to do so and where that can be done without making the report unnecessarily lengthy or difficult to read.

2021/22 highlights
Operational highlights

In line with our purpose, we measure our operational performance by reference to the value we have created for each of our stakeholder groups, and we monitor one operational key performance indicator (KPI) for each of these groups.

Communities

Our work places us at the heart of communities and we strive to engage fully with them and work closely in partnership

Our target

10%

increase in community investment compared with the average of £2.56 million per annum between 2010–20

Our progress this year

- Our direct community investment totalled £2.82 million (calculated using the B4SI method), higher than last year as a result of increased activity with partners and returning to customer-facing events such as the RHS Tatton Flower Show.
- We contributed to our Trust Fund to help those struggling to pay their bills, with further support available through our social tariff. The additional £15 million per annum of social tariff support provided during COVID-19 has been extended to 2025 to help those customers struggling to pay their bills.

Read more about our performance for communities on page 52 to 54

KPI performance

Met expectation/target

Link to remuneration

- n/a

Customers

We aim to deliver the best service and to give targeted support to any customers in vulnerable circumstances

Our target

Positive

reward territory on Ofwat's customer measure of experience (C-MeX)

Our progress this year

- For 2021/22, we expect to receive a reward of £2.3 million on C-MeX.
- We continue to be the highest-performing listed company, ranked fourth out of the water and wastewater companies and seventh overall out of all 17 companies.
- We have reduced written complaints to our lowest ever level this year.
- On Ofwat's D-MeX measure, for developer customer satisfaction, we are consistently in the top half and expect to receive a small reward for 2021/22.

Read more about our performance for customers on page 56 to 58

KPI performance

Met expectation/target

Link to remuneration

- Our C-MeX ranking features as a measure in both our annual bonus and in the customer basket component of our Long Term Plan

Employees

Having a diverse and inclusive workforce where everyone goes home safe and well is one of our key priorities

Our target

Upper quartile

score against UK utilities norm for engagement

Our progress this year

- Our overall engagement is at 87 per cent, equal to the UK high performance norm, which we have now been equal to or above for the last three years.
- We are 11 per cent better than the UK norm and 5 per cent better than the UK utilities norm.
- We are rated 4.6 out of 5 by former and current employees on Glassdoor, and 92 per cent of our employees would recommend United Utilities as a great place to work.

Read more about our performance for employees on page 60 to 62

KPI performance

Met expectation/target

Link to remuneration

- n/a

Many of our operational KPIs are considered in executive remuneration through the annual bonus and/or Long Term Plan

Read our **remuneration report** on pages 160 to 191

KPI status key

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

Environment

We work hard to protect and enhance the natural environment across the North West

Our target

Upper quartile

in the water industry in the EA's Environmental Performance Assessment

Our progress this year

- The most recent annual assessment from the Environment Agency (EA) was for 2020, and we were awarded the maximum 4 star rating, meaning we were classed by the EA as an industry-leading company.
- We achieved our best ever performance, as we were green across all measures –the first water company to achieve this level of performance since 2015.
- The EA will publish their annual performance assessment for 2021 in July 2022.

Read more about **our performance for the environment** on page 64 to 66

KPI performance

Met expectation/target

Link to remuneration

- Our EPA rating features within the customer basket measures in the Long Term Plan, and environmental performance is indirectly linked to the annual bonus as many of our ODIs have an environmental impact

Investors

We aim to deliver a sustainable return, exercising prudent financial risk management and strong ESG performance

Our target

RoRE

guidance will be updated throughout the period in line with guidance on individual elements

Our progress this year

- Reported RoRE for 2021/22 was 7.9 per cent on a real, RPI/CPIH blended basis.
- This includes outperformance in customer outcome delivery incentives (ODIs), financing and tax, slightly offset by underperformance on total expenditure (totex).
- Underlying RoRE was slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.
- Cumulative RoRE for the first two years of AMP7 is 6.2 per cent on both a reported and underlying basis.

Read more about **our performance for investors** on page 68 to 70

KPI performance

Met expectation/target

Link to remuneration

- RoRE is a performance measure in the Long Term Plan, and is indirectly linked to the annual bonus as it is influenced by our performance on two bonusable measures: C-MeX and ODIs

Suppliers

We strive to innovate in partnership with suppliers to find ways to improve our services for customers

Our target

95%

as the minimum of invoices paid within 60 working days of issue, in line with the Prompt Payment Code

Our progress this year

- Over 99 per cent of our invoices were paid within 60 days this year, and our average time to pay is 13 days.
- We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements. As a signatory to this Code, we are also working to pay 95 per cent of our small and medium-sized enterprise (SME) suppliers within 30 days, a new guideline that came into effect in July 2021.

Read more about **our performance for suppliers** on page 72 to 74

KPI performance

Met expectation/target

Link to remuneration

- n/a

2021/22 highlights
Financial highlights

We have delivered a solid set of financial results in a volatile market over the year to 31 March 2022, helped by our prudent financial risk management and efficient operational performance.

Our financial KPIs

Underlying operating profit*

£610m

Reported: £610m

Our target
No externally disclosed target (see note 1)

Our progress this year
- Underlying operating profit increased by £8 million, as a 3 per cent increase in revenue was largely offset by inflationary pressures increasing our underlying cost base, predominantly in respect of power, materials and labour.
- There were no adjusting items therefore underlying was the same as reported operating profit this year.

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

Our performance
Met expectation/target

Link to remuneration
- Underlying operating profit is one of the measures for the annual bonus. It is indirectly linked to the Long Term Plan as financial performance impacts relative total shareholder return

Underlying earnings per share (EPS)*

53.8p

Reported: (8.3)p

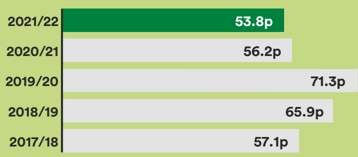
Our target
No externally disclosed target (see note 1)

Our progress this year
- Underlying EPS decreased by 4 per cent, primarily due to the impact of higher inflation on our index-linked debt. This was partially offset by a net tax credit of £66 million due to capital allowance super deductions and a review of innovation-related expenditure in prior years.
- Reported EPS was (8.3) pence, with the main adjusted items being deferred tax and net fair value gains on debt and derivative instruments.

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

Our performance
Met expectation/target

Link to remuneration
- Underlying earnings per share is indirectly linked to the Long Term Plan as financial performance impacts relative total shareholder return



Dividend per share

43.5p

Our target

CPIH inflation

growth per annum over AMP7 (2020–25)

Our progress this year
- The board has proposed a final dividend of 29 pence per ordinary share, taking the total dividend for 2021/22 to 43.5 pence per ordinary share. This is an increase of 0.6 per cent, in line with our policy in this regulatory period of targeting an annual growth rate of CPIH inflation through to 2025.

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

Our performance
Met expectation/target

Link to remuneration
- Delivery of our dividend policy is an underpin that applies to the Long Term Plan outcomes

A guide to alternative performance measures (APMs) and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

* Underlying profit measures have been re-presented for prior years so they are presented on a consistent basis to the years ended 31 March 2021 and 31 March 2022.

Many of our operational KPIs are considered in executive remuneration through the annual bonus and/or Long Term Plan

Read our **remuneration report** on pages 160 to 191

KPI status key

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

Gearing: net debt to RCV

61%

Our target

55–65%

gearing range

Our progress this year

- Gearing at 61 per cent remains comfortably within our target range, supporting an A3 credit rating with Moody's and giving us financial flexibility and resilience.

Definition

This measure divides group net debt by United Utilities Water Limited's (UUW) shadow (adjusted for actual spend and timing difference) regulatory capital value (RCV).

Our performance

Met expectation/target

Link to remuneration

- n/a

Total shareholder return

+27%

Our target

We assess our performance each year against listed peers in the utility sector and against the FTSE 100

Our progress this year

- Total shareholder return for the year to 31 March 2022 was 27 per cent positive. This was higher than the average return for the FTSE 100, but was not as high as some listed peers in the utility sector.

Definition

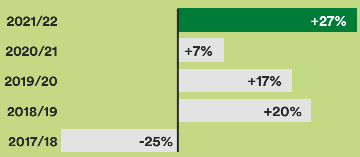
This measure calculates the return to shareholders based on the movement in share price plus dividends over each financial year.

Our performance

Close to meeting expectation/target

Link to remuneration

- Relative total shareholder return is a measure applying to Long Term Plan awards vesting this year



Low dependency pension scheme

£nil

deficit repair contributions

Our target

Maintaining low dependency pension schemes, meaning no deficit repair payments are needed

Our progress this year

- Our defined benefit pension schemes are fully funded on a low dependency basis. This means we do not need to make deficit repair contributions, and it means our employees and shareholders are protected from a worsening position that would otherwise have likely been felt as a result of recent high levels of inflation.

Definition

This measure considers The Pensions Regulator's definition of low dependency being "where a scheme's funding and investment strategies are such that there is a low chance of requiring further employer support and, to the extent that such support is required, the amount of support is low relative to the size of the scheme".

Our performance

Met expectation/target

Link to remuneration

- n/a

Notes:

Note 1: For both our operational and financial KPIs, where we have declared external targets we assess our performance against the most recent public targets. Where there are no externally declared targets we assess our performance against our internal budget; however, our internal budget is not disclosed.

Note 2: In some instances, the remuneration committee has used metrics with similar names but calculation methodologies which they consider more appropriate for executive remuneration, as set out in the remuneration report on pages 160 to 191.

Stock Code: UU.

Our approach as a responsible business

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

A purpose-led organisation

Our purpose drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner. We have a long-standing commitment to 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 and helping customers struggling to pay their bills through affordability schemes. Our consistent performance across a range of external ESG indices and rankings over that time has demonstrated our commitment to operating in a responsible manner.

This strong track record has provided a solid foundation upon which to evolve existing programmes, develop new initiatives, and respond to the changing world in which we operate.

Our approach

We focus on operating in a responsible manner throughout the organisation. This enables us to provide the best possible service to customers and ensures we are well placed to continue to create long-term, sustainable value for all stakeholders. This value comes from understanding what matters most to them and balancing these different perspectives in our decision-making. We are currently integrating six-capital thinking (manufactured, financial, natural, social, human and intellectual capital) into business processes as we believe this will better inform our decision-making processes and enable us to create and protect value for all stakeholders. This includes how we might report publicly against these capitals.

Our approach isn't just about what we do, but how we do it. Open, honest and transparent reporting has been at the core 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

Our stakeholders are ultimately the ones who will judge whether we are delivering on our purpose so it is up to us to provide the evidence that we are providing great water and more for the North West. 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. Read more about how we deliver value for our stakeholders on pages 52 to 75.

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. Read more on page 13.

As responsible business practice evolves, we look constantly at how we can improve. For instance, as challenges to the natural environment become more pressing we are embracing the move to report more on our dependencies and impacts on nature through the Task Force on Nature-related Financial Disclosures. Read more on pages 98 to 99.

Reporting methodology

Evolving market ESG expectations

The frameworks and standards by which companies report ESG issues are developing rapidly, through organisations such as the International Sustainability Standards Board (ISSB). This is in response to 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. For example, there is more interest in the disclosure of the ESG performance of companies and, last year, we published a summary of our ESG performance in More than Water.

Read more on our website at
unitedutilities.com/globalassets/z_corporate-site/cr-images/cr-pdfs/stakeholder-esg-booklet-2021-final.pdf

We have evolved the way we report by presenting more ESG data alongside our financial reporting. We have looked to do this without making this report unnecessarily lengthy or difficult to read. We use our purpose-led approach as the framework to disclose performance and data for each of the stakeholders we create value for. Read more on pages 52 to 75. Many of the ESG indices in which we participate (see right-hand column) draw their data from this report.

As the reporting landscape develops further we will continue to adapt our reporting to take account of international best practice in the presentation of ESG performance and data.

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.

Read more on our website at
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 our 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.

Read more on our website at
unitedutilities.com/sasb

Sustainable Development Goals (SDGs)

We have identified six SDGs that are material to our business. More details can be found on pages 84 to 85.

We complete a variety of issue and stakeholder-specific rankings and benchmarks such as the CDP. Disclosure of these performance scores can be found on our website.

Read more about ESG metrics of interest to our stakeholders on our website at
unitedutilities.com/corporate/responsibility/our-approach/cr--performance

External recognition and benchmarking

United Utilities Group PLC has been included in the FTSE4Good Index Series since 27 June 2001. Latest review December 2021.

In the annual review of November 2021 our status was assessed as Prime.(1)

We received an overall Advanced ESG score by Moody's ESG of 64/100 and United Utilities Group PLC has been confirmed as a constituent of the Euronext Vigeo UK 20 and Europe 120 indices in year 2021.(2)

As of September 2021, United Utilities Group PLC received an MSCI ESG rating of AA.(3)

We continue to participate in the S&P Global Corporate Sustainability Assessment. For 2021, our overall performance was 76% and we were included in the S&P Global Sustainability Yearbook 2022.

In March 2022, United Utilities Group PLC received an ESG Risk Rating of 12.8 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors.(4)

Key frameworks to look out for

The Task Force on Climate-related Financial Disclosures sets out a framework to provide stakeholders with an assessment of the financial implications of climate change and what this means for governance, strategy, risk and metrics.

The Task Force on Nature-related Financial Disclosures is in its beta stage. It aims to provide a risk and disclosure framework for organisations interacting with the natural environment.

Read more about TCFD on pages 86 to 97

(1) issgovernance.com/esg/ratings/badge
(2) moodys.com/esg
(3) msci.com/notice-and-disclaimer
(4) sustainalytics.com/legal-disclaimers

Enhancing the environment in the North West

We will deliver long-term environmental improvements through delivery of our AMP7 targets, our Better Rivers: Better North West plan, reinvestment of outperformance we have earned, and addressing new and emerging requirements such as the Environment Act 2021, which is likely to drive substantial future investment.

Strategic report

Our purpose, vision, strategy, values and culture

Our purpose is the reason we exist. Our strategic themes define the way we operate in order to 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...

Providing great water means delivering our core water, wastewater and customer services, reliably and to the highest quality. It is what our customers expect and deserve.

...and more

Providing 'more' means creating value for our stakeholders by understanding what matters to them through strong and constructive relationships. We do this by:

- supporting communities to be stronger;
- caring for customers through trusted relationships;
- creating a great place to work for all our employees;
- protecting and enhancing the environment;
- delivering a sustainable return to investors; and
- innovating in partnership with suppliers.

...for the North West

We are singularly focused on the North West.

OUR VISION

What we want to achieve

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.

OUR STRATEGIC THEMES

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

To run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep them down without compromising on resilience or the quality of service we deliver.

When we develop our plans and assess different options, we look to minimise the whole-life cost. 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 otherwise would not have been available.

In a responsible manner

We will only deliver our purpose and create and maintain value for our stakeholders if we act in a responsible manner.

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.

Our strategic themes run through everything we do

How we manage the water cycle, our risk assessment, and our remuneration policy are aligned to these strategic themes.

Read more about **our water cycle** on pages 18 to 19

Read more about **our risk management** on pages 100 to 109

Read our **remuneration report** on pages 160 to 191

OUR CORE VALUES AND CULTURE

Fundamental values that drive decision-making

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 with integrity towards all of our stakeholders.

Culture at United Utilities

As well as our purpose, strategy and core values, we monitor our culture against key categories relating to our people, such as engagement, health and wellbeing, diversity, and development. Read more on pages 125 to 126.

How we operate

Collect

Type of impact

Our impact

We collect water from open reservoirs, lakes, rivers and boreholes, which we manage in a sustainable way, protecting and enhancing local habitats. We own and manage 56,000 hectares of land, which we open to the public to enjoy access to nature.

Relevant material issues

- Water resources and leakage
- Drinking water quality
- Climate change
- Land management, access and recreation

Treat

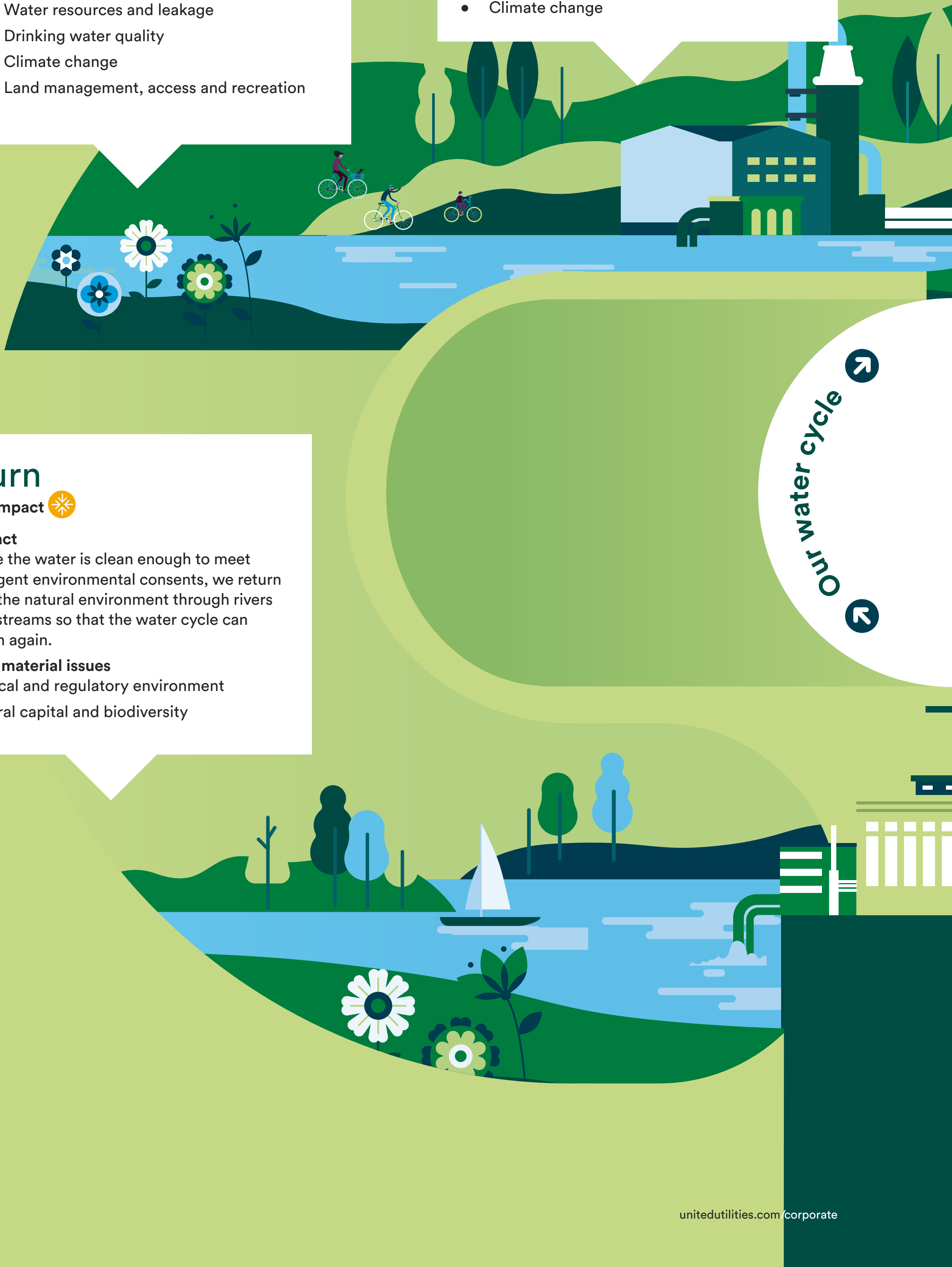
Type of impact

Our impact

The water we extract needs a lot of work in one of our 88 water treatment works before it is safe and clean for customers to drink. We then store the treated water in covered reservoirs ready to be delivered to customers' taps when they need it.

Relevant material issues

- Drinking water quality
- Climate change



Return

Type of impact

Our impact

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

Relevant material issues

- Political and regulatory environment
- Natural capital and biodiversity

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

Type of impact
- Increasing positive impact
- Minimising negative impact

Deliver

Type of impact

Our impact

We maintain over 42,000 kilometres of water pipes and deliver an average of 1.8 billion litres of water each day to 7.4 million people across the North West. Our main Haweswater Aqueduct uses gravity to transfer water from Cumbria to Manchester, and our integrated supply network enables us to move water around the region.

Relevant material issues
- Water resources and leakage
- Customer service and operational performance
- Drinking water quality

Remove

Type of impact

Our impact

Wastewater from customers' drains and rain water from roads and rooftops flows into our combined sewers to be taken for cleaning. In excessive rainfall, when sewer capacity is overloaded, storm overflows allow rain water, mixed with wastewater, to flow directly into rivers or the sea through a separate pipe to help prevent flooding of streets, homes and businesses.

Relevant material issues
- Sewer flooding and storm overflows
- Customer service and operational performance
- Climate change

Clean

Type of impact

Our impact

We maintain over 78,000 kilometres of wastewater pipes to transport wastewater from sewers to one of our 566 wastewater treatment works, where it requires separation and treatment before it is returned to the natural environment.

Relevant material issues
- Sewage sludge to land
- Customer service and operational performance

Generate

Type of impact

Our impact

We waste nothing, turning sludge by-product into compost for farmers and capturing gas to generate renewable energy from bioresources. We self-generate around 25 per cent of our energy, helping to reduce our carbon footprint and energy costs.

Relevant material issues
- Energy management
- Environmental impacts

Our business model

We deliver our water and wastewater services in a way that generates long-term value for a range of stakeholders.

Our key resources

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

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

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

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

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

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

Our external drivers

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 attacks.

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
Environmental and drinking water standards set by our regulators drive what we do, both now and in the long term through future market reforms.

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

Our approach

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

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.

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

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

Materiality and risk management
We produce a materiality matrix to help us prioritise issues based on the level of stakeholder interest and the potential to affect our ability to create value.

Read more about what matters most to stakeholders on pages 34 to 39

We manage a wide variety of risks to enable us to deliver a sustainable and resilient service for the long term.

Read more about our risk management on pages 100 to 109

READ MORE ON PAGE 24

READ MORE ON PAGE 26

READ MORE ON PAGE 16

Systems Thinking

We operate our network as a system rather than discrete assets, and we have a network of telemetry across our system that enables us to remotely monitor and control many of our assets, providing real-time performance data and helping us deliver an efficient, proactive and modern service for customers.

Our commitment to ESG matters

We operate in an environmentally and socially conscious manner and uphold the highest standards of corporate governance. Behaving in a responsible manner is one of our strategic themes, and we actively participate in a broad range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges.

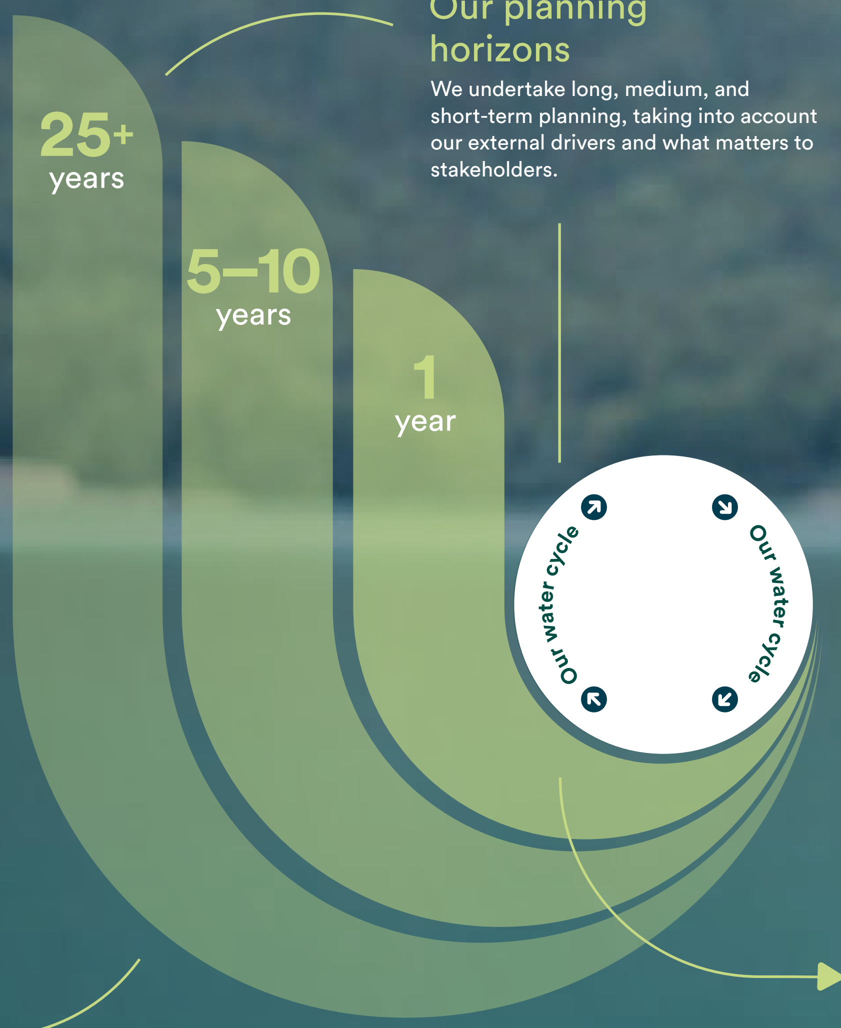
Read more about **our approach as a responsible business** on page 12

Read more about **diversity and inclusion** on pages 44 to 45

Read our **corporate governance report** on pages 112 to 193

Our planning horizons

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



Our core activities are to deliver essential water and wastewater services for household and business customers across the North West.

Read more about **how we operate** on pages 18 to 19

READ MORE ON PAGE

42

READ MORE ON PAGE

46

The value we generate

Communities

We build partnerships to support communities to be stronger. We work with schools and young people to develop skills and help people get back to work. Our land is open to the public and we encourage people to use it responsibly.

How we measure this

- KPI – community investment
- Other metrics include partnership leverage, provision of education, and visitor satisfaction

Customers

We put customers at the heart of everything we do, providing a continually improving service at an efficient, low cost, and supporting thousands of vulnerable customers through a wide range of assistance schemes.

How we measure this

- KPI – customer experience (C-MeX)
- Other metrics include developer experience (D-MeX), complaints, and vulnerability support

Employees

We focus on attracting, developing and retaining a diverse workforce, and ensuring we look after their health, safety and wellbeing. We pay the Living Wage and have a secure pension provision.

How we measure this

- KPI – employee engagement
- Other metrics include diversity and inclusion, learning and development, and accident frequency rate

Environment

We protect and enhance reservoirs, catchments, rivers and bathing waters that provide a home for wildlife, areas for recreation, and a major pull for tourism, and we aim to reduce our environmental impact.

How we measure this

- KPI – EA performance assessment
- Other metrics include leakage, clean air, carbon footprint, and natural capital value added

Investors

Many of our investors are pension funds and charities, so millions rely on the income we provide. We manage risk prudently and provide an appropriate return, investing in our assets for growth and resilience.

How we measure this

- KPI – return on regulated equity (RoRE)
- Other metrics include performance across investor indices, gearing and the Fair Tax Mark

Suppliers

We invest in the North West's infrastructure and generate jobs, skills and income in the local economy through our capital programme. We act fairly and transparently with suppliers and are a signatory to the Prompt Payment Code.

How we measure this

- KPI – percentage of invoices paid within 60 days
- Other metrics include average time taken to pay invoices, and suppliers signed up to our United Supply Chain

READ MORE ON PAGE

52

Open the page to see how we deliver our purpose and create value for all our stakeholders

Our business model – our key resources

The six capitals

Natural capital

We rely on water sources, 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. We use bioresources from wastewater and break it down into biogas (which we use to generate renewable energy) and biosolids (which we treat to provide a high-quality fertiliser for farmers). We face risks from both severe dry weather, when we must manage resilience of water supply, and from severe rainfall, when we must cope with the risk of flooding.

How we manage this key resource

Much of the water we abstract originates on land before running off into water. We are stewards of large areas of this land, much of which is managed by tenant farmers or in partnership. We ensure it is well managed to improve water quality and help protect habitats.

We plan and invest for the long term to ensure we have resilient water resources. In the short term, we can bring more supplies online to meet demand, and our integrated supply zone allows us to move water efficiently around the region. We also encourage customers to use water more efficiently with tips, free water-saving devices, and metering initiatives.

When rainfall exceeds the capacity of sewers, storm overflows allow heavily diluted wastewater to be released directly to the environment to minimise the risk of sewer flooding in streets or people's homes. We now need to reduce the use of storm overflows, so we must find alternative ways to cope with excess surface water whilst avoiding flooding. Traditional interventions, such as storage tanks and enlarging sewers, are costly, carbon intensive and subject to space constraints. We are innovating with sustainable drainage and other nature-based solutions that use the urban and rural environment as part of the solution.

We manage the waste from our activities, including sludge, in a sustainable way, with the vast majority going to beneficial use such as recycling or fertiliser for land.

Link to risks

1 2 7

Human capital

Our people are essential in delivering services for customers. We believe the most effective decision-making comes from a diverse range of people who feel encouraged to share their views. Having a skilled, engaged and motivated team of employees, suppliers and contractors is fundamental to the performance we deliver and to employee retention, which helps ensure efficient training and better 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 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.

We promote diversity, equality and inclusion, recruiting from all areas of the communities we serve and supporting our employees with equal opportunities. Employee networks, representing 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 44 to 45

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 UK norms.

We monitor and measure employee performance through annual reviews. Employees at all levels of the company participate in the bonus scheme, with the same bonus performance measures as the executive directors, so everyone benefits from the success of the company.

Link to risks

5 7

Manufactured capital

Our network assets and treatment works are essential to delivering our services for customers and protecting public health. 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.

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 is expected to drive significant investment needs.

Long-term planning helps 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.

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 any negative impact, including odours from our wastewater treatment works.

Link to risks

1 2 5 8

Our principal risks

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

Financial capital

As a result of the long-term nature of our assets, and the need to ensure affordability by spreading the cost fairly between the generations of customers that benefit, it is necessary to raise financing 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 key credit ratios to help us maintain strong and stable investment grade credit ratings, which gives us efficient access to debt capital markets across the economic cycle.

We maintain relationships with a range of banks and retain 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 medium-term note 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. Our sustainable finance framework allows us to raise debt based on our strong ESG credentials.

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

4 6

Social capital

We work with several capital delivery partners, often on large infrastructure projects that can span multiple years, and these partner organisations form part of the public face of our business. It is important that we build constructive working relationships with our supply chain partners to ensure the smooth delivery of projects and a good all-round service for customers.

Maintaining positive relationships with other stakeholders is really important, such as regulators and community bodies across our region.

How we manage this key resource

We have contracted for around 80 per cent of our base capital programme for the 2020–25 regulatory period, with arrangements in place for sharing of cost overruns to incentivise efficient delivery against the target price.

Our supplier relationship management process ensures regular discussions between our commercial team and existing suppliers to help identify issues and opportunities for a smooth and productive relationship, and we engage suppliers on sustainable and ethical issues through our United Supply Chain (USC) approach.

We actively engage with all our stakeholders, including our regulators with whom we discuss short-term and longer-term priorities and objectives and respond to consultations so we are influencing where we are able to.

Our stakeholder engagement extends to various environmental interest groups and community bodies, whom we keep informed, collaborate and in some instances form partnerships with.

This engagement helps us develop a matrix of the issues that are most material to stakeholders and to our ability to create value, and our assessment of these issues is a key part of our planning approach.

Read more about engaging with our stakeholders on pages 30 to 33 and working in partnerships on page 55

Link to risks

4

Intellectual capital

The knowledge and systems we have across our business are critical to effectively running our treatment works and maintaining our assets to ensure a long-term resilient service.

It is important that we keep up to date with new advances in technology. With a growing population, changing climate, finite resources and space constraints, we need to find innovative solutions to help us deliver the best service to customers, protect and enhance the environment, and keep bills affordable.

How we manage this key resource

Innovation is one of our core values, and we use a variety of methods to find novel ideas and solutions – idea scouting, using ideas from other water companies across the world and from other industries. We invite companies to bring innovative solutions to us through our Innovation Lab programme, and we encourage innovation at all levels inside the business, including our CEO Challenge programme where our graduates work in groups to find novel ways to tackle challenges that we face as a business.

These initiatives are a source of fantastic new ideas and often lead to the development of products and software that give us a competitive advantage against our peers in the water industry. Occasionally, new ideas are worth protecting with copyrights, trademarks and patents, and we manage this intellectual property portfolio for short and long-term benefit.

Our Systems Thinking approach involves remote monitoring and control, taking a 'whole system' view of our network and assets, and proactive and preventative optimisation to spot and resolve issues before they impact customers. This requires a network of systems and processes, and at the higher maturity levels we use artificial intelligence to optimise the way we operate. With sensors in our network sending real-time data to our Integrated Control Centre, we develop an understanding of the signature and can predict patterns that enable us to spot anomalies that could signal issues we can then proactively fix.

Link to risks

5

Risk exposure

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

- Decreased
- Stable
- Increased

Our business model – our external drivers

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

Natural environment

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. 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 environmental impact, and we must also adapt the way we work to meet the anticipated changes in climate and population across our region to ensure long-term resilience.

Link to material issues

- Natural capital and biodiversity
- Water resources and leakage
- Climate change

Economic environment

Our costs are impacted by market rate movements, such as interest rates and inflation, but we seek to manage these prudently to reduce the risk as far as practical. Our financial risk management policies include the fixing of interest rates and target levels of inflation-linked debt. Read more about the impacts inflation has on our business on page 81. As well as these direct impacts on the company, the 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 material issues

- Affordability and vulnerability
- Financial risk management
- North West regional economy

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 our ongoing plans, and on consultations for future reforms where we offer our views and influence where we can. The need to monitor and assess the regulatory environment, and proactively engage with the direction of travel and changing priorities, is constant regardless of where we are in the regulatory cycle at any particular point in time.

Link to material issues

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

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 variety of places – across different industries and countries as well as within our business. We encourage innovation externally and internally at all levels, from our Innovation Lab to our annual CEO Challenge. Technology can also create risks, particularly the threat of cyber attacks on critical national infrastructure such as ours, therefore, it is critical that we maintain a stringent approach to cyber security that evolves with new technological advances.

Link to material issues

- Customer service and operational performance
- Cyber security
- Data security

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 to new developments, such as the requirements of the Environment Act 2021, in particular in relation to river health and the use of storm overflows. We engage closely with politicians and other policymakers to understand developments that will affect our business, and to communicate the value that United Utilities delivers to the North West, and the UK as a whole.

Link to material issues

- Trust, transparency and legitimacy
- Political and regulatory environment
- Sewer flooding and storm overflows

Stakeholders

There are many stakeholders who take an interest in the water sector and its role in society. These stakeholders can have conflicting views on priorities for the sector and the region, which can influence what we do. It is important that we understand what matters to these stakeholders and develop constructive relationships built on mutual trust. The nature of our work means we are at the heart of communities across our region, and interact with a large variety of stakeholders, from communities and environmental interest bodies to suppliers and regulators.

Link to material issues

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

Regulatory environment

To provide great water and more for the North West, we must consider our economic, quality and environmental regulation and create medium and long-term plans that meet the priorities of each of our regulators.

Our industry and market

Most customers in England and Wales are served by one of 11 large water and wastewater companies or smaller companies providing only water services.

Our regulated entity, United Utilities Water Limited, is the second largest company as measured by Regulatory Capital Value (RCV). RCV represents the net value of accumulated investment in the company's asset base. We serve over seven million people, with over three million household customers making up around two-thirds of our revenue, and over 200,000 businesses. In the non-household marketplace, we provide wholesale services to retailers.

As a monopoly provider of essential services, we are regulated by various bodies (as set out below), and we are subject to sector-specific legislation alongside this regulation.

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. Both Ofwat's customer satisfaction assessment and the EA's annual performance assessment are included in our operational key performance indicators (KPIs).

Ofwat sets total revenues, service levels that must be provided, and the incentive package for companies for five-year periods, known as Asset Management Plan periods (AMPs).

These packages are based on Ofwat's methodology, which reflects stakeholder and customer priorities, and are confirmed following detailed scrutiny of business plans proposed by the companies. We must, therefore, engage constructively with Ofwat on future priorities and its methodology development 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 second year of AMP7, covering the 2020–25 period, and our focus has been on delivering and trying to outperform our final determination through:

- achieving higher customer satisfaction than our peers;
- beating the outcome delivery incentive (ODI) targets for operational performance;
- delivering efficient total expenditure (totex); and
- raising debt finance at a cost below the industry allowed cost of debt.

Our vision is to be the best UK water and wastewater company, so we regularly benchmark our performance against our peers, and we benchmark our customer service performance against other leading service providers in our region.

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 allowed a further £51 billion across the industry to deliver further improvements, and since this, Ofwat has allowed a further £2.7 billion for green economic recovery.

11
large licensed water and wastewater companies

2nd
largest waste and wastewater company in England and Wales

>£50bn
allowance across the industry to deliver further improvements over the 2020–25 period

Our regulators

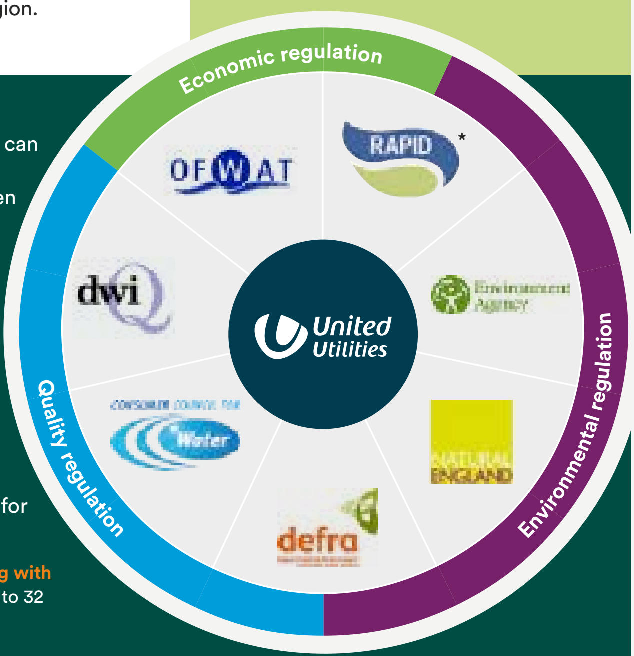
We are subject to regulation of our price and performance by economic, quality and environmental regulators, as shown in the diagram.

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 time frame 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.

Read more about engaging with stakeholders on pages 29 to 32



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

Our business model – our external drivers

The North West region

What we do is influenced by several key factors that make our region unique. We are committed to understanding and actively responding to these.

Social factors

We are leading the sector on supporting customers with affordability and vulnerability.

54%

of the most deprived areas in the country

47%

of households have less than £100 savings to cope with unexpected bills

12%

of households are affected by water poverty, more than 50 per cent higher than the national average

Economic factors

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

7.4m

population expected to grow significantly in the next 25 years

22,700[(1)]

jobs actively supported by our work, with over 5,000 direct employees

Tourism

relied on by Lake District, Manchester, Liverpool and coastal areas

(1) Based on our 2020–25 business plan.

Environmental factors

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

30%

of land is National Park or Area of Outstanding Natural Beauty or Sites of Special Scientific Interest

25

designated coastal bathing waters

830mm

rainfall each year, higher than the UK average

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.

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 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) 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 35.

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

Our business model – our external drivers

Engaging with our stakeholders

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
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. Our work puts us at the heart of local communities, places where customers and employees live and work. 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
- Face-to-face meetings with local and parish councils to discuss projects.
- Online portals for large capital projects to get the views of communities where we are working.
- Facilitated workshops with partners to scope out solutions.
- Public events across the North West to promote sustainable use of our services.

Top three material issues
- Land management, access and recreation
- Supporting communities
- Trust, transparency and legitimacy

What we are doing
- Balancing decisions based on often competing interests of stakeholders.
- Identifying common issues where partnerships could provide a solution.

Customers

Why we engage
We actively seek feedback on what domestic and wholesale customers think about us so we can make our services better and address the issues that matter. 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. As customer expectations change, we need to evolve our own services to ensure we meet those expectations.

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

Top three material issues
- Drinking water quality
- Customer service and operational performance
- Affordability and vulnerability

What we are doing
- Improving services for customers such as GetWaterFit and Priority Services.
- Helping customers who are struggling to pay their bills.

Employees

Why we engage
Our employees are the face of the company and we simply could not deliver our services without them. Employees know our business better than anyone, with a diverse range of views and experience, making them well placed to identify opportunities for improvement. It is essential we build productive relationships with our employees based on trust. In a world of work that is rapidly changing, employee engagement is crucial to develop new ways of working.

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

Top three material issues
- Employee engagement
- Diverse and skilled workforce
- Health, safety and wellbeing

What we are doing
- Acting on survey results to create a better place to work.
- Delivering our people plan and encouraging action on inclusivity.

Environment

Why we engage
We depend 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. Working together is often the best way to find the right solution.

How we engage
- Meetings with national and regional environmental regulators, such as the Environment Agency.
- Customer research to shape our environmental investment plans.
- Workshops with environmental stakeholders.
- Partnerships where we have common interests.

Top three material issues
- Sewer flooding and storm overflows
- Climate change
- Water resources and leakage

What we are doing
- Working with partners to deliver improvements to rivers.
- Delivering our carbon and Better Rivers: Better North West commitments.

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
- Capital market days and investor roadshows.
- Annual General Meeting open to all shareholders.
- Direct dialogue with relationship banks and credit agencies.
- Participation in investor-led ESG ratings and indices.

Top three material issues
- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct

What we are doing
- Maintaining high levels of corporate governance.
- Performing well across a range of respected ESG indices and ratings.

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
- Directly through supplier relationship management process.
- Setting challenges through our Innovation Lab.
- Supplier databases such as Achilles, to assess market opportunities.
- Direct discussion through United Supply Chain (USC).

Top three material issues
- Trust, transparency and legitimacy
- North West regional economy
- Responsible supply chain

What we are doing
- Consistently paying suppliers on time.
- Providing access to innovative new products and services.

Our business model – our external drivers

Engaging with our stakeholders

We maintain close relationships with three stakeholder groups that influence what we do and how we do it.

Media

Why we engage
The media is influenced by the issues that matter most to our stakeholders as well as influencing them through what it reports. Many of our stakeholders receive their information about us and our activities from both traditional media and social media. 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
- 24/7 press office available to respond to media requests and publish content for direct media use.
- Dedicated social media team covering multiple channels.
- Active media and social monitoring focused on the company and sector.

Top three material issues
- Sewer flooding and storm overflows
- Customer service and operational performance
- Trust, transparency and legitimacy

What we are doing
- Regular press releases and social posts on key activities.
- Providing media training to key senior managers.

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 across the North West.

How we engage
- Direct engagement with regional and national politicians across the political spectrum.
- Working groups with devolved administrations and local authorities on common interests.
- Direct engagement with parish councils linked to planning applications.

Top three material issues
- Political and regulatory environment
- Customer service and operational performance
- Affordability and vulnerability

What we are doing
- National and constituency level engagement on common issues.
- Responding to enquiries through corporate affairs team.

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
- Regular meetings with all regulators on objectives and performance.
- Responses to consultations where we have something to contribute.
- Joint working on projects to explore how regulation could evolve.
- Support the work of the independent customer challenge group, YourVoice.

Top three material issues
- Political and regulatory environment
- Customer service and operational performance
- Resilience

What we are doing
- Direct engagement with regulators on emerging issues.
- Responses to regulatory consultations on the future of the sector.

“We believe that this engagement, alongside community and woodland funds totalling over £1 million, will leave a lasting legacy long after the pipeline is finished, benefiting people and communities across Cumbria for years to come.”

Managing multiple stakeholder interests in West Cumbria

In 2022, we will stop abstracting water from Ennerdale Water and the River Ehen in West Cumbria to avoid the risk of damage to the protected species that rely on these water bodies. To achieve this, we're linking West Cumbria to our regional water network by building a major new pipeline from Thirlmere.

Community involvement and stakeholder engagement have been at the heart of the strategy for West Cumbria. This is the single biggest project to go through the Lake District National Park in recent times and required a sector-leading approach to stakeholder management to ensure a success.

Engagement with stakeholders began in 2013, allowing parties to come together and collaboratively formulate the plan. Core to our stakeholder approach was a planning performance agreement funded by us and created in conjunction with Natural England, the Environment Agency, the three local planning authorities, and Cumbria County Council. We submitted a planning application in January 2016 and in November 2016, four months ahead of schedule, all three local planning authorities voted unanimously to grant full planning permission.

We were clear from the outset that local communities and stakeholders would be encouraged to have their say on any plans, creating opportunities for communities to give their views. It was key that during planning and construction our stakeholders were on the journey with us and could raise concerns easily. Engagement took many forms, from individual meetings to workshop events, as well as formal consultation and attendance at community events such as agricultural shows.

COVID-19 led to an urgent review of our engagement, as traditional face-to-face exhibitions could not take place. We developed a hybrid engagement plan unique to Cumbria, accounting for the geography and technology challenges across the county. A virtual consultation was developed alongside webinars with real-time, live chat functionality that proved a huge success. As lockdown eased, the virtual sessions were supplemented with a return to face-to-face meetings. The hybrid approach resulted in better overall engagement and will be considered on all future large projects.

As the project approaches completion, and we return the land back to how we found it, engagement continues. By the time the project is complete we will have attended over 150 parish council meetings and held 50 public exhibitions. Continuous engagement has helped minimise the impact that construction inevitably brings to local communities. We believe that this engagement, alongside community and woodland funds totalling over £1 million, will leave a lasting legacy long after the pipeline is finished, benefiting people and communities across Cumbria for years to come.

Delivering value for:

Communities Customers Environment

Our business model – our external drivers
What matters most to our stakeholders

We continuously challenge ourselves to make sure we understand what matters most regarding our role in society, the impact that we have and the value we create.

Our materiality assessment process

1. Define
We reviewed current best practice in materiality reporting. The assessment criteria for stakeholder interest and our ability to create value was confirmed. Building on our existing matrix we brought in more stakeholder views and evolved the matrix design. We committed to provide more detailed commentary on the most material issues.

2. Engage
Views were obtained from across all our stakeholder groups. Insight from consultations and data was made available through the engagement processes described on pages 30 to 33. Key internal subject matter experts and stakeholder relationship managers provided further insight on issues.

3. Assess
Comments and data were drawn together to form an initial view of the issues. The rationale for issue selection and its significance was presented to senior management for discussion. This included potential new issues, removal of issues and movement of existing issues.

4. Align
We cross-referenced and aligned identified issues with our principal risks and uncertainties, as set out on pages 104 to 105. Matrix visuals were then created to easily communicate the prioritisation of issues. For the first time an indication of how issues have moved since the previous review has been included.

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.

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, investors, suppliers and the environment). Value may be financial or non-financial.

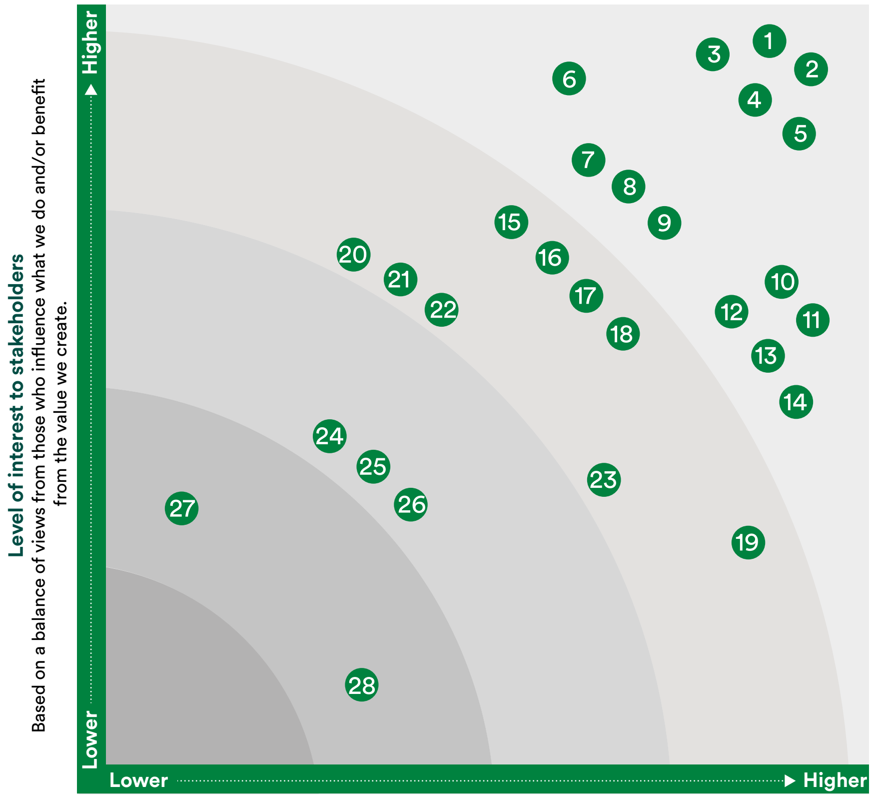
Our 2021/22 assessment
This year we carried out a thorough review of our material issues and matrix design. Striking the right balance between different interests and views is not easy but our assessment process consolidated feedback based on a balance of views obtained from all our stakeholders.

Material matters in 2021/22
The assessment process identified 28 material issues. More information about the most material issues can be found on the following pages. We describe the issue, provide our response to managing the issue, explain how the issue links to our strategic themes and how it is included in our plans for the future.

Materiality matrix
Issues are plotted on the matrix from lower to higher in terms of level of interest to stakeholders and how much it can affect our ability to create value.

Independent review
Our approach has been reviewed by responsible business consultancy Corporate Citizenship, which commented that "United Utilities has set out the orderly, balanced and comprehensive process by which it has arrived at its refreshed materiality assessment. The detailed coverage of the six most material issues fosters public understanding. It sets out the links to strategic themes, risks and future actions. It shows how United Utilities recognises the most important issues and acts upon them".

"United Utilities recognises the most important issues and acts upon them."



Key

- = Issue with no change in significance
- ↗ Issue with increased significance
- ↙ Issue with decreased significance
- N New issue in 2021/22 assessment

Effect on our ability to create value

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

Material issue	Movement relative to previous review
1 Trust, transparency and legitimacy	=
2 Resilience	=
3 Customer service and operational performance	=
4 Climate change	↗
5 Political and regulatory environment	=
6 Affordability and vulnerability	=
7 Drinking water quality	N
8 Sewer flooding and storm overflows	↗
9 Water resources and leakage	↙
10 Financial risk management	=
11 Corporate governance and business conduct	=
12 Nature capital and biodiversity	=
13 Innovation	=
14 Cyber security	=

Material issue	Movement relative to previous review
15 Health, safety and wellbeing	↗
16 North West regional economy	=
17 Land management, access and recreation	↗
18 Sewage sludge to land	N
19 Energy management	=
20 Environmental impacts	=
21 Data security	=
22 Diverse and skilled workforce	↗
23 Responsible supply chain	=
24 Employee engagement	↗
25 Supporting communities	↗
26 Competitive markets	=
27 COVID-19	↙
28 Human rights	=

Our business model – our external drivers

What matters most to our stakeholders

Understanding and responding to the most material issues affecting our business is key to delivering our purpose. Addressing these issues over the short, medium and long term is an integral part of our strategic themes and risk management.

1. Trust, transparency and legitimacy

Description

Strong stakeholder 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 societal trend of mistrust in governments, and media, is crossing over into the corporate world. 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 discussions on companies' contribution to public value.

Our response

Being open about our purpose and transparent about how we are delivering for all of our stakeholders is key to operating in a responsible manner.

We aim to maintain high ethical standards of business conduct and corporate governance. We apply the principles and report against the provisions of the 2018 UK Corporate Governance Code. Additional governance and assurance is applied to our regulatory reporting.

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 since 2019.

We maintain a comprehensive set of policies, linked to and including, human rights, modern slavery and whistleblowing.

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 our United Supply Chain approach (read more on page 73). 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 stable credit ratings with key agencies, which helps us to retain efficient access to the debt capital markets.

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

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. We will continue to use ESG indices as benchmarks of best practice to drive further improvements in transparency and disclosure.

Link to risks

1 2 3 4 5
6 7 8 9 10

2. Resilience

Description

Resilience is a broad and interconnected topic that is of interest to many of our stakeholders. A resilient company will embed resilience throughout its operations, financing and corporate systems of governance and control. Providing essential services to customers requires long-term planning to manage future challenges, such as population growth and climate change, to ensure they are provided effectively to meet increasing expectations.

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.

As the world becomes increasingly digital, companies need to have the right people and skills to manage in the modern world. Increasingly, stakeholders are interested in the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in all aspects of their business.

Our response

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. We build these needs into our business plans for each five-year regulatory period to anticipate the future funding we need to allocate in order to act at the right time. Our Systems Thinking approach provides opportunities for us to increase our operational resilience further.

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. As a public listed company, we consistently adhere to the highest

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

- Decreased
- Stable
- Increased

Our principal risks

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

levels of governance, accountability and assurance. We have a robust risk management framework for the identification, assessment and mitigation of risk.

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 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 institutions to encourage the younger generation to pursue science, technology, engineering and mathematics (STEM) careers.

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.

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

We launched our Digital Skills Academy, a new learning portal for employees to access digital learning content to upskill them for their roles now and in the future.

Future plans
Our Haweswater Aqueduct Resilience Programme (HARP) will be progressed through direct procurement for customers in AMP7 and AMP8, addressing one of our biggest operational risks in a critical pipeline that transports water from the Lake District to Greater Manchester. Read more on page 106.

Link to risks

1 2 3 4 5 6 7 8

3. Customer service and operational performance

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

Since the pandemic, more people have come to appreciate the environment and there is increasing stakeholder focus on the operational performance of companies that rely and impact on the environment.

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

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.

Our response
To provide great water and more is reliant on delivering good operational and customer performance. Our pollution incident reduction plan and reinvestment of regulatory outperformance has improved our environmental performance.

We have improved customer service provision through both traditional and digital channels, measuring ourselves against key external benchmarks such as securing the Institute of Customer Service accreditation with distinction. This is alongside making new services available to customers, such as 'Get Water Fit' which is helping over 95,000 customers learn more about their water usage.

Our culture of innovation and Systems Thinking drives 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 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.

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.

Link to strategic themes

Our Systems Thinking approach is delivering operational excellence – benefiting customers and the environment.

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

Our Better Rivers: Better North West commitments and additional £65 million investment in our Green Recovery proposals will deliver improvements for customers and the environment by 2025.

Future plans
Wider deployment of Systems Thinking, for instance through Dynamic Network Management (read more on page 43), will deliver further improvements in the reliability of services. We have a number of challenging targets for the 2020–25 period that will help improve the reliability of our services, including helping and encouraging customers to use less water.

Link to risks

1 2 3 4 5 7 8 9 10

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

4. Climate change

Description
Greenhouse gas emissions and how they are affecting the earth's climate is important to many stakeholders. There is a growing expectation on companies, across all sectors, to take action to reduce their carbon emissions and to adapt to the impacts of climate change.

Weather is fundamental to the delivery of water and wastewater services, and so climate change will always be of strategic and operational importance to the water sector and its stakeholders.

Already, we are seeing the effects of climate change on the North West's weather, with increasing summer temperatures, wetter winters and more extreme rainfall events. With these trends set to continue, unless we take action there will be increasing impact on the services we provide to the communities we serve.

Companies must plan well into the future to understand what changes are likely to occur, and continually adapt to meet the risks and opportunities this presents.

Our response
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 and from this year the long-term incentive outcomes for our executives will be linked to these.

We have detailed plans that set out how we will adapt our services to meet the challenges of climate change such as the 25-year Water Resources Management Plan, and we are targeting a 15 per cent reduction in leakage over AMP7, one of our actions to address the risk of water sufficiency events.

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.

We have reported against the recommendations of the Task Force on Climate-related Financial Disclosures for the past three years to provide transparency of our approach.

Link to strategic themes

We help customers use less water, with advice and free water saving gadgets, saving them money and water.

Generating our own renewable energy helps to reduce our reliance on purchasing energy and, therefore, saves costs.

Our six carbon pledges, including science-based targets covering all of our emissions, demonstrate our commitment to reducing our footprint.

Future plans
We have a detailed 25-year Water Resources Management Plan, a Drought Plan, and we published our third adaptation report in 2021 setting out how we aim to adapt to meet the challenges of climate change. Read more about our approach to climate change on pages 86 to 97.

Link to risks

1 2 4 5 6 7 9 10

5. Political and regulatory environment

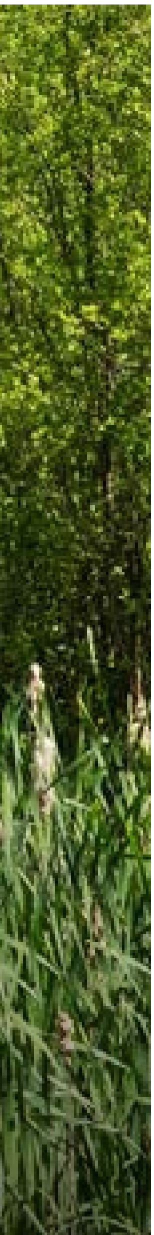
Description
The UK Government's current goal is to be the first generation to leave the environment in a better state than we found it. The Environment Act, which became law in 2021, includes commitments to improve water management, and the water sector has a leading role to play to implement its requirements. This could drive significant increases in investment in the future which will need to be balanced with customer affordability.

Environmental and quality regulators set stringent consents for water company activities to ensure the environment and water quality is protected. In meeting these obligations, companies need to work hard to maintain compliance. This requires striking a balance with other environmental impacts, such as the use of natural resources and emissions of greenhouse gases. Read more about our regulators on page 27.

Our response
We welcome the Environment Act and the inclusion of aspects relating to storm overflows. Many of our Better Rivers: Better North West pledges will be delivered over the next three years, including investment in wastewater systems, enhanced data monitoring and sharing, greater innovation and more use of nature-based solutions. Read more about Better Rivers: Better North West on page 67.

The Environment Agency assesses water companies' performance across a basket of measures, and we are one of the best-performing companies 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.

Alongside this, we need to deliver other core regulatory obligations – such as those set out by Ofwat – and compliance with ever increasing drinking water quality standards. This year we launched our Water Quality First programme with



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

- Decreased
- Stable
- Increased

Our principal risks

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

the aim of providing our customers with industry-leading water quality.

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.

Link to strategic themes

We balance customers' bills against longer-term investment.

By using natural-based solutions and innovative markets to deliver outcomes we are delivering more for customers' money.

Engaging political stakeholders on matters relevant to the water industry and our operations in the North West.

Future plans
Engaging with local authorities and devolved administrations on the important role they play in addressing water management issues including surface water management and river water quality.

New legislation, such as the Environment Act 2021, could drive significant increases in investment, which will need to be balanced with customer affordability.

Link to risks

1 2 3 5 6 7 9 10

6. Affordability and vulnerability

Description
The socioeconomic situation in the UK remains challenging. Many people across the region are facing real challenges as we emerge from a global pandemic and are faced with significant rises in the cost of living, so water poverty continues to be an important issue.

Maintaining trust and confidence in the sector in the years ahead will be crucial. The North West already suffers high levels of acute deprivation with twelve per cent of households affected by water poverty, higher than the national average. Research indicates that many customers who struggle with 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.

Our response
Our industry-leading approach to collections and innovative affordability offerings have enabled us to respond to the pandemic and the emerging cost of living crisis. The temporary extension to the social tariff we secured at the start of the COVID-19 pandemic to support those customers most affected has now been made permanent, so we have an additional £15 million of support available per annum for each of the remaining years of AMP7.

We have the sector's widest range of affordability and vulnerability schemes. Through these schemes over 77,000 customers were lifted out of water poverty over the past two years. Our extensive affordability schemes are providing £280 million of support over AMP7.

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 accredited by the British Standards Institute and over 150,000 customers are now registered for this support, with more joining every day.

Link to strategic themes

We will continue to invest in our assets and people to meet the stretching customer support targets in our regulatory contract.

We are the first UK utility company to harness real-time open banking as part of our processes to verify customer eligibility for reduced-rate social tariffs.

Backing the Consumer Council for Water's drive to launch a national social tariff.

Future plans
We will continue to provide substantial affordability assistance through support tariffs and other forms of support, while extending our Priority Services offering to over 210,000 customers by 2025, improving the quality and scale of the support we provide.

Link to risks

1 2 3 5 6 10

Key

The best service to customers

At the lowest sustainable cost

In a responsible manner

Our business model – S172(1) Statement

Our key decisions during the year to 31 March 2022

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 Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2022 including:

Haweswater Aqueduct Resilience Programme

Link to strategy

The decision

In December 2021, the board agreed delivery of the replacement of six of the existing tunnel sections of the Haweswater Aqueduct (the aqueduct) and connections to existing multiline siphons between the tunnel sections and associated facilities had the potential to be delivered as a Direct Procurement for Customers (DPC) project rather than through the traditional UUW procurement route. Under DPC the CAP* will be responsible for the detailed design and build of the project and, crucially, for securing the project finance. The CAP will also be responsible for maintaining and inspecting the new tunnels for a period of 25 years post construction. In November 2020, the replacement of the Hallbank section of the aqueduct was successfully completed by UUW, which was delivered via a traditional approach working with a design and build contractor.

How we engaged with stakeholders

Our regulator, Ofwat, has introduced the new DPC approach for companies to consider when delivering large infrastructure projects. (More information on the DPC approach can be found on Ofwat's website.) Ofwat 'believe that by outsourcing the delivery of infrastructure projects using DPC, water companies can achieve significant benefits for customers. This includes both through innovation and lower whole life costs of the project'. The company has been working with Ofwat on developing the detail of the DPC approach for this complex project since proposing the delivery of HARP via DPC in its AMP7 business plan.

In developing this project, we have sought customers' views and worked with their representatives through YourVoice to develop a solution to balance risk reduction and the cost of delivery. We have completed initial design work and submitted all planning applications taking into account impacts on local communities and the environment, and have sought to minimise this as much as possible. We have actively engaged stakeholders through the planning process, undertaking extensive public engagement including an innovative 'virtual public exhibition' when face-to-face interactions were restricted due to the pandemic. We have also completed environmental impact assessments and are seeking a ten per cent biodiversity net gain from the project.

Read more at ofwat.gov.uk/regulated-companies/markets/direct-procurement/direct-procurement-for-customers/

The board's view

The aqueduct is a critical asset in being able to deliver our purpose to provide great water and more for the North West. It is a major part of our water supply network serving our customers in parts of Cumbria, Lancashire and Greater Manchester. The board does not underestimate the complexities of the project to replace six sections of tunnel in some remote stretches of countryside and with sections of the tunnel at a depth of up to 370 metres. As well as the technical challenges, the complexities of the new and untested DPC approach have added to the challenge of a project estimated to require investment of over £1 billion and take circa 9–10 years to complete.

The board has been kept fully apprised of progress at key stages of the project through regular presentations at board meetings, 'deep-dive' sessions and as part of strategy discussions.

The board approved the submission of the Outline Business Case to Ofwat under DPC having evaluated and considered the DPC approach and identified, and sought to mitigate as far as possible, the known and likely risks associated with the DPC approach. The board is cognisant of the many challenges ahead including amongst other things: the appointment of the CAP through a new DPC tender process, the implications for the group of the different commercial construct and financing of the project, and the critical nature of the aqueduct to the business.

Under the current circumstances, the board considers that the DPC delivery approach has the potential to be most likely to promote the long-term success of the company for the benefit of its members as a whole. This is based on the information currently available, which suggests that the DPC route has the potential to offer the best value for customers and, therefore, supports the position that this should be tested through the market through progressing HARP through a DPC procurement process.

In April 2022, Ofwat gave its consent for UUW to procure HARP through a DPC procurement process under Condition U of its licence.

* CAP means a limited company which has been competitively appointed to be the provider in accordance with a DPC Procurement Process in respect of a DPC Delivered Project.

Hybrid working

Link to strategy

The decision

The COVID-19 pandemic has changed the world of work. United Utilities is an organisation where, pre-pandemic, the majority of our employees routinely travelled to work on a daily basis to attend one of the group's offices or sites. As the pandemic progressed, the need to evolve our ways of working to face the future became evident. The board was fully involved in the development of the group's next ways of working, including the pilot project prior to rolling out the hybrid way of working for roles which fulfilled specific criteria within the organisation.

How we engaged with stakeholders

Weekly online webinars were established during the early stages of the pandemic in order to communicate with line managers prior to the cascade of information to their teams, and with these resources being made available to all employees via the intranet. Our Employee Voice panel has been a valuable mechanism for employees to provide feedback, particularly on how they felt they have been supported during the pandemic. Over 1,000 employees, including those based out in the field or at one of our many operational sites, provided their views, which were taken into account when formulating the plans for our next ways of working. Feedback from the teams involved in the pilot project have helped shape our current approach to hybrid working.

The board's view

Our employees are fundamental to fulfilling our purpose of providing great water and more for the North West. We have seen a number of positive benefits relating to work during the pandemic including: reductions in employee sickness absences; improvements in engagement and wellbeing; improvements in operational performance; and reduced travel costs and carbon emissions. Increased hybrid working provides opportunities including: the ability to attract employees from a wider and potentially more diverse talent pool; being the catalyst to improve our digital capabilities and in time shape the workplace of the future; and potentially make savings on accommodation.

Our plans have seen 2,000 employees adopting hybrid ways of working. In terms of the non-hybrid roles which are typically directly supporting our customers and critical operations, we are continuing to look at providing additional flexible opportunities and changing workplace practices to retain, attract and stay aligned to the employment market. The board concluded that the incorporation of a hybrid way of working alongside the traditional approach would be most likely to promote the long-term success of the company for the benefit of its members as a whole. This way of working will be monitored closely to ensure it remains efficient and effective.

Our strategic themes

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

River health

Link to strategy

The decision

The group has committed to deliver £230 million in environmental improvements within our base capital programme, supporting at least a one-third sustainable reduction in the number of spills recorded from our storm overflows by 2025 compared to the 2020 baseline, leading to 184 kilometres of improved waterways across the region.

How we engaged with stakeholders

There has been much negative press coverage regarding river health and bathing water quality aimed primarily at the wastewater sector, with the Environment Agency (EA) and Ofwat currently investigating whether wastewater companies' treatment works have been operated in line with their environmental permits. We have written to all our stakeholders including the EA, Ofwat, The Consumer Council for Water and MPs in our region. We announced that we would be launching a community fund to support local rivers initiatives, work alongside The Rivers Trust, RSPB and local authorities to deliver projects, and launch a new partnership to protect watercourses with farmers to incentivise farming practices that reduce impact to river health.

The board's view

The group has co-operated fully with the EA/Ofwat investigation. The board is cognisant that United Utilities needs to do more to play its part in improving river health in the North West, and amongst other things, we will:

- aim to publish investigations and plans for all overflows that operate frequently;
- ensure all storm overflows are monitored by 2023;
- aim to provide near real-time data when an overflow operates and ensure this data is easily accessible by 2023;
- aim to deliver a significant reduction in impact caused by storm overflows and sewage treatment works by 2030; and
- aim for there to be no serious pollution incidents from our assets.

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

Non-financial information statement

The table below constitutes the company's non-financial information statement, produced to comply with sections 414CA(1) and 414CB(1) of the Companies Act 2006. Our purpose-driven approach, as described on pages 16 to 17, sets out how we act as a responsible business and is applicable to the areas of disclosure required by s414CB(1). The performance tables we publish for each stakeholder that we create value for, so that we can demonstrate we are fulfilling our purpose (see pages 52 to 75), include data in relation to the areas of disclosure required by s414CB(1).

Read more about our purpose on our website at
unitedutilities.com/corporate/about-us/what-we-do/our-vision

Reporting requirement	Information necessary to understand our business and its impact; policies and due diligence activities; and outcomes	Policies, guidance and standards which govern our approach (some of which are only published internally)
Environmental matters	Reflecting the needs of the environment: • Natural resources – see page 24 • Natural environment – see pages 26 and 31 • Reducing our carbon footprint – see pages 86 to 97	• Waste and resource use policy • Environmental policy – see the responsibility pages on our website • Water Resources Management Plan – see page 48 • Emissions target – see pages 86 to 97
Employees	Reflecting the needs of our employees: • Health and safety – see page 62 • Mental wellbeing – see pages 61 to 62 • Competitive base salaries and benefits – see page 183 • Gender pay report 2021 – see page 44 • Engagement – see pages 7, 30, 60 to 62 and 196 • Board diversity – see pages 133 to 134	• Health and safety policy • Mental wellbeing policy • Equality, diversity and inclusion policy • Flexible working arrangements • Agency worker policy • Human rights policy – see page 36 • Board diversity policy – see pages 133 to 134
Respect for human rights	Reflecting the needs of our stakeholders: • Suppliers – see page 31 • Diversity within our workforce – see pages 7, 44 to 45, 60 to 63, 133 to 134, and 137 to 138	• Employee data protection policy • Slavery and human trafficking statement • Human rights policy – see page 36
Social matters	Reflecting the needs of our stakeholders: • Customers – see page 30 • Communities – see page 30 • Environment – see pages 31 and 86 • Suppliers – see page 31 • Regulators – see page 32	• YourVoice – see page 29 • Charitable matched funding guidance • Volunteering policy • United Supply Chain – see pages 36 and 73 • Commercial procurement policy
Anti-corruption and anti-bribery	Reflecting the needs of employees and suppliers: • Employees – see pages 61 and 154 • Suppliers – see page 73	• Anti-bribery policy • Fraud investigation and reporting processes • Whistleblowing policy • Internal financial control processes • Commercial procurement policy

Our business model – our approach

Systems Thinking

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

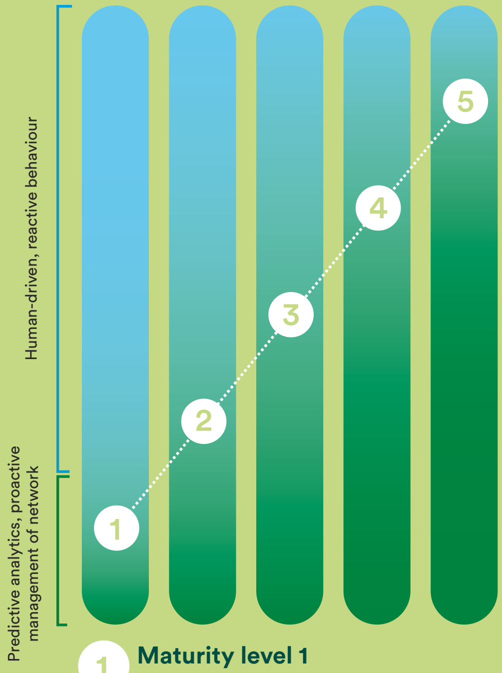
Systems Thinking capability maturity

We assess new opportunities against five capability maturity levels.

At the lower levels there is a high degree of human intervention and reactive behaviour.

At the higher levels there is a high degree of predictive analytics, use of artificial intelligence to process vast amounts of data, joined up decision-making across the system, and higher levels of automation.

It requires time and investment to reach the higher levels, and we are at different levels in different areas of our business as we continue to embed and progress our approach.



1 **Maturity level 1**
Event-led human-driven analytics

2 **Maturity level 2**
Centralised view of system performance

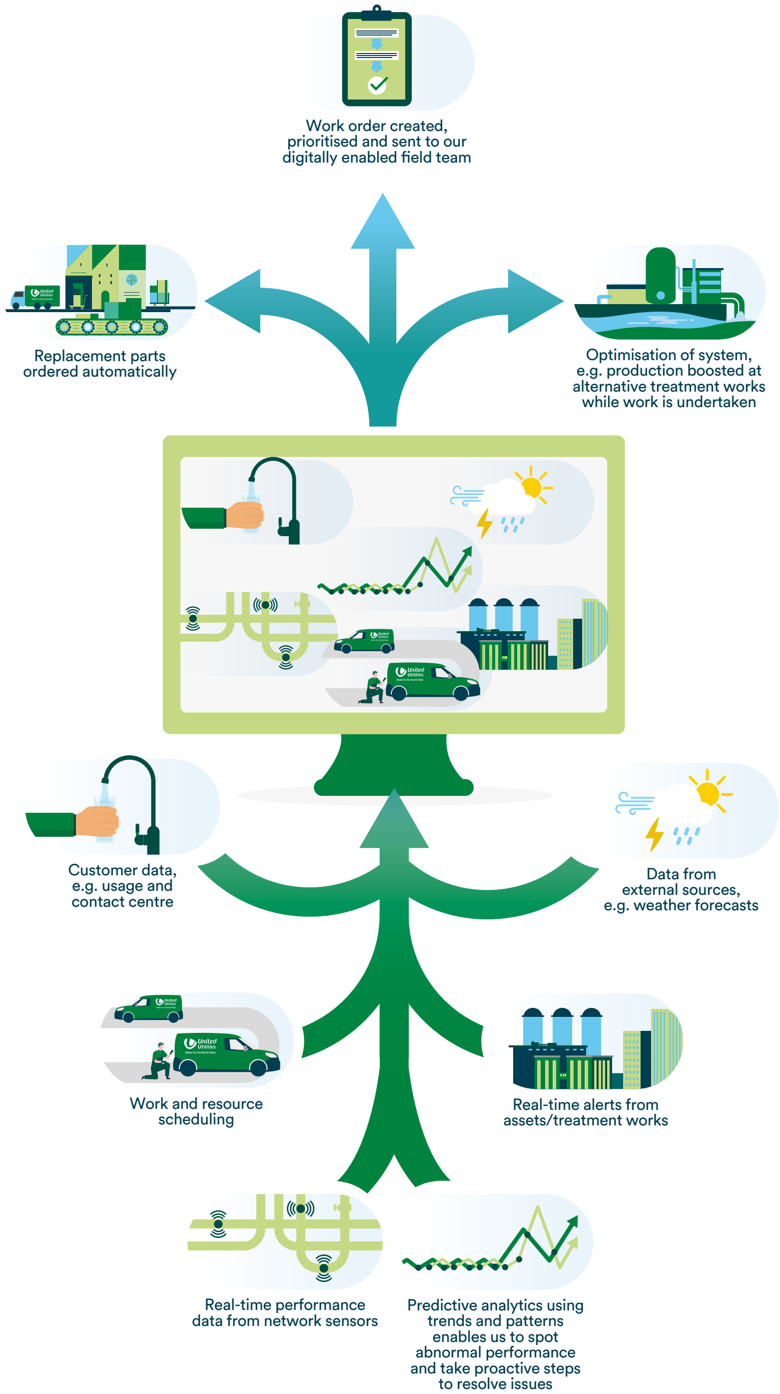
3 **Maturity level 3**
Technology-enabled, standardised analytics and insight

4 **Maturity level 4**
Machine-led system analytics and system management

5 **Maturity level 5**
Machine intelligence provides full system control

Central system management from our Integrated Control Centre

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



> We're harnessing data on a huge scale across our region, and combining that with the advancements in AI to really understand that complete system."

Resolving potential issues proactively with Dynamic Network Management

Dynamic Network Management (DNM) is an innovative programme of work that has been developed to help us become more proactive in managing our sewer network, by installing the latest technology across a large number of 'hot spot' areas in the North West.

A growing population, ageing infrastructure and more erratic weather conditions due to the effects of climate change all combine to create a challenge for our vast sewer network. There are certain places along the network where incidents such as blockages, flooding and pollution are more prone to occur, and many incidents are not traditionally detected until they are experienced first-hand by customers. Our goal was to create a smarter network – one that allows us to truly understand how our drainage systems perform.

To help reduce the risks of flooding and pollution, over 20,000 digital sensors are being installed in manholes across the expansive sewer network, and also at a large number of pumping stations. The sensors identify when the sewer network flow is not operating as usual for that particular part of the network, or if a pumping station is not working as it should. The sensors send an alert back to a central system, meaning we can respond in real time to any deviation in performance, identifying and resolving issues before they impact customers or the environment.

The artificial intelligence (AI) we use has a neural network that learns trends in the system, predicting future behaviour of the assets, as well as current activity. It identifies patterns in customer behaviour, for example, or in river levels as a response to rainfall, and allows us to predict where and when bigger problems might develop.

Network business manager, Sam Sloan, said: "The programme's combination of artificial intelligence and machine-learning puts us in a leading position when it comes to Systems Thinking. We're harnessing data on a huge scale across a large region, and combining that with the advancements in AI to really understand that complete system."

We have already installed over 10,000 of the digital sensors, and the data produced by this system means we are finding and fixing issues within the sewer system before they cause an incident. As a result, our customers have seen a year-on-year reduction in internal flooding of a third in this last year with our performance significantly ahead of the original target we set ourselves.

Delivering value for:

Customers Environment Investors

Creating a diverse and inclusive culture

We want our workforce to reflect the communities we serve by reaching and recruiting from every part of our community, and we want all employees to feel valued and included, regardless of their gender, age, race, disability, sexuality or social background.

Our customer services and people director sponsors our overall diversity and inclusion plan and tracks its progress with the executive team. We have completed a further maturity audit with our specialist inclusion partner, the Clear Company, who has independently measured progress against our plans and recognised our strong focus on education.

We again ranked in the top 1 per cent of over 850 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership, and were the leading utility company in the Top 50 Inclusive UK Employers Index. We have been included in the Bloomberg Gender Equality Index 2022, showing our commitment to more equal and inclusive workplaces.

Ethnicity

We continue to build on our diversity data, collecting information as part of our ongoing processes. We launched our first diversity survey, with over 2,000 employees sharing data about themselves beyond their role. The percentage of employees who choose not to disclose their ethnic origin has decreased from 15 per cent to 9 per cent. We have moved from 2.5 per cent of our workforce identifying as from an ethnic background to 2.7 per cent.

We have become a patron member of the BAME Apprenticeship Alliance and have an active multicultural network that supports colleagues and educates the wider workforce on cultural differences. Our drive to build an inclusive culture has seen us focus on educating, raising awareness, and celebrating cultural events. We recruited 25 university students onto the 10,000 Black Interns programme, and have committed to offering 120 placements over the next five years.

We have put efforts into developing a diverse leadership pipeline by introducing a new talent programme for employees from ethnic minority backgrounds, giving them the opportunity to develop personal and leadership skills that will help them fast-track their careers with us.

We've made good progress in recruiting apprentices from more diverse backgrounds, with 16 per cent of new apprentices this year from an ethnic minority background. This is a positive result against a backdrop of low attrition levels, regional variations in ethnic diversity, and difficulties attracting females for science, technology, engineering and mathematics (STEM) roles.

Gender

Our workforce profile remains static at 66 per cent male and 34 per cent female. We recognise the need to attract diverse and talented individuals with an interest in STEM and have a focused approach to improving the gender diversity of our workforce. To help us inspire young people into STEM careers, we continue to run our 'Engineering your future' competition with secondary schools from the local area, working closely with our apprentice ambassador, Warrington Wolves women's rugby captain Michelle Davis. Sixty per cent of participants are female.

We have strong female role models succeeding at all levels of the organisation, including the board, executive leadership team, and key operational roles. Sixty-two per cent of all senior leader vacancies this year were filled by females. We offer targeted support for future female talent through our Female Leadership Pipeline and Aspiring Manager Programme. Sixty-four per cent of employees currently on our Aspiring Manager Programme are female.

In the last 12 months, we have welcomed 26 graduates onto our schemes, and 51 apprentices have joined us on operational, service and future-facing digital and environmental schemes. Thirty-seven per cent of new apprentices and 36 per cent of new graduates are female, higher than the UK average of 24 per cent females in STEM roles.

We are proud that 96 per cent of our current female workforce would recommend us as an employer and 92 per cent of female employees say that we support diversity and inclusion in the workplace.

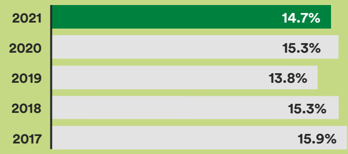
Gender pay reporting (from the 2021 gender pay report)

We're making good progress in reducing our gender pay gap and gender bonus gap, continuing a positive downward trend over the last five years. At 14.7 per cent, our median gender pay gap is lower than the national average of 15.4 per cent. This year, the changes in our median gender pay gap are mainly due to a reduction in the number of females in lower-paid roles, which has increased the median salary for women.

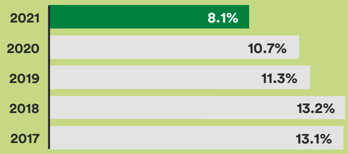
Our mean gender pay gap has reduced significantly since 2017, mainly due to an increase in the number of women progressing into more senior roles within the company and the success of our talent management programmes. Due to changes in our workforce, last year we also saw more men in lower-paid roles within the company.

Although women are still under-represented in the top three pay quartiles, we have seen more women in the upper middle quartile this year. This is mainly due to more women than men being promoted into higher-paid roles as a result of our talent management programme, which has helped to reduce the pay gap. However, there is still more work for us to do, for example in our main operational roles, where it is more difficult to achieve a gender split that is representative.

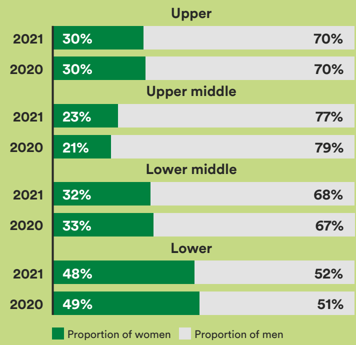
Our median gender pay gap over the last five years



Our mean gender bonus gap over time



Percentage of women and men overall and in each quartile of the pay range (figures for 2021 and 2020)



(1) Group board as at 31 March 2022.

(2) Executive team excludes CEO and CFO, who are included in group board figures.

(3) As at 31 March 2022, 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 2022.

LGBT+

We celebrate and value the diversity of all our people. We are committed to ensuring any Trans or non-binary people are respected and valued and that we provide a working environment free from discrimination, harassment and victimisation based on gender identity. We worked with our colleagues from the LGBT+ network and our trade union representatives to produce a transitioning at work policy.

We are pleased to have partnered with The Proud Trust, a north west-based LGBT+ youth charity. We have sponsored a youth group worker to work with LGBT+ young people in Oldham, a 'cold spot' as defined by the social mobility index. We have funded LGBT+ inclusive educational resources, linked to the English national curriculum. In 2021, we continued to roll out our 'Pride in the workplace' training, designed to help break down barriers and improve confidence to talk about LGBT+ in the workplace. Over 150 employees completed the training course. We received a Bronze award in Stonewall's Workplace Equality Index for our efforts to support LGBT+ inclusivity.

Disability

We are driving forward our commitment to The Valuable 500's nine recommendations for creating a disability-aware workplace. The Value 500 is a global movement to put disability on the business leadership agenda. We are a Disability Confident employer, one of over 20,000 UK employers to have signed up to the government scheme.

Together with our ability employee network, we have identified key focus areas, including neurodiversity, deaf awareness and menopause. We have also committed to support the Employ Autism programme, through which we will offer paid placements to autistic students from local universities.

The percentage of employees who have declared a disability has increased from 2.2 per cent to 8.4 per cent. Of this year's apprentice intake alone, 21 per cent disclosed a disability or learning difficulty.

Supporting under-represented communities

We are supporting those traditionally overlooked groups in our communities, with 44 per cent of the young people we recruited onto the Government's Kickstart Scheme now transitioning into employment, and a further six being supported with applications for our award-winning apprenticeships.

Our 'Tap into your future' virtual work experience programmes targeted under-represented communities across the North West, offering over 500 students an exclusive insight into our business and our fantastic early careers opportunities. One hundred per cent of attendees now think United Utilities is a diverse and inclusive employer and 76 per cent said they were extremely interested in applying for an apprenticeship after completing the programme.

We successfully implemented an award-winning engineering masterclass, with around 300 students having been taken through the curriculum, inspiring the next generation of diverse students from disadvantaged backgrounds to pursue a STEM-related career.

Armed Forces

We were proud to again achieve the Ministry of Defence's Employer Recognition Scheme Gold Award, the highest level of recognition for commitment to supporting the Armed Forces community, and have become one of the first companies to be reaccredited. The accolade is awarded to companies that can demonstrate considerable commitments and 'forces-friendly' action, including signing the Armed Forces Covenant, making necessary adjustments to HR policies, and fostering a more inclusive work culture for Armed Forces personnel, past and present.

Our inclusion plan

Inclusive leadership
With workshops, masterclasses, and talks on inspirational topics from external speakers, we're leading a fresh approach to diversity and inclusion.

Encouraging openness
We launched our 'About Me' campaign to find out more about our employees' needs and improve our employee records.

Improving our policies
We have a number of policies in place to support our employees in achieving the balance between home and work life, with enhanced family-friendly leave options and maternity benefits that are better than those required by UK law.

Increasing awareness
Our 'We are better together' video shows our employees that we want to create and maintain a working environment where we value and respect one another's unique contribution.

Supporting inclusion
Through our gender equality network we've been focusing on normalising some tricky conversations.

We have created over **£300,000** of social/local economic value (TOMS Social Value Portal)

62% of those recruited to senior leader roles in 2021 were female and **35%** of our combined board and executive team is female

34% of our employees are female and **25%** of these are in STEM roles

41% of our graduates and **27%** of our apprentices are female

15% of our graduates and **13%** of our apprentices have told us they have a disability or learning difficulty

Our business model – our planning horizons

Our approach to long, medium and short-term planning horizons helps us continue fulfilling our purpose in a sustainable and resilient way.

Materiality and risk assessment

Our plans take into account the issues that have been identified as material, and our assessment of principal risks and uncertainties.

Read more about what matters most to stakeholders on pages 34 to 39 and our risk management on pages 100 to 109

Monitoring performance

We continuously assess our performance against our plans using key performance indicators (KPIs) and other performance metrics of interest to our stakeholders.

Read more about how we measure our performance on pages 50 to 51

Our approach to planning

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

- what the material issues are, both in terms of the level of interest to stakeholders and the effect they may have on our ability to create value;
- our assessment of principal risks and 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, building resilience so that we can ensure we are able to provide our essential services to customers far into the future.

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.

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.

Our planning horizons

2023
We will make sure all storm overflows are monitored and real-time data on their operation is made available to the general public

2024
We will publish our new Water Resources Management Plan and Drainage and Wastewater Management Plan

2025
We aim to have 210,000 customers registered for our Priority Services scheme

2025
We aim to improve water quality in 1,315 kilometres of rivers across the North West

2025+
We will work to enable future national water trading

2030
We will ensure bills are affordable for households where bills amount to more than five per cent of disposable income, in line with the industry's Public Interest Commitment

2030
100 per cent of our Sites of Special Scientific Interest will be in favourable or recovering status

2030
We commit to reducing our scope 1 and 2 greenhouse gas (GHG) emissions by 42 per cent in line with our ambitious science-based target

2035
We will deliver our service using natural capital in a sustainable, efficient and resilient way

2045
We will install additional water meters to achieve coverage of around 75 per cent of households

2050
We are targeting to help reduce water demand to 110 litres per person per day

2050
We aim to have reduced leakage by 50 per cent

2050
We aim to achieve our long-term science-based target for net zero GHG emissions aligned to the Paris Agreement's ambition to limit global warming to 1.5°C

Our business model – our planning horizons

25+ years

Long-term planning

Our approach to long-term planning ensures we are responding to challenges and opportunities that may arise far into the future.

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, 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 risk management processes.

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 these challenges and how we will focus our resources and talents to meet them.

Our 25-year Water Resources Management Plan (WRMP) covering the 2020–45 period, was developed and published in 2019 following consultation with stakeholders. We will publish our new WRMP in 2024 covering the next period.

Our last Drought Plan was published in 2018. We have a new draft on which we have consulted with stakeholders, and the final plan will be made available on our website once approved by Defra and the Environment Agency.

We will publish a Drainage and Wastewater Management Plan (DWMP) for the first time in 2024, and more information will be made available on our website as we launch this.

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, the actions we will take to manage the risk of a drought, and the risks around flooding, pollution, storm overflows, and wastewater treatment.

We create long-term value for stakeholders by:

- Systems Thinking and innovation;
- long-term planning and responding to challenges and opportunities;
- 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.

Read more at unitedutilities.com/corporate/about-us/our-future-plans

5–10 years

Medium-term planning

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 final determination (FD) we receive from Ofwat for each five-year period. Historically, we have submitted business plans which were focused mainly on the subsequent five-year asset management plan (AMP) period, while providing a high level view of the following AMP. This provided medium-term planning visibility of between five and ten years at any one point in time, although Ofwat is proposing a longer-term planning approach for the next business plan submission in 2023.

It is important that our plans deliver for all stakeholders including customer preferences and environmental requirements. We, therefore, align our plans to these priorities in line with key published methodologies in order to deliver the best overall approach to stakeholder value.

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 final determination (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.

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

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 total expenditure (totex) proposals we put forward.

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 the first three years of the AMP, helping us make a strong start to our 2020–25 plans.

Our total expenditure for this period will be extended by £765 million beyond the scope of the FD, with this investment delivering improvements in environmental performance, accelerating delivery of the new Environment Act, and providing an enhanced level of service that will deliver better performance against customer outcome delivery incentives (ODIs).

Our strategy 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 comprises the base allowed return and any out/underperformance, on an annual and cumulative basis for each AMP.

Our APR is published in July each year at **unitedutilities.com/corporate/about-us/performance/annual-performance-report**

Information on companies' regulatory performance can be found at **discoverwater.co.uk**

1 year

Short-term planning

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, which runs from 1 April to 31 March, we develop a business plan for that year, and this is reviewed and approved by the board. This business plan sets our annual targets, which are designed to help deliver further improvements in service delivery and efficiency, and to help move us towards achievement of our five-year and longer-term goals.

Performance against these annual targets determines the annual bonus percentage that is awarded. Executive directors and employees right through the organisation are remunerated against these same bonus targets.

As well as these annual bonus targets, in order to avoid encouragement of short-term decision-making and ensure management is focused on the long-term performance of the company, executive directors are remunerated through long-term incentive plans (LTP). The LTP assesses three-year performance, and is measured during the 2020–25 period through RoRE and a basket of customer measures.

See details of the **annual bonus and Long Term Plan arrangements** on pages 178 to 182

The executive directors hold quarterly business review meetings with senior managers across the business to monitor and assess 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 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 were 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 were especially critical for public health at this time.

Our business model – the value we generate

How we measure our performance

To measure progress on delivering our purpose and creating value for our stakeholders, we monitor and measure our performance against each of the stakeholder groups that we create value for.

Find out more about 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 page 13 and on our website at

unitedutilities.com/corporate/responsibility/our-approach/cr--performance

Our key performance indicators

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

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

Operational KPIs

Our purpose drives us to create long-term value for all our stakeholders, and we report against one operational KPI for each of the six stakeholders for whom we create value. More detail on these operational KPIs, including our targets and performance this year, can be seen on pages 8 to 9.

Financial KPIs

We have selected financial KPIs that assess both profitability and sustainability of our business from a financial perspective.

More detail on these financial KPIs, including our targets and performance this year, can be seen on pages 10 to 11.

Our other performance indicators

Our six operational KPIs are by no means the only metrics by which we monitor and assess our performance. We report against many other metrics both internally and externally. As discussed on pages 29 to 33, our stakeholder engagement gives us a view of what matters most to them. We report on a selection of other metrics on pages 52 to 75 of this report, based on the measures shown to be of highest interest to our stakeholders.

For example, on performance for customers, our KPI is Ofwat's measure of customer experience, C-MeX, but on page 58 we report on Ofwat's measure of developer satisfaction, D-MeX, the level of customer complaints, vulnerability support, customers lifted out of water poverty, and the impact of water efficiency measures.

We regularly report on numerous corporate responsibility performance measures on our external website as detailed on page 50.

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.

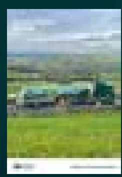
Our annual performance report (APR)

Performance against our regulatory contract is monitored and assessed each year, and reported within the annual performance report (APR), as required by our economic regulator Ofwat.

We cover several regulatory performance measures within this report. Our APR provides more details, as well as further narrative, about our regulatory performance during the year.

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

Our APRs for previous years are available on our external website, and the APR for 2021/22 will be published in July 2022.



Our annual performance reports can be viewed on our website at **unitedutilities.com/corporate/about-us/performance/annual-performance-report**

Return on Regulated Equity (RoRE)

Return on regulatory equity (RoRE) measures the regulatory returns (after tax and interest) that companies have earned by reference to the notional regulated equity (which is calculated as 40 per cent of the regulatory capital value (RCV), while the other 60 per cent of the RCV is notional net debt).

RoRE comprises a base allowed return, which is set by Ofwat, plus or minus any out or under performance earned. It is reported on an annual and cumulative basis throughout the AMP.

As well as being a key regulatory measure, RoRE is one of our operational KPIs and is linked to executive remuneration through its inclusion in the Long Term Plan.

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

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

RoRE can also be higher or lower as a result of the outturn tax position versus the allowance.

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

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

Our efficient financing has given us a history of financing outperformance. We strive to deliver efficient costs, but our strategy for AMP7 has been to prioritise operating performance and ODI rewards over totex savings, as this drives better long-term value for all our stakeholders.

Communities

Supporting communities to be stronger – our work puts us at the heart of local communities in the North West.

How we measure performance

Our key performance indicator to measure value created for communities during 2020–25 is community investment, and we target increasing our investment by at least 10 per cent compared with the average between 2010 and 2020.

Community investment

Definition

Total community investment as measured by the Business for Social Impact* (B4SI) method (* previously LBG).

Target

The average community investment between 2010 and 2020 was £2.56 million per annum. We target community investment to be at least 10 per cent higher than this between 2020 and 2025.

Status

Achieved/confident of achieving target

Link to material issue

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

Read more about **our approach to materiality** on pages 34 to 35

Link to risks

Conduct and compliance

Read more about **our principal risks** on pages 104 to 105

Performance

This year our direct community investment totalled £2.82 million.

This was higher than the previous year as a result of increased activity with partners, such as payments from our £300,000 Catchment Systems Thinking (CaST) fund, and returning to customer-facing events such as the RHS Tatton Flower Show.

2021/22
£2.82m

2020/21
£2.15m

“We generate value for communities across the North West through local investment, partnerships and educational programmes, as well as employee involvement.”

How we deliver value to communities

Short term

- We look after some beautiful rural landscapes and pockets of urban green space, and open much of our land to the public, supporting regional tourism and offering communities health and wellbeing benefits through access to relaxation and recreation.
- Working in partnership with others means we can accomplish more in tackling mutual issues, such as partnering to develop employability skills for those who need it most.
- Our operations and projects are often near homes and businesses, and we engage with these communities to build understanding and trust.

Long term

- Early career and outreach schemes break down barriers to employment and increase social mobility, reducing welfare costs.
- Managing land responsibly means we leave the North West environment in a better condition for future generations.
- We work with teachers and children to raise awareness about water and the natural environment, giving the next generation an understanding of the true value water brings and how we can all play our part in protecting the services nature provides.

Link to strategic themes

Promoting our support services and campaign messages places us at the heart of communities and builds trust with hard-to-reach groups.

By working with community partners we can share resources, access new funding opportunities and achieve more together.

Providing access to our land enables communities to enjoy the physical and mental wellbeing benefits that green spaces can bring, which in turn helps reduce the burden on health services.

Overview

Our work puts us at the heart of local communities in the North West of England, where our 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. Our approach is to develop strong relationships and build partnerships where we work to generate solutions together. Our employees also get involved in local communities through volunteering, fundraising, and giving.

Our region has a broad mix of rural and urban landscapes, and we look after some beautiful areas of land, from the rolling hills of Cumbria to nature reserves and other green spaces in towns and cities. We open much of 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. We also promote sustainable drainage solutions to help avoid flooding in built-up urban areas.

Community investment beyond the B4SI method of calculation

In addition to the £2.82 million of community investment calculated using the B4SI method, we contribute to our Trust Fund to help those struggling to pay their bills, with further support available to help customers reduce their water bill to an affordable amount through our social tariff. We have extended the additional £15 million per annum of support provided through our social tariff during COVID-19 to 2025.

Partnerships

We invest in community partnerships to tackle issues more effectively, to find new solutions to the challenges we face, and to access new funding streams, driving efficiency and a better overall outcome. Last summer we signed two memoranda of understanding with the Royal Society for the Protection of Birds (RSPB) and The Rivers Trust – partners held in high esteem by local communities with a broad membership base, enhancing the credibility of what we do.

As part of our £300,000 CaST fund, we provided funding to community groups across the North West to deliver elements of our catchment management approach, focused in particular on community engagement with nature or helping shape and promote natural capital markets.

One of the first projects to receive funding is led by the Mersey Rivers Trust and focuses on establishing community participation on the lower catchment area of the River Bollin. It aims to increase the number of people connecting with nature and accessing local blue-green space for health and wellbeing. The project will engage volunteers and landowners in restoring the reed bed habitat at Tatton Mere, a popular recreational site in Cheshire.

Read more about our partnerships on page 55

Helping young people

In addition to our ongoing graduate and apprentice schemes, we have supported the Government's Kickstart programme by providing placements in various roles across the North West. This scheme helps support those traditionally overlooked groups in our communities. Each Kickstarter has had a dedicated skills coach and received job-related and employability skills training. Since April 2021, 55 Kickstarters have joined our business and 24 have found full-time employment with us or our suppliers. A further six have applied, or are being supported with applications, for our apprentice programme.

As part of our work to promote skills for the future, we once again joined forces with five high schools from Warrington to help attract potential engineers. Our partnership with The Challenge Academy Trust (TCAT), now in its fifth year, was set up to inspire young people to pursue a career in science, technology, engineering and mathematics (STEM) fields. Sixty students from the five schools, who are part of TCAT, worked with our engineering mentors over a period of 16 weeks, gaining a real insight into what working life as an engineer is like.

The programme builds up to a 'Dragons' Den' style business competition to showcase the work the students have done, in front of judges from the business. The project provides more than just STEM experience, as the challenges allow pupils to develop valuable skills including teamwork, problem solving, influencing others, and public speaking.

As the water industry deals with the challenge of climate change, and we drive towards carbon neutrality, attracting the next generation of creative, skilled people is key to the success of our business.

Our performance in 2021/22

Operational performance

Feedback from students has been positive, with 90 per cent saying they would now pursue a STEM-related career, and 100 per cent stating that they had a better understanding of engineering at United Utilities. Students rated the overall experience ten out of ten.

As COVID-19 restrictions have been lifted, our free 'All about water' sessions have returned to classrooms across the region. Consequently, we have seen a reduction in the number of children benefiting from our online education resources, which increased significantly during lockdown. We are reviewing our approach to education and, as part of this, we will consider the most practical way to deliver educational resources.

Community engagement

Direct engagement with communities provides the opportunity to hear what customers think and to explore ways we can work together to address issues.

For example, to highlight inappropriate use of sewers and the problems created by that, we held a family-friendly interactive exhibition at the Arndale Shopping Centre in Manchester during February half term. Engaging 'Sewer Monster' posters, competitions, fun activities and free giveaways, including fat traps, were all part of our Stop the Block campaign.

At the RHS Tatton Flower Show, we talked to customers about water saving tips and sponsored a garden of resilience. The garden addressed the challenges of extremes of weather and the stresses and strains of the pandemic. It gave visitors ideas for making outdoor spaces better able to cope with too much or too little rain, such as a rainwater planter and a slimline water butt disguised as a bench, and incorporated ideas to encourage people to take time out and contemplate their own personal resilience. Plants were chosen for their resilience to extremes and prolonged spells of dry and wet weather, while their colours complemented the hard landscaping materials. The garden was well received by visitors and won three awards at the show, receiving prime time television exposure on BBC One and social media coverage, helping to raise awareness to a much wider audience. It will continue to inspire gardeners at its new permanent home at RHS Bridgewater in Salford.

Access to our land for recreational use

We encourage the public to access our land and regional bathing waters, and to enjoy them safely. Since the first COVID-19 lockdown in spring 2020, there has been an increase in anti-social behaviour on our catchment land, with issues such as wild camping, illegal fires and littering. We have been working with local groups at several sites to address this.

At Macclesfield Forest, we have joined forces with the rural crime team from Cheshire Police and rangers from the Peak District National Park to tackle anti-social behaviour by undertaking joint patrols at busy times to remind visitors to enjoy the area responsibly.

In spring 2021, we launched a new podcast series entitled 'Acres of Nature' to connect people with the North West's outdoor spaces. Each themed episode takes an in-depth look at the land we manage – such as the Davyhulme Millennium Nature Reserve in the heart of Urmston, Manchester – through the eyes of people who live, work and visit there. Available to all on Spotify, Acres of Nature is all about bringing people closer to nature, and podcast themes have included history, nature and wellbeing.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Community investment	**10% increase (£2.82m)**	**£2.82m** £2.15m	Green	Green
Partnership leverage	**1:4**	**1:4** 1:7	Green	Green
Percentage of participants who remain employed six months after completing an early careers or outreach scheme with United Utilities	**50–60%**	**75%** 83%	Green	Green
Number of children benefiting from education materials	**20,000**	**12,998** 19,120	Pink	Orange
Percentage of visitors to our recreation sites who view United Utilities more positively after their experience	**Maintain position above 50%**	**57.3%** Baseline year	Green	Green

Status key:

Annual performance	Against 2025 target
Green: Met expectation/target	Green: Confident of meeting target
Orange: Close to meeting expectation/target	Orange: Some work to do
Pink: Behind expectation/target	Pink: Target unobtainable

Performance key:
2021/22
2020/21

£300k
Catchment Systems Thinking (CaST) funding for community groups

55
Kickstarters have joined the business through the government programme

90%
Of students on TCAT STEM programme say they are more likely to pursue a STEM-related career

“It is the first time a partnership has set about designing a framework to bring together everyone with an interest in the health of rivers from source to sea.”

Working in partnerships to accomplish more together

Working together for water, nature and people.

We cannot change the water environment on our own. Only by working in partnership with others can we deliver for water, wildlife and local communities. This year, we have committed to two major partnerships aimed at improving the environment of the North West.

Our ground-breaking strategic partnership with The Rivers Trust aims to tackle the big challenges facing rivers in the region. It is the first time a partnership has set about designing a framework to bring together everyone with an interest in the health of rivers from source to sea. It will build better competence for more urgent action to tackle challenges that are increasingly important to society, such as pollution, flooding and water abstraction and help deliver adaptations and resilience to combat the extremes of climate change.

The partnership formalises the existing strong relationship between the water company and the non-governmental organisation, which is the umbrella body for one of the fastest growing environmental movements in the UK.

Both parties expect the new partnership to facilitate longer-term planning of investment priorities, beyond the current water sector five-year regulatory cycle, allowing faster adoption of nature-based solutions and other collaborative ventures.

A new shared vision with the Royal Society for the Protection of Birds (RSPB) builds on joint work at our Haweswater estate over the past ten years. This has demonstrated that nature-based solutions make a very real contribution to meeting the challenge of a changing climate and the economic pressures facing upland farmers.

We already work together at Bowland in Lancashire, Dove Stone Reservoir near Oldham, and Lake Vyrnwy in North Wales. The memorandum of understanding signed in 2021 commits us to explore areas of opportunity by working together, such as helping farming tenancies, creating and managing new wetland, peatland and woodland, and working to improve the visitor experience. Together we intend to tap into natural capital markets including green finance initiatives and the Environmental Land Management scheme to fund beneficial land management projects.

Delivering value for:

Communities Customers Environment

Customers

Caring for customers through trusted relationships – we put customers at the heart of everything we do.

How we measure performance
Our key performance indicator to measure value created for customers during 2020–25 is Ofwat's C-MeX measure, in which we target being in positive reward territory.

C-MeX
Definition
Ofwat's customer measure of experience (C-MeX), comprising two surveys – the customer service survey, and the customer experience survey.

Target
To be in positive reward territory, following the comparison of our C-MeX score with those our of peers seeing us above the industry median.

Status
Achieved/confident of achieving target

Link to material issue
- Drinking water quality
- Customer service and operational performance
- Affordability and vulnerability

Read more about our approach to materiality on pages 34 to 35

Link to risks
- Water service
- Wastewater service
- Retail and commercial

Read more about our principal risks on pages 104 to 105

Performance
For 2021/22, we expect to receive a reward of £2.3 million on C-MeX. We continue to be the highest performing listed company, ranked fourth out of the water and wastewater companies, and seventh overall out of all 17 companies.

On Ofwat's D-MeX measure, for developer customer satisfaction, we are consistently in the top half and expect to receive a small reward for 2021/22.

2021/22
£2.3m
reward

2020/21
£2.1m
reward

"As we emerge from the global pandemic, with significant increases in the cost of living, the affordability support we provide to customers is more important than ever before."

How we deliver value to customers

Short term

- We focus on providing continuous, resilient and reliable water and wastewater services for customers, ensuring clean water is available at their taps when they need it, and wastewater is taken away when it goes down their drains.
- When customers need to contact us, we are helpful, friendly and supportive, talking and listening to them so that we can understand and meet their expectations.
- We maintain bills that are good value for money, providing help and support for those who are struggling to pay.

Long term

- Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in the North West.
- Through long-term financing and the regulatory framework, we are delivering multi-million pound infrastructure projects to improve services and resilience for the long term. We ensure the cost of this is shared fairly and affordably between those that benefit now and in the future.
- Providing additional help to vulnerable customers builds long-term trust relationships.

Link to strategic themes

We will continue to invest in our assets and people to meet the stretching customer support targets in our regulatory contract.

By achieving sustainable cost reductions we can provide an efficient service, keeping bills low and maintaining good value for money.

We provide assistance schemes to those who need it most and provide practical advice on how to manage water in the home.

Overview

We put customers at the heart of everything we do, with one of our core values being to be customer-focused. The continuous improvements we have driven in recent years saw us enter the 2020–25 period as a leading water and wastewater company, and our level of operational performance and customer satisfaction remain high.

Serving many of the most economically deprived areas in England and Wales, we are always mindful of the need to help customers who struggle to pay their bills, and this has never been more important than it is right now as we emerge from a global pandemic with high levels of inflation increasing the cost of living.

We are providing sector-leading support for vulnerable customers, supporting over 200,000 households this year, with around £280 million(1) of affordability support being given over the 2020–25 period (AMP7).

Operational performance for customers

We have continued to improve performance for customers this year, earning our highest ever one-year net reward against customer outcome delivery incentives (ODIs) at £25 million(2) for 2021/22.

We delivered a strong performance against our ODI in relation to voids, having reduced voids to 4.78 per cent of billable properties, against a target of 5.24 per cent, as a result of which we earned a £6 million reward this year. Reducing voids not only helps economically, but it enables us to keep bills lower for other customers because revenue is spread between more billable properties, making things fairer and more affordable for all customers.

Some of the other commitments for which we achieved rewards were our strong performance in reducing pollution incidents, removing over 3,500 homes completely off lead supply pipes, and lifting more than 77,000 customers out of water poverty.

In areas where we incurred penalties, such as internal sewer flooding incidents and customer contacts in relation to taste and smell, the additional investment we are making over the remainder of AMP7 will help improve our performance for customers in future years.

Our strong performance on customer service metrics this year has helped drive a 14 per cent reduction in written complaints, achieving our lowest ever volume.

We have achieved recertification to the new and enhanced BSI standard 18477:2010 for our Priority Services scheme, which supports over 180,000 customers, and we are proud to have been reaccredited this year with the Institute of Customer Service – Service Mark with Distinction award, one of only 18 brands to achieve the distinction status.

Affordability

We have an extensive range of schemes available to help customers, providing a sector-leading level of customer support. We supported more than 200,000 households with affordability in 2021/22, with over 180,000 on discounted tariffs and grants, and a further 20,000 having received support through our payment matching scheme.

The financial support we committed to in our AMP7 business plan was the largest of any water company, and over the five-year period we are providing around £280 million(1) of customer support.

We are exploring innovative ways to help customers more efficiently. We are the first utility company to harness open banking, which helps us identify and support customers to get access to the right affordability tariffs more quickly and easily. A process that traditionally would have taken weeks can now be done in minutes with the use of open banking, and we have received positive feedback from customers that used the service.

We carried out 39,000 affordability visits, taking our financial support to the customer's doorstep, and we promote our Back on Track scheme via partner organisations and the Hardship Hub, as well as directly to customers.

There is always more we would like to be able to do, and we are a leading supporter of the Consumer Council for Water's drive to introduce a national social tariff, which would help to provide a more equitable sharing of support for customers across the country that are struggling to pay their bill, regardless of where people live.

Read more about our use of open banking on page 59

More information about our ODI performance will be published in July 2022 in our APR, available on our website at: unitedutilities.com/corporate/about-us/performance/annual-performance-report

(1) 50 per cent company funded.

(2) Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

Our performance in 2021/22
Operational performance

Cash collection
Cash collection performance has been good this year, and our household bad debt charge has returned to the pre-pandemic level of 1.8 per cent of regulated revenue, reduced from 2.2 per cent in 2020/21.

We have a high level of Direct Debit penetration, with 72 per cent of customers paying by Direct Debit, and overall we have over 80 per cent of customers on payment plans. This helps to provide a high degree of collection certainty and to spot any potential affordability issues early, at the point of the first missed payment, so that we can make contact swiftly.

For customers that need affordability support, we can quickly get them onto the right scheme to help them get back on track. For those customers that can afford to pay but choose not to do so, we have a comprehensive data-led approach to collections that helps us to accurately pursue payment in an efficient and timely manner. This includes a range of techniques, such as 'nudging' customers through email or text if a payment is late, enhanced credit reference sharing, and credit reporting.

Only £4 million of our net household debtors are aged by more than one year, indicating that we are not storing up a problem for future bad debts.

Our best-in-class approach to collections continues to receive external recognition. This year we have won five awards across the Credit Awards, Utilities and Telecoms Awards, and Utility Week Awards, including 'Utility Team of the Year' and 'Best Use of Technology' at the Credit Awards. We have been recognised for our use of data and technology to provide financial support to those who needed it most during the pandemic and for the introduction of open banking.

Digital transformation
Through a significant increase in the availability and performance of our digital channels, over 1.2 million customers engaged with us digitally, driving both service improvements and cost efficiencies, and we achieved strong customer sentiment scores.

We have been proactive using targeted communications with customers to offer support to those impacted financially by the pandemic and struggling to pay.

To underpin our contact centre operations, we have implemented new technology in the form of a new workflow system linking billing and operational customer service activities.

			Status	
Measure	2025 target	Performance	Annual performance	Against 2025 target
KPI:				
C-MeX	**Above industry median**	**Above industry median** Above industry median	● Green	● Green
Additional service measures:				
D-MeX	**Above industry median**	**Above industry median** Above industry median	● Green	● Green
Market Performance Standards	**Upper quartile**	**Second quartile** Second quartile	● Amber	● Green
Operational Performance Standards	**Upper quartile**	**Upper quartile** Upper quartile	● Green	● Green
Managing complaints:				
Number of household written complaints compared to WASCs	**Upper quartile**	**Second quartile**[(1)] Upper quartile	● Amber	● Green
Speed of resolution	**5 days**	**3.5 days** 3.5 days	● Green	● Green
Vulnerability:				
Number of households registered for Priority Services	**In excess of 220,000 (7%)**	**186,224 (5.9%)** 128,831 (4.1%)	● Green	● Green
BS18477 'Inclusive service provision' certification for Priority Services	**Maintain certification**	**Maintained** Maintained	● Green	● Green
Affordability:				
Number of customers lifted out of water poverty	**66,500**	**77,312** 71,057	● Green	● Green
Helping customers look after water in their home	**10% increase**	**23.85%** 13.75%	● Green	● Green

Status key:

Annual performance	Against 2025 target
● (green) Met expectation/target	● (green) Confident of meeting target
● (amber) Close to meeting expectation/target	● (amber) Some work to do
● (pink) Behind expectation/target	● (pink) Target unobtainable

Performance key:
2021/22
2020/21

(1) Latest comparative data available 2020/21.

£280m
Affordability support being given in total over the 2020–25 period

>200k
Customers helped through our extensive suite of affordability schemes

>80%
Of our ODI performance commitment targets met or outperformed this year

> Open banking means we can help customers get the right affordability support in minutes, when the traditional process would have taken weeks."

Using open banking to help customers faster

Recognising the need for affordable bills, we have implemented a range of industry-leading support schemes including lower tariffs, capped bills, and payment matching schemes. Tailoring payment plans to customer affordability is a key goal and the advent of improved data availability from open banking stimulated an innovative method of improving our customer journey.

Our idea was to utilise open banking technology to verify customer income in real time to improve the accuracy and efficiency of our customer affordability assessments. We implemented an improved customer journey in three key steps:

- Gaining agreement to use open data for the affordability assessment;
- Obtaining customer consent via an online consent portal; and
- Receiving a summarised view of a customer's income straight from their bank account, including evidence of benefit payments.

Open data now forms a key part of one of our most sensitive customer journeys, and initial results showed 45 per cent of customers who were offered the option to use open banking accepted.

Customer feedback on their experience of open banking is very positive, with customers saying it was easy to use and 88 per cent saying they would use it again, despite never having used it before.

The use of open banking has streamlined customer eligibility for reduced-rate social tariffs. Were it not for this solution, customers applying for help with payment of their water bill would have had to manually collate their income and expenditure information, including evidence of benefit receipt, in preparation for their telephone affordability assessment.

What previously would have taken weeks, can now be done in minutes, with the added benefit of increased accuracy.

Open banking improves first-time completion rate, meaning customers are given a decision on tariff eligibility there and then and a sustainable payment plan can be agreed.

Open banking could help facilitate the introduction of a national social tariff, as proposed by the Consumer Council for Water: the efficiency we've delivered into our affordability assessment process will help us manage the expected increases in volume of applications for support, meaning we can help more customers with payment of their water bill.

Delivering value for:

Customers

Employees

Creating a great place to work for all our employees – our employees are essential for us to deliver our services, and are the face of the company.

How we measure performance

Our key performance indicator to measure value created for employees during 2020–25 is our engagement score, in which we target upper quartile against UK utilities norm benchmark.

Employment engagement

Definition

Level of employee engagement as measured by our annual employee opinion survey.

Target

Upper quartile against UK utilities norm benchmark.

Status

Achieved/confident of achieving target

Link to material issue

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

Read more about our approach to materiality on pages 34 to 35

Link to risks

- Resource
- Health, safety and environmental

Read more about our principal risks on pages 104 to 105

Performance

Our overall engagement is at 87 per cent, equal to UK high performance levels, which we have now been equal to or above for the last three years.

We are 11 per cent better than the UK norm and 5 per cent better than the UK utilities norm.

2021/22	2020/21	2019/20	2018/19	2017/18
87%	89%	84%	81%	79%

> "We are committed to investing in training and development, promoting diversity and inclusion, and focusing on health, safety and wellbeing."

How we deliver value to employees

Short term

- We have a strong focus on health, safety and wellbeing. We firmly believe that nothing we do is worth getting hurt for, and we aim to ensure all employees go home safe and well at the end of the day.
- We invest in training and development to enable our employees to grow their skills and to keep them motivated.
- Listening to our employees helps to create an engaged workforce, increasing job satisfaction, and through employee communications and conferences we update our people on business developments so they feel part of a team.

Long term

- Investing in the development of current, and future, employees means we will have a workforce with the right skills for the future.
- Health, safety and wellbeing extends to mental as well as physical health. We promote awareness of stress and other mental health issues, promoting an all-round healthy lifestyle in the long term which, in turn, reduces the burden on healthcare services.
- We provide pension offerings that support employees in later life.
- Promoting diversity and inclusion means we have a workforce that truly represents the region.

Link to strategic themes

Improving our performance creates employee pride in a job well done, enhancing employee satisfaction and a desire to do more.

Encouraging innovative ideas from employees can lead to cost reductions, and high employee satisfaction reduces turnover, which ensures training and development costs are efficient.

We take a responsible approach to protecting the health, safety and wellbeing of our employees, ensuring we send everyone home each day safe and well.

Overview

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 and accelerate our digital strategy. The health and wellbeing of our employees is paramount and keeping them safe remains our primary concern with 89 per cent of our employees believing our organisation supports their health, safety and wellbeing. We continue to build on our diversity and inclusion agenda, which underpins all aspects of our organisation. Increasing the diversity of our workforce ensures we have access to a broader set of views and we want colleagues to feel valued, supported and respected in the workplace.

We facilitated a smooth return of all employees working from home to the workplace in line with the government roadmap out of lockdown, transitioning around 1,800 staff into hybrid working between the office and home. The transition was well structured with robust governance, including a policy for employees setting out expectations for working in this way and upskilling and support for managers with remote teams.

We are rated 4.6 out of 5 by former and current employees on Glassdoor, and 92 per cent of our employees would recommend United Utilities as a great place to work. We are delighted to be recognised for our efforts, ranking again in the top 1 per cent of over 850 companies across Europe in the Financial Times' Statista Survey for Diversity and Inclusion Leadership, and we were the leading utility company in the Top 50 Inclusive UK Employers Index. We have been included in the Bloomberg Gender Equality Index 2022, one of 418 companies, showing our commitment to more equal and inclusive workplaces.

Committed to equality, diversity and inclusion

We want fantastic people to enable us to deliver a great service now and into the future. We are supporting employees to achieve their full potential and to feel valued and included, regardless of their gender, age, race, disability, sexual orientation or social background, and we make sure we are reaching and recruiting from every part of our community. We are making good progress against our refreshed diversity and inclusion strategy, validated by a recent independent audit, which recognised our strong focus on education, awareness and growing our four employee network groups with great progress in all audited areas.

We offer targeted support for future talent through our focused 'Female Leadership Pipeline' and 'Aspiring Manager' programmes, which have been designed to support employees into leadership positions. We have put efforts into developing a diverse leadership pipeline by introducing a new talent programme, the 'Stepping up programme', for employees from ethnic minority backgrounds, giving them the opportunity to develop personal and leadership skills that will help them fast-track their careers at United Utilities.

In the last 12 months, we have welcomed 28 new graduates onto our schemes, and 52 new apprentices have joined us on operational, service and future-facing digital and environmental schemes. Thirty-seven per cent of our new apprentices and 39 per cent of our newly recruited graduates are female. This is higher than the UK average of 24 per cent for females in science, technology, engineering and mathematics (STEM) roles. We have made great progress in recruiting apprentices from more diverse backgrounds, working with our specialist recruitment partner, with 15 per cent of apprentices who joined us this year being from a minority ethnic background. In addition, 21 per cent of new apprentices disclosed a disability or learning difficulty. This represents continued success in our efforts to recruit a more diverse talent pipeline and is a positive result against a backdrop of low attrition levels, regional variations in ethnic diversity, and difficulties attracting females for STEM roles.

We made a public commitment to support the 10,000 Black Interns Programme and we will be welcoming 26 university students for placements this summer, with a further commitment for 120 placements over the next five years. We will welcome university students with autism as part of our support for the 'Ambitious about Autism' programme.

Training and development

Our technical training academy, established in February 2014, continues to go from strength to strength. We are the only employer provider in the water sector to have been inspected by Ofsted and received an overall 'Good' rating. We launched our Digital Skills Academy, a new learning portal for employees to access digital learning content to upskill

Read more about our approach to diversity and inclusion on pages 44 to 45

Read more about our talent pipeline on page 63

them for their roles now and in the future. In the last 12 months, we have delivered 15,000 classroom training events as well as around 40,000 e-learning modules. We launched a new water quality awareness e-learning module to around 4,000 employees as part of our wider 'Water Quality First' programme, which has been designed to ensure water quality remains at the heart of our operations.

Ensuring everyone goes home safe and well

Over the last few years we have introduced 'home safe and well', which focuses on the behavioural aspects of our health, safety and wellbeing culture. Home safe and well is a core thread that flows through our health, safety and wellbeing strategy, which covers our sites, assets and people using three core pillars: personal safety; process safety; and health and wellbeing. Over the last 12 months there has been a focus on employee mental health, expanding our capability in this area.

Since its launch in 2018, we have trained around 5,500 colleagues in home safe and well and continue to do so with new starters. We are now in the third year of our cultural journey where we have seen improvements in our health and safety performance year on year. We continue to create an environment where we look out for ourselves and each other to ensure all our colleagues go home safe and well.

Our commitment to health, safety and wellbeing has recently been externally acknowledged. In early 2022, we were awarded our tenth consecutive Royal Society for the Prevention of Accidents (RoSPA) gold standard medal, which now means we have achieved the RoSPA President's award, which is only awarded to companies who have "achieved a very high level of performance, demonstrating well developed occupational health and safety management systems and culture, outstanding control of risk and very low levels of error, harm and loss."

We continued to see improvement against a number of important performance measures, reducing the number and the severity of accidents, and increasing the proportion of hazards and near misses reported. Our employee accident frequency rate for 2021/22 was 0.073 accidents per 100,000 hours worked, lower than the previous year and amounting to nine accidents reported. Our contractor accident frequency rate also showed significant improvement, with 0.043 accidents per 100,000 hours worked, another improvement on the previous year and representing only five contractor accidents. Our aim is that no one will be harmed while working on our behalf, and we continue to promote, support and improve the wellbeing of our people.

Measure	2025 target	Performance	Status: Annual performance	Status: Against 2025 target
KPI:				
Employee engagement	**Upper quartile against UK utilities norm**	**Upper quartile against UK utilities norm** Upper quartile against UK utilities norm	●	●
Employee opinion survey diversity and inclusion questions score	**UK high performance norm**	**UK high performance norm** UK high performance norm	●	●
Employee opinion survey learning and development category score	**UK high performance norm**	**UK utilities high performance norm** UK utilities high performance norm	●	●
Living Wage accreditation	**Secure and retain**	**Retained accreditation** Secured accreditation	●	●
Pension Quality Mark +	**Retain accreditation**	**Retained** Retained	●	●
Health and safety:				
AFR employees (per 100,000)	**0.064**	**0.073** 0.094	●	●
AFR contractors (per 100,000)	**Year-on-year improvement in score**	**0.043** 0.087	●	●
Wellbeing Charter accreditation	**Retain accreditation**	**Retained** Retained	●	●

Status key:

Annual performance	Against 2025 target
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

4.6/5
Rating on Glassdoor by former and current employees

Top 1%
Financial Times' Statista Survey for Diversity and Inclusion Leadership

10th
Consecutive RoSPA gold standard medal, achieving RoSPA President's award

> We have continued to build on our award-winning apprenticeship schemes, significantly increasing our range of apprenticeships to align to core operational roles and address future skills gaps."

Growing a resilient and diverse talent pipeline

We are passionate about investing in young people and in our local communities. Our early careers opportunities are focused on attracting talent for our core operational and technical roles and for key emerging skills such as digital and green jobs.

Shahbaz, a process controller apprentice who joined us in September 2021, is enjoying the variety an apprenticeship brings. He's developing new skills and says he's proud to work for a company that values diversity and inclusion. "From my first day, I have felt welcomed and part of a large extended family" he said. "The company's stance on diversity and inclusion is amazing to see and be part of. Issues raised aren't just listened to; they're actually heard, and small things like being offered a halal packed lunch on my training course make me feel included."

We have continued to build on our award-winning apprenticeship schemes, significantly increasing our range of apprenticeships to align to core operational roles and address future skills gaps. We have created eight pathways for green jobs, a total of 31 apprenticeship vacancies for 2022/23, and these new roles will support our ambition to become carbon-neutral by 2030. We went from eight apprenticeships in 2017 to 26 in 2022.

New apprenticeships pathways created include Systems Thinking, digital user experience, cyber security and data scientists.

We are pioneering a new Heavy Goods Vehicle (HGV) apprenticeship, and twenty-two-year-old Gabi Ord is our first HGV apprentice. Gabi has completed many hours of training, including fuel-efficient driving and handling an excavator and telehandler – skills she needs in her role transporting sludge cake from wastewater treatment works to farmers and landowners. "Gabi is now performing to a really high standard in terms of safe driving style and fuel efficiency" said her manager, Martin Shaw. "She has set a high benchmark for any future apprentices that follow."

We are supporting those traditionally overlooked groups in our communities, with 44 per cent of the young people we recruited onto the Government's Kickstart Scheme now transitioning into employment. A further six Kickstarters are currently being supported with applications for our award-winning apprenticeships. One of them, who has recently started an apprenticeship in our customer services department, shared the support she's received: "I find that, having dyslexia, it can get quite tiring" she said. "However, I've been given a screen for my monitor, documents are printed off for me, and everyone I meet is so helpful – putting things across in a simple way so I can fully understand."

Delivering value for:

Communities Customers Employees

Environment

Protecting and enhancing the environment – we rely on the natural environment and play a key role in improving the water, land and air of the North West.

How we measure performance

Our key performance indicator to measure value created for the environment during 2020–25 is our performance against the Environment Agency's annual performance assessment (EPA), in which we target being an upper quartile performer.

EPA

Definition

The Environment Agency's annual assessment across six key sector environmental performance measures.

Target

Upper quartile performance within the water industry each year.

Status

Achieved/confident of achieving target

Link to material issue

- Resilience
- Environmental impacts
- Climate change

Read more about our approach to materiality on pages 34 to 35

Link to risks

- Water service
- Retail and commercial
- Resource

Read more about our principal risks on pages 104 to 105

Performance

The Environment Agency (EA) will publish its annual performance assessment for 2021 in July 2022. The EA's most recent annual assessment was for 2020, and we achieved our best ever performance, as we were green across all measures. We are the first water company to achieve this level of performance since 2015. We were awarded the maximum 4 star rating, meaning we were classed by the EA as an industry-leading company.

2020 Joint 1st

2019 Joint 3rd

2018 Joint 2nd

2017 Joint 1st

2016 Joint 1st

"Our environmental performance is strong, but new requirements could drive significant investment needs, which will need to be balanced with affordability."

How we deliver value to environment

Short term

- We meet increasingly stringent environmental consent levels, which help to improve the quality of rivers and bathing waters and so support tourism in the region.
- Our investment in renewable energy generation is reducing our carbon footprint and contribution to climate change.
- We have invested in new infrastructure, such as our West Cumbria project, to allow us to transfer water around the region more efficiently to avoid depletion of individual water sources.

Long term

- Promoting campaigns to educate the public and younger generations on water usage helps protect this valuable resource and reduce usage now and for years to come.
- We innovate and invest in new technologies to solve environmental challenges for future generations.
- We manage our land in a way that safeguards habitats and protects wildlife that makes its home in rivers and other water bodies.
- We plan far ahead to ensure our activities and investment enhance the long-term resilience of the rural and urban environment in our region.

Link to strategic themes

Many customers care about the environment, so providing the best service to customers involves protecting the places they live in and love.

Many ways we protect the environment reduce cost. For example, renewable energy generation reduces our energy costs as well as our carbon footprint.

We manage water and wastewater in a responsible way that protects the environment and enhances its resilience.

Overview

The North West has a diverse mix of densely populated and built-up urban areas as well as many rural areas of outstanding natural beauty, and there are different environmental considerations needed for each. It is of great importance that we continue to protect and enhance the environment across our region, and manage our land responsibly to preserve and improve it for future generations.

We delivered a number of environmental improvements over AMP6, including improving 338.5 kilometres of rivers, significantly reducing our carbon footprint, and increasing our renewable energy production. We have agreed an environmental improvement programme for AMP7 that will continue to improve the river, bathing and shellfish water quality in the North West. Our investment in AMP7 is expected to result in an improvement in water quality in 1,315 kilometres of rivers. Having completed the first two years of the period, we remain on track to deliver the improvements we have committed to.

Environmental Performance Assessment and pollution reduction

In 2020, we had no serious pollution incidents for the second year running. We have been green in our serious incident performance for the last seven consecutive years – the only company to have ever achieved this. We had our best ever performance on total number of pollution incidents (categories 1–3), with a reduction of 31 per cent compared with the previous year. This is our largest ever reduction in pollution incidents, and was delivered while we maintained our excellent self-reporting performance. We expect to be green for serious pollution incidents and the total number of pollution incidents measure again in 2021.

We had no wastewater treatment works classed as failing by the EA – something that has only ever been achieved in the sector once before. With only one failing water treatment works, this represents our best ever combined water and wastewater performance, and our largest ever one-year performance improvement. We expect to remain green on this measure for 2021.

There has been increased public interest in the use of storm overflows across the industry this year, and the Environment Act 2021 requires water companies to secure a progressive reduction in the impact caused by storm overflows, one of several new and emerging requirements. We have made good progress in many of these areas, and launched our Better Rivers: Better North West plan that sets out how we will deliver further improvements. The additional investment we are making will help accelerate environmental outcomes, but there is more needed and this could drive significant increases in future investment, which will need to be balanced with customer affordability.

Greenhouse gas emissions and climate change – carbon reduction

We have committed to six carbon pledges across priority areas of our carbon strategy, including the setting of science-based targets to align with global best practice, switching to low carbon electricity, greening our fleet, restoring peatland and creating woodland. We have made substantial progress, and continue to mature our long-term carbon plans to ensure we achieve our commitments by 2030 and 2050. We are part of the global movement of 'Business Ambition for 1.5°C: Our Only Future', are signatories to the UN Race to Zero campaign and are proud to be contributing to the UK water industry's commitment to be net zero from 2030.

Climate resilience

In AMP6 we invested an additional £250 million to increase resilience to climate change, and we continue to invest to protect and enhance the climate resilience of our assets, processes and customer services. We are working to further develop our understanding of climate risk. In December 2021, we published a comprehensive assessment of our climate risks and plans in our latest climate change adaptation report. We are now further developing our approach to climate resilience, including engagement with stakeholders, as we take account of these risks in our long-term business planning process.

Biodiversity and natural capital

We continue to develop our approach to natural capital and improve our understanding to influence investment decisions, allowing us to assess the full value of our activity. We have an outcome delivery incentive (ODI) on enhancing natural capital value for customers, which encourages assessment of the added natural capital value we deliver by pursuing nature-based and catchment solutions, and we expect to outperform against our performance commitment this year. Understanding this value is a key element of driving

Read more about our Better Rivers: Better North West plan on page 67

Read our TCFD and TNFD sections on pages 86 to 99

Our performance in 2021/22

Operational performance

partnership working and our Catchment Systems Thinking (CaST) approach, which seeks to understand the broader needs of a catchment and deliver these across multiple stakeholders to achieve the outcomes that are needed. As part of this approach, we worked with consultants and 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.

Biodiversity is a key pillar of natural capital, and ensuring the preservation and enhancement of biodiversity is a key element of our CaST approach. As a large land owner, with a significant amount of land designated as sites of special scientific interest (SSSI), and a business delivering significant development in the North West, we will strive to play our part in nature recovery and the delivery of biodiversity net gain. We have delivered significant investment to improve the condition of habitats on our land, aiming to have 100 per cent of our SSSI land in either favourable or recovering status by 2030. We are reviewing our approach to biodiversity management and how we can better manage and enhance biodiversity through our land ownership and in the delivery of capital projects.

Leakage reduction

Water is a precious resource and reducing leakage is important in ensuring its resilience. 2021/22 was the sixteenth year we outperformed our leakage target and we have reached a new low in leakage levels. We continue to deliver leakage reductions supported by a network of around 70,000 acoustic sensors, installed over the last two years.

We experienced a relatively mild winter, but the changing COVID-19 restrictions had the potential to impact leakage performance. Resourcing became a particular challenge through December, due to isolation periods, so we increased contractor resources to tackle this. The changing patterns of night use, due to changes in working from home guidance and the return to offices, created uncertainty with leakage levels. We addressed this with additional meter readings and analysis which gave better insight into usage pattern change, enabling more efficient targeting of leak detection activity.

Over AMP7, we plan to reduce total leakage by at least 15 per cent. We actively look to trial new techniques to understand how these can be scaled and embedded in the most effective way, and this gives us opportunities to accelerate and target those interventions which are demonstrated to be the most effective. One such example is our smart water network trial in the Macclesfield area, where we have linked together hundreds of monitors and sensors on the town's water mains. This created a machine-learning Artificial Intelligence (AI) 'brain' that supported enhanced leakage targeting, as well as detecting and preventing other non-leakage problems. We are using the learning from these trials to refine our approach to reducing leakage and applying this to our Dynamic Network Management approach for wastewater.

			Status	
Measure	**2025 target**	**Performance**	**Annual performance**	**Against 2025 target**
KPI:				
EA EPA	**Upper quartile**	**Upper quartile**[1] Upper quartile	●	●
Leakage reduction	**15%**[2]	**8%** 5%	●	●
% waste to beneficial use	**98%**	**97.8%** 97.3%	●	●
Enhancing natural capital for customers	**£4m**	**£3.234m** Delivery scheduled from 2022	●	●
Number of trees planted	**500,000**	**244,639** 216,601	●	●
Better air quality: nitrogen oxides (NOx) emissions per GWh of renewable electricity generated	**1.42 NOx/ GWh**	**1.19 NOx/GWh** 1.3 NOx/GWh	●	●
Climate change mitigation: % change scope 1 & 2 emissions[3]	**14% decrease**	**2.2% decrease** 1.5% increase	●	●
Climate change adaptation: multiple metrics	**See TCFD section, pages 86 to 97**			

Status key:

Annual performance	**Against 2025 target**
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

(1) Based on the latest assessment, which was for 2020. 2021 performance will be reported in July 2022.

(2) As measured against a 2017/18 baseline.

(3) As measured against Science Based Target baseline year 2019/20.

1,315km
Rivers expected to have improved water quality from our AMP7 investment

4 star
Industry-leading company in the EA's performance assessment for 2020

6
Carbon pledges underpinned by ambitious science-based targets

> We have committed to deliver £230 million in environmental improvements, leading to 184 kilometres of improved waterways."

Better Rivers: Better North West

As more people have come to appreciate the environment since the pandemic, there's a real drive to improve our rivers and waterways. People want to swim, to enjoy riverside walks and get back to nature, and we have an important role to play by upgrading the sewerage infrastructure in the region.

In March 2022, we published a series of commitments to kick start a river revival over the next three years. Better Rivers: Better North West is a four-point plan setting out our commitments to:

- make sure the company's operations progressively reduce impact to river health;
- be open and transparent about our performance and plans;
- make rivers beautiful and support others to improve and care for them; and
- create more opportunities for everyone to enjoy rivers and waterways.

Most of these pledges will be delivered over the next three years, including investment in wastewater systems, enhanced data monitoring and sharing, greater innovation and more use of nature-based solutions.

We have committed to deliver £230 million in environmental improvements, supporting at least a one-third sustainable reduction in the number of spills recorded from our storm overflows by 2025 compared to the 2020 baseline. This investment at sites across the region will lead to 184 kilometres of improved waterways. We will make sure that all storm overflows are monitored by 2023 and real-time data on their operation is made available to the general public.

In addition to the £230 million within our base capital programme, part of the additional investment we are making outside the scope of our final determination allowance will help accelerate these plans.

But that's only part of the solution; we can't do this on our own. Members of the public will be able to get involved too with the launch of a community fund to support local river health initiatives and, working alongside The Rivers Trust, there will be the opportunity for people to volunteer as citizen scientists to collect data on river health, which will help inform further improvement work.

We also continue to engage with the ongoing industry-wide investigations by Ofwat and the Environment Agency into possible unpermitted sewage discharges.

Delivering value for:

Communities Environment

More detail can be found on our website at unitedutilities.com/corporate/responsibility/environment/reducing-pollution

Investors

Delivering a sustainable return to investors – through prudent financial risk management and a strong track record of performance across a suite of environmental, social and governance metrics.

How we measure performance
Our key performance indicator to measure value created for investors during 2020–25 is Return on Regulated Equity (RoRE).

Return on regulated equity (RoRE)
Definition
Key measure encompassing regulatory out/underperformance across financial and operational efficiency, customer satisfaction, and regulatory performance targets. Read more on page 51.

Target
Our targets will be updated throughout the period in line with guidance on the individual components of RoRE.

Status
Achieved/confident of achieving target

Link to material issue
- Customer service and operational performance
- Financial risk management
- Corporate governance and business conduct

Read more about our approach to materiality on pages 34 to 35

Link to risks
Finance
Political and regulatory

Read more about our principal risks on pages 104 to 105

Performance
Reported RoRE for 2021/22 was 7.9 per cent on a real, RPI/CPIH blended basis, double the base return. Underlying RoRE was slightly lower at 7.7 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism. Cumulative RoRE for the first two years of AMP7 is 6.2 per cent on both a reported and underlying basis.

2021/22
7.9%
reported

2021/22
7.7%
underlying

Cumulative
6.2%
reported

Cumulative
6.2%
underlying

"As a responsible business, we are sharing our success with customers, as we have done previously sharing over £600 million between 2010 and 2020."

How we deliver value to investors

Short term

- Since many of our investors are pension funds, charities and employees, the income we provide through dividends benefits millions of people every year.
- We are committed to high ethical standards of business conduct, strong corporate governance and acting with integrity so investors can have confidence in the way we do business.
- We maintain a high level of quality and transparency in what we report.
- Our innovation culture drives continuous improvements, enabling us to be at the frontier of our industry.

Long term

- The majority of shares in our company are typically held for the long term, and we provide an appropriate return to investors through a combination of short-term dividend income and long-term growth.
- We plan far into the future and invest in our infrastructure to ensure sustainability.
- We manage risk prudently so investors can have confidence in our stability and resilience in the round.
- We link investor returns to our environmental and social projects through our sustainable finance framework.

Link to strategic themes

By delivering better performance for customers we are able to achieve greater regulatory incentives, aligning improved service with investor returns.

By reducing costs in a sustainable way through innovation and efficiency, we can meet our allowed expenditure without compromising operational performance.

Our strong corporate governance, prudent risk management, and clear and transparent reporting create a lower risk investment and build trust.

Overview

We have delivered a strong Return on Regulated Equity (RoRE) performance this year, driven by our continued improvements in operational performance together with good performance on financing and tax. As a responsible company, we believe in sharing our successes and have increased the additional investment we are making outside the scope of our Final Determination (FD) total expenditure (totex) allowance by £400 million to a total of £765 million, which will deliver environmental benefits and improved performance against customer outcomes.

Return on Regulated Equity (RoRE)

Reported RoRE of 7.9 per cent for 2021/22 comprises 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), tax outperformance of 2.7 per cent, financing outperformance of 1.6 per cent, and customer ODI outperformance of 0.5 per cent, partially offset by the total expenditure (totex) impact on RoRE of -0.8 per cent as a result of our additional investment. Underlying RoRE of 7.7 per cent has a lower tax outperformance of 2.5 per cent as it excludes the tax that will be recovered through the regulatory sharing mechanism.

Total expenditure (totex)

The totex impact on RoRE of -0.8 per cent, on both a reported and underlying basis, largely reflects the year two impact of the additional investment we are making outside the scope of our FD, for example our investment in Dynamic Network Management.

Our AMP7 business plan was assessed by Ofwat as being amongst the most efficient in the sector, and our performance improvements over AMP6 meant we started AMP7 at a totex run rate that supported delivery of the stretching efficiency challenge in our FD allowance. We are not immune to the impact of inflation, both directly and indirectly through our supply chain, with many of our costs rising above the headline rate. Our totex allowance does increase with inflation, which helps to mitigate some of this cost pressure, and we continue to exploit technology and innovation to help us deliver our investment efficiently.

In this second year of AMP7, we have invested £645 million in net regulatory capital expenditure (excluding infrastructure renewals expenditure), representing the continued acceleration of our AMP7 investment programme and early expenditure against the extension to our original totex plans. Cumulatively, this is £1.3 billion in the first two years of the period, which represents a good start to the delivery of our AMP7 programme. 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.

Our investment strategy delivers long-term efficiency and sustainable performance improvements, and the additional £765 million investment we are making beyond the scope of our FD will drive further enhancements for customer and environmental performance. £265 million of this investment we expect to be fully recovered through regulatory mechanisms, including Green Recovery and projects that form part of our Water Industry National Environment Programme (WINEP). £250 million of this investment is improving environmental outcomes, funded through investment of outperformance, and subject to regulatory sharing mechanisms. The final £250 million of this investment will drive improved performance against customer outcomes and is supported on a business case basis, delivering improved customer ODI performance.

While we continue to strive to deliver our investment efficiently, as we have demonstrated through this additional investment, 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)

Customer ODI outperformance of 0.5 per cent, on both a reported and underlying basis, reflects a net reward of £25 million*. This is our highest ever one-year net reward against customer ODIs, reflecting our continued improvements in performance for customers.

Our customer ODI performance has been strong across the board, meeting or beating over 80 per cent of our performance commitments, giving us the confidence to increase our total AMP7 ODI guidance by a third, targeting a cumulative net ODI reward over the five-year period of around £200 million.

* Excluding per capita consumption, which Ofwat will be revisiting at the next price review once there is a better understanding of the impact of COVID-19 and any enduring effects.

Read more about our £765 million additional investment on page 71

More information about our RoRE performance will be published in July 2022 in our APR, available on our website at: unitedutilities.com/corporate/about-us/performance/annual-performance-report

Our performance in 2021/22

Operational performance

The additional investment we are making will help improve performance in areas where we want to do better. This includes £100 million investment in Dynamic Network Management, which will help us improve performance on sewer flooding, and around £100 million investment in improving water quality.

Customer ODI rewards and penalties in AMP7 will be adjusted in revenues on a two-year lag in accordance with the regulatory mechanism, therefore, the net reward earned this year will be reflected in an increase to revenue in 2023/24 through allowed increases in the rates charged to customers in that financial year.

Financing outperformance

We earned financing outperformance this year of 1.6 per cent, on both a reported and underlying basis, compared with 1.2 per cent last year. This increase mainly results from recent high levels of inflation, which increases the benefit of the roughly £3 billion fixed rate debt we have locked in.

We have consistently issued debt at efficient rates that compare favourably with the industry average, thanks to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise. This delivered significant financing outperformance during AMP6 and the rates we have locked-in for AMP7 compare favourably with the price review assumptions.

Tax outperformance

The 2.7 per cent outperformance on tax on a reported basis reflects our optimisation of available government tax incentives, including research and development tax allowances and the temporary capital allowance “super deductions”, net of the tax impact of financing outperformance. The 2.5 per cent outperformance on tax on an underlying basis excludes the tax that will be recovered through the regulatory sharing mechanism.

ESG performance

We are upper quartile across a suite of investor indices. With a score of 76 per cent we were proud to again be included in the S&P Global Sustainability Yearbook 2022, and we have been included in the FTSE4Good Index Series, which measures the performance of companies who demonstrate strong ESG practices against globally recognised responsible business standards, since June 2001. In March 2022, we were assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors, with our management of ESG material risk rated as strong. We received an ESG Risk Rating of 12.8.

			Status	
Measure	**2025 target**	**Performance**	**Annual performance**	**Against 2025 target**
KPI:				
Underlying RoRE	**Assessed annually**	**7.7%** 4.6%	●	●
Reported RoRE	**Assessed annually**	**7.9%** 4.3%	●	●
UK Corporate Governance Code	**Maintain compliance**	**Compliant** Compliant	●	●
Maintain performance across a range of trusted investor indices	**Upper quartile**	**Upper quartile** Upper quartile	●	●
Credit rating UUW (Moody’s, S&P, Fitch)	**A3, BBB+, A-**	**A3, BBB+, A- (stable outlook)** A3, BBB+, A-	●	●
Gearing	**55–65%**	**61%** 62%	●	●
Maintain sustainable finance framework	**Available/ continued issuance**	**Available** Available	●	●
Fair Tax mark	**Retain annual accreditation**	**Retained** Retained	●	●
Sustainable dividend	**Grow by CPIH**	**In line with commitment** In line with commitment	●	●
Risk maturity	**Year-on-year improvement**	**Met expectation** Met expectation	●	●
Anti-bribery:% of identified employees completing required training	**100%**	**100%** 94%	●	●
Investor engagement:% met or offered to meet by value (active targetable institutional shareholder base)	**75%**	**80%** 81%	●	●

Status key:

Annual performance	**Against 2025 target**
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:

2021/22

2020/21

7.9%

Return on Regulated Equity for 2021/22, double the base return

£25m

Highest ever one-year reward against outcome delivery incentives (ODIs)

£200m

Anticipated total reward against ODIs over the 2020–25 period

> The additional investment we are making will improve services for customers and accelerate long-term environmental aims."

Investing £765 million to deliver customer and environmental outcomes

The £765 million additional investment we are making over the 2020–25 period beyond the scope of our final determination will help to accelerate environmental benefits, improve performance for customers, and deliver growth in our regulatory capital value (RCV), while maintaining gearing within our target range.

£265 million of this investment is delivering projects that have been agreed with our regulator to help deliver environmental and customer outcomes. These projects are approved additions to our base investment programme, including Green Recovery investment and the Water Industry National Environment Programme (WINEP), and are subject to regulatory mechanisms.

A further £250 million is being targeted at improving performance for customers, including £100 million investment in Dynamic Network Management, a Systems Thinking implementation in our wastewater network that is driving improvements in sewer flooding and pollution performance, as well as projects that will improve water quality.

This investment is supported on a business case basis, and will deliver improved customer outcome delivery incentive (ODI) performance in the current period. The sustainable performance improvements it will deliver also help to support better service for customers, and therefore, better ODI performance, in future periods, providing additional benefit and creating long-term value for all stakeholders.

The remaining £250 million will help us improve environmental outcomes, such as accelerating implementation of the Environment Act 2021, including delivery of the commitments we set out in our Better Rivers: Better North West plan, and delivering improved water quality and resilience.

This is reinvestment of outperformance we have earned, and is subject to regulatory mechanisms. As a responsible company, we believe in the importance of sharing our successes for the benefit of all our stakeholders. This is in line with the approach we have taken historically, sharing over £600 million in 2010–20, and that investment has helped us to deliver the performance improvements we have achieved to date.

As well as delivering significant environmental and customer benefits, this additional investment is contributing to higher growth in our RCV, which is now expected to grow by over 10 per cent more on a nominal basis over the 2020–25 period than we expected at the beginning of the period. This, together with our financial strength and balance sheet headroom, means we expect gearing to remain within our target range of 55 to 65 per cent, retaining financial flexibility and resilience.

Delivering value for:

- Communities
- Customers
- Environment
- Investors

Suppliers

Innovating in partnership with suppliers – we rely on suppliers to deliver our services and to help identify ways to make them better.

How we measure performance

Our key performance indicator to measure value created for suppliers during 2020–25 is payment within 60 days, and we target at least 95 per cent of invoices to be paid within this time frame.

Invoices paid within 60 days

Definition

Percentage of invoices paid within 60 working days of issue.

Target

At least 95 per cent, in line with the requirements of the Prompt Payment Code.

Status

Achieved/confident of achieving target

Link to material issue

- Trust, transparency and legitimacy
- North West regional economy
- Responsible supply chain

Read more about our approach to materiality on pages 34 to 35

Link to risks

Supply chain and programme delivery

Read more about our principal risks on pages 104 to 105

Performance

This year continued to pay suppliers above our target, with over 99 per cent of our invoices paid within 60 days, and our average time to pay was 13 days.

2021/22
>99%

2020/21
>99%

2019/20
97%

2018/19
98%

2017/18
95%

"We act fairly and transparently with all our suppliers and are a signatory to the Prompt Payment Code, fully complying with the reporting requirements."

How we deliver value to suppliers

Short term

- We spend significant amounts of money with our suppliers each year to help deliver maintenance and enhancement projects across our asset base, and this helps support thousands of jobs in our region.
- Paying suppliers on time gives them confidence in us and allows companies to maintain cash flow and become more resilient.
- While our operations and suppliers are mainly UK and European, they work closely with us to address human rights, in particular modern slavery.

Long term

- Supporting jobs through our supply chain in the short term catalyses the development of skills and jobs in the North West, providing a stimulus to benefit the regional economy in the long term.
- Working together to develop technologies means we can identify solutions that will make our services better in the future.
- We act with integrity, giving suppliers confidence in the way we do business, which translates to transparency and fairness for our suppliers.

Link to strategic themes

Suppliers work on our behalf, so ensuring they are motivated to deliver good quality work helps us deliver the best service to customers.

Developing innovations with suppliers, and ensuring they deliver goods and services efficiently, contributes to a sustainable low cost for customers.

Working with responsible suppliers who share our sustainability objectives helps us achieve more in tackling environmental and social issues.

Overview

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 continue to play a part in helping to generate jobs and income for the North West economy.

This comes at a critical time as the country recovers from the effects of the COVID-19 pandemic and are faced with significant rises in the cost of living.

Suppliers and contractors play an important role in delivering our services and, alongside our employees, often act as the face of our business for many customers and communities.

The pandemic has shown the importance of our relationships with our supply chain partners and we want this to grow as part of our United Supply Chain approach.

Prompt Payment Code

As a signatory to this Code, in addition to the commitment to pay at least 95 per cent of invoices within 60 working days, we are working to pay 95 per cent of our small and medium-sized enterprise (SME) suppliers within 30 days, a new guideline that came into effect in July 2021.

Our efforts have not gone unnoticed and we were awarded one of the first 'Fast Payer Awards' by Good Business Pays. This award recognises FTSE350 companies who are fast payers of their invoices and can demonstrate that over the past 12 months they have paid their suppliers in less than 30 days as well as paying 95 per cent or more of all invoices on time.

Responsible sourcing through our United Supply Chain

Our new approach to responsible supply chain management for AMP7, called United Supply Chain (USC), was launched in 2020 and we continue to embed this strategy across our supply chain.

USC recognises suppliers as an extension of the United Utilities family and suppliers are asked, as a minimum, to become a signatory to our Responsible Sourcing Principles. For those suppliers that are integral to our operations, we encourage them to become leaders and to work jointly with us to deliver improvements across ESG areas and to improve value for customers.

In September 2021, we held a USC event to acknowledge the efforts of our suppliers and awarded our first USC awards in Customer, Innovation and Integrity. We worked closely with one of our partner suppliers, Sapphire Utility Solutions Ltd, and awarded them our first USC accreditation badge.

By March 2022, 90 per cent of our targeted suppliers had signed up to our Responsible Sourcing Principles. We continue to engage with the remaining suppliers to reach our target of 100 per cent.

Through our partnership with Supply Chain Sustainability School, we have been able to offer our commercial colleagues and supply chain partners free resources to learn more about the Responsible Sourcing Principles.

In light of the sanctions regime introduced by the UK Government in relation to the conflict in Ukraine, we continue to review our supply chain on an ongoing basis for any potential exposure, and have taken action to mitigate this where necessary by securing alternative sourcing.

Fostering innovation

Our Innovation Lab gives suppliers, often small start-up businesses who might be in the early stages of developing their idea or just starting out on their business growth journey, the opportunity to test solutions in a live environment over a 12-week programme.

This helps us find ideas where others aren't looking – in different sectors, other countries, and with suppliers we may not otherwise have worked with.

It does all this whilst being fully compliant with procurement legislation – allowing for rapid idea testing and 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 adoption by us faster than traditional product testing.

We set categories for which we are looking for solutions, all of which are designed to help develop our Systems Thinking plans and enable us to deliver a better service for customers.

Read more about **the world-first water treatment process that came out of our Innovation Lab** on page 75

Our performance in 2021/22

Operational performance

We are currently in our fourth Lab programme, which has the following categories:

- Ideas to help us get to the next level in digital connections across our network;
- Ideas to help us analyse data and use it to improve our energy efficiency;
- Ideas to help us reach our net zero target and use nature-based solutions, for example in biodiversity, natural flood management, and community engagement; and
- Wildcard – a catch-all category for transformative ideas that we feel are worth pursuing despite not fitting into one of the above specific categories.

We are working with 12 suppliers in this programme, with ideas ranging from faster ways to detect water quality issues to drones for water sampling in hard-to-reach areas.

We have worked with more than 20 suppliers in this way in the past, and seen some high profile success. FIDO, which emerged from our second Lab programme to help tackle leakage detection, is becoming known as a disruptor in the global water sector, and we have first mover advantage on new developments. Following development with Typhon, we have recently completed installation of the world's first municipal UV LED disinfection system in operation at one of our water treatment works near Carlisle.

			Status	
Measure	**2025 target**	**Performance**	**Annual performance**	**Against 2025 target**
KPI:				
Invoices paid within 60 days	**At least 95%**	**99.34%** 99.55%	●	●
Average time taken to pay invoices	**<28days**	**13** 13	●	●
% suppliers in high risk categories, as identified by sustainability risk assessments, covered by enhanced due diligence audits	**5%**	**Delivery scheduled from 2022** Delivery scheduled from 2021	●	●
% of partner and strategic suppliers that have sustainability risk assessment in place	**75%**	**72%** 35%	●	●
Supplier relationship management score	**90%**	**54%** 69%	●	●
% of targeted suppliers signed up to United Supply Chain	**100%**	**90%** 38%	●	●
CIPS ethical mark	**Retain annual accreditation**	**Retained** Retained	●	●
Savings delivered through innovation and efficiency	**£40m**	**£6.388m cumulative**	●	●

Status key:

Annual performance	**Against 2025 target**
● Met expectation/target	● Confident of meeting target
● Close to meeting expectation/target	● Some work to do
● Behind expectation/target	● Target unobtainable

Performance key:
2021/22
2020/21

>17,000
Jobs in the supply chain supported through our activities

90%
Targeted suppliers signed up to our United Supply Chain

>20
Suppliers we have worked with through our Innovation Lab process

> “We were delighted to help showcase what can be achieved when industry fully invests in the next generation of talent and ideas.”

Innovating with world-first water treatment process

His Royal Highness The Prince of Wales visited our Cumwhinton Water Treatment Works, near Carlisle, to see how ultraviolet LEDs are making ripples in the field of low energy water treatment. Developed by Penrith firm Typhon, the technology is the only one of its kind capable of disinfecting drinking water supplies on a large scale.

Ultraviolet (UV) light is widely used in the drinking water treatment process to remove bacteria or tastes and odours caused by algae. However, until now, UV LED treatment systems had only been effective at treating small amounts of water for very low flows or domestic use. This project, two years in development, sees the world’s first ever municipal UV LED disinfection system in operation at the site.

His Royal Highness met employees from both Typhon and United Utilities and discussed how the award-winning system, with its advantages of superior safety, energy efficiency and low running costs, could help address safe access to water globally.

Typhon CEO, Matt Simpson, said: “We were honoured that His Royal Highness was interested to come and learn more about this hugely important leap for UV technology in the water industry. It was wonderful to be able to share the story of how a small local firm and the local water company have worked together to take the idea all the way through from demonstration scale to a marketable industrial application right here in Cumbria.

“We explained how the process works, the challenges involved in developing such a unique disinfection solution, and the potential future benefits for the water industry globally and for high skilled employment opportunities in the North Lakes area.”

Our head of innovation, Kieran Brocklebank, said: “United Utilities is proving to be quite a force for innovation in the UK water sector thanks to our Innovation Lab programme, where we identify and incubate the best emerging technologies. Our relationship with Typhon is a real success story and we were delighted to help showcase what can be achieved when industry fully invests in the next generation of talent and ideas.”

Delivering value for:

Customers   Suppliers

Our performance in 2021/22

Financial performance

Revenue for the year to 31 March 2022 increased by 3 per cent, mainly driven by higher non-household consumption as business activity has returned to pre-pandemic levels. Household bad debt has returned to 1.8 per cent of regulated revenue, lower than the 2.2 per cent last year and consistent with the level we were achieving prior to the pandemic, helped by our wide ranging affordability schemes and effective approach to managing cash collection. Operating profit was up £8 million as the increase in revenue was largely offset by inflationary increases in power and other core costs.

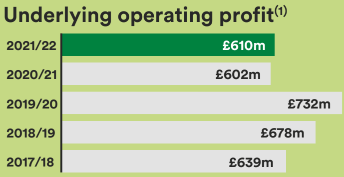
While inflation has increased our operating costs and net finance expense this year, it has also led to a higher level of financing outperformance and, together with the £765 million additional investment we have announced beyond the scope of our final determination, will deliver higher regulatory capital value (RCV) growth over the 2020–25 period.

We have doubled our base return on regulated equity (RoRE) for 2021/22, delivering strong performance on financing, tax and customer ODIs.

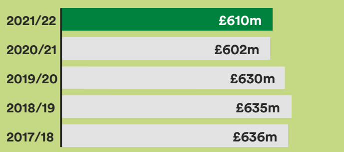
We benefit from having one of the strongest balance sheets in the sector, with an industry-leading, fully funded pension scheme on a low dependency basis, a low level of customer debtor risk, and RCV gearing supporting a stable A3 credit rating with Moody's.

Revenue

Underlying operating profit[1]



Reported operating profit



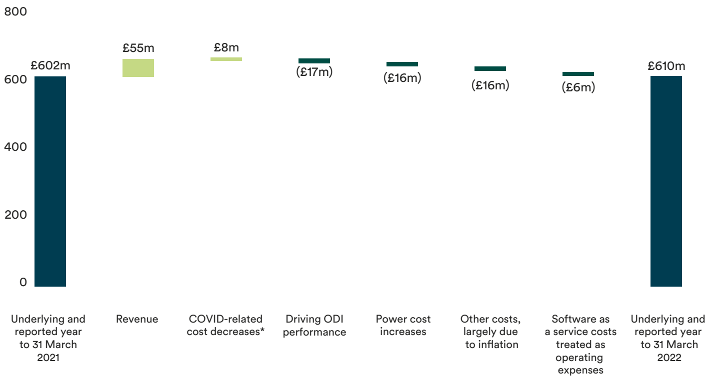
Revenue

Revenue was up £55 million, at £1,863 million, largely reflecting higher consumption as business activity returns to pre-pandemic levels.

In 2021/22 we have had a £14 million reduction in the revenue cap, incorporating a 1.5 per cent real reduction in allowed wholesale revenues partly offset by a 0.6 per cent CPIH-linked increase.

With many more businesses able to operate compared with last year, when the impact of the initial lockdown was significant, non-household revenue has increased by £106 million. In contrast, consumption from households, although higher than pre-pandemic norms, has decreased £58 million this year. This is due to significantly higher consumption particularly during the first half of last year reflecting the initial impact of people being locked down at home through the warm weather of late spring 2020.

Operating profit



* £8m COVID-related costs was an estimate in the year ended 31 March 2021 because, with the passage of time and as conditions brought about by the pandemic have become embedded into normal business processes, the usefulness of tracking COVID-related costs specifically has diminished.

Underlying and reported operating profit at £610 million was £8 million higher than last year. The £55 million increase in revenue was mostly offset by higher power costs and inflationary pressures increasing our underlying cost base, predominantly in respect of materials and labour.

We have a reduction of around £8 million in operating costs as last year saw additional one-off costs incurred in adapting to operate through the pandemic.

The £17 million of additional costs driving ODI performance are targeted at improving performance against specific customer ODIs, such as spend associated with Dynamic Network Management.

Power costs have increased by £16 million this year, largely in relation to higher prices. Power is a significant cost for our business, which is why we manage this risk through a progressive policy of hedging the commodity price element of power costs to minimise short term volatility (commodity price makes up around half of our annual power costs, with the other half relating to the use-of-system charge and other levies). Through this hedging policy and self-generation, we locked in the cost on the majority of our consumption for 2021/22 before the most recent energy price rises, securing an average rate of £65 per megawatt hour (MWh) for the year, which is significantly lower than the current market rate of over £200 per MWh for next year and has been fundamental to our ability to minimise the impact on our cost base. We are also locked-in on over 90 per cent of expected consumption for 2022/23, and around two-thirds of expected consumption across the final two years of AMP7, at rates that compare favourably to the current market rate.

Cost increases of £16 million largely stem from higher inflation in the period. We are not immune to the impact of the current high inflation environment, but through hedging, constructive cost challenge and commercial negotiations, we have managed to mitigate much of the cost increase to date.

During the year, the IFRS Interpretations Committee (IFRIC) published clarifications on how arrangements in respect of a specific part of cloud technology – Software as a Service – should be accounted for, resulting in £6 million of costs that would previously have been accounted for as fixed asset additions now being treated as operating costs.

Household bad debt is back at our lowest ever level of 1.8 per cent of regulated revenue, having reduced from 2.2 per cent in the year to 31 March 2021 as we return to pre-pandemic levels.

Profit before tax

Underlying profit before tax was £302 million, £158 million lower than last year. This reflects the £8 million increase in underlying operating profit and a decrease in the share of losses of joint ventures of £8 million, more than offset by a £174 million increase in underlying net finance expense. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 82 to 83.

Reported profit before tax decreased by £111 million to £440 million reflecting the £8 million increase in reported operating profit and an £8 million decrease in the share of losses of joint ventures, more than offset by a £90 million increase in reported net finance expense (including fair value movements), and the inclusion last year of a £37 million profit on disposal of our share in the joint venture AS Tallinna Vesi.

Net finance expense

The underlying net finance expense of £306 million was £174 million higher than last year, mainly due to the non-cash impact of significantly higher inflation on our index-linked debt.

The indexation of principal on index-linked debt, excluding the impact of inflation swaps, amounted to a net charge in the income statement of £228 million, compared with a net charge of £53 million last year, resulting in an increase of £175 million. Interest on non index-linked debt of £110 million is consistent with last year, while various smaller year-on-year increases and decreases broadly offset against one another when considered together.

The £306 million underlying net finance expense included in the income statement for the year compares with £118 million net cash interest paid included in the statement of cash flows. This £188 million difference is due to non-cash inflation uplifts on index-linked debt and derivatives of £256 million, less capitalised borrowing costs of £53 million and net pension interest income of £14 million, both of which are non-cash items.

Reported net finance expense of £168 million was £90 million higher than last year, reflecting the £174 million increase in underlying net finance expense, partially offset by an £84 million increase in net fair value gains on our debt and derivative portfolio, excluding interest on derivatives and debt under fair value option, from £54 million last year to £138 million this year.

Joint ventures

For the year to 31 March 2022, we recognised a £2 million loss in the income statement relating to our joint venture Water Plus, compared with a £9 million net share of losses from joint ventures last year, which included a share of profits from the AS Tallinna Vesi joint venture prior to its disposal. In the year to 31 March 2021, we also recognised a £37 million profit on disposal of our share in AS Tallinna Vesi, which was completed on 31 March 2021.

Further details can be found in note 12 of the consolidated financial statements.

Regulatory capital value (RCV) gearing(2)
61%

Total dividend per ordinary share (pence)
43.5p

Household bad debt as a proportion of regulated revenue
1.8%

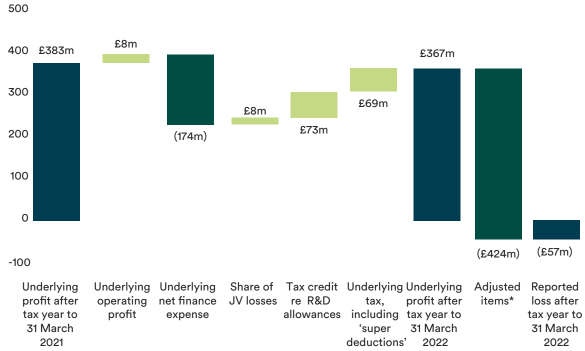
(1) A guide to APMs and a reconciliation between underlying profit and reported profit is shown on pages 82 to 83.

(2) Gearing calculated as group net debt/United Utilities Water Limited shadow RCV (adjusted for actual spend and timing difference).

Our performance in 2021/22

Financial performance

Profit/(loss) after tax and earnings per share



* Adjusted items are set out on pages 82 and 83

Underlying profit after tax of £367 million was £16 million lower than last year, and underlying earnings per share decreased from 56.2 pence to 53.8 pence, as the £158 million reduction in underlying profit before tax is partly offset by £142 million lower underlying tax (moving from a charge of £77 million last year to a net credit of £65 million this year). The reduction in underlying tax reflects a £73 million tax credit relating to optimising the available research and development UK tax allowances on innovation-related expenditure we had incurred in prior years, and the impact of the capital allowance 'super deductions' announced in the March 2021 Chancellors Budget, which lowers the current tax charge significantly in the current period.

The group has a reported loss after tax of £57 million this year, compared with a £453 million reported profit after tax last year. This £510 million difference reflects the £111 million decrease in reported profit before tax, and a £544 million increase in deferred tax largely due to a one-off charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate, partially offset by a £145 million positive movement in current tax primarily as a result of adjustments in respect of optimising available tax incentives on our innovation-related expenditure in prior years. Reported basic earnings per share decreased from 66.5 pence to (8.3) pence.

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 third year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

In addition to corporation tax, the group pays significant other contributions to the public finances on its own behalf as well as collecting and paying over further amounts for its over 5,000 strong workforce. The total payments for 2021/22 were around £230 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 2021/22, we paid corporation tax of around £9 million, which represents an effective cash tax rate on underlying profits of 3 per cent, which is 16 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 including the new temporary capital allowance 'super deductions', where the current year tax benefit was around £40m representing a 13 per cent reduction to the effective cash tax rate. We expect a similar tax benefit from the temporary super deduction regime for 2023 as well.

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.

For 2021/22, the group recognised an overall current tax credit of £66 million in 2021/22. This includes a current tax charge relating to 2021/22 of £7 million this year, compared with £80 million in the previous year, key reconciling items being the lower taxable profits and the availability of capital allowance 'super deductions' for 2021/22. In addition, in the current year, there were prior period tax credits of £73 million, compared with £1 million in 2020/21. The current year credit mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure for multiple prior years.

For 2021/22, the group recognised a deferred tax charge of £562 million, compared with £18 million for 2020/21. For 2021/22, £403 million relates to the government's planned increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023. Subject to any legislative or tax practice changes, we would expect the total effective tax rate to continue to be broadly in line with the headline rate of corporation tax for the medium term.

In 2021/22, there are £136 million of tax adjustments recorded within other comprehensive income, primarily relating to remeasurement movements on the group's defined benefit pension schemes. As in the prior year the rate at which the deferred tax liabilities are measured on the group's defined benefit pension scheme is 35 per cent, being the rate applicable to refunds from a trust.

Dividend per share

The board has proposed a final dividend of 29.0 pence per ordinary share in respect of the year ended 31 March 2022. Taken together with the interim dividend of 14.5 pence per ordinary share, paid in February, this results in a total dividend per ordinary share for 2021/22 of 43.5 pence. This is an increase of 0.6 per cent compared with the dividend relating to last year, in line with the group's dividend policy of targeting a growth rate of CPIH inflation each year through to 2025. The 0.6 per cent increase is based on the CPIH element included within allowed regulated revenue for the 2021/22 financial year (i.e. the movement in CPIH between November 2019 and November 2020).

The final dividend is expected to be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022. The ex-dividend date is 23 June 2022. The election date for the Dividend Reinvestment Plan is 11 July 2022.

Cash flow

Net cash generated from continuing operating activities for the year to 31 March 2022 was £934 million, £75 million higher than £859 million last year. The group's net capital expenditure was £627 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure, which is treated as an operating cost.

Pensions

As at 31 March 2022, the group had an IAS 19 net pension surplus of £1,017 million, compared with a surplus of £689 million at 31 March 2021. This £328 million increase principally reflects an increase in credit spreads during the year, partially offset by a higher inflation assumption. The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and future inflation. The IAS 19 position remains volatile to changes in credit spread and changes in mortality, neither of which have been hedged at this current time. This is primarily due to difficulties hedging against credit spread volatility over long durations, and, for mortality, there is lower volatility in the short term and relatively high hedging costs. 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.

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

Financing

Net debt at 31 March 2022 was £7,570 million, compared with £7,306 million at 31 March 2021. This comprises gross borrowings with a carrying value of £7,980 million net of cash and short-term deposits of £241 million and net derivative assets hedging specific debt instruments of £169 million.

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

Gearing, measured as group net debt divided by UUW's shadow (adjusted for actual spend and timing difference) regulatory capital value of £12.4 billion, was 61 per cent at 31 March 2022. This is slightly lower than gearing of 62 per cent as at 31 March 2021, and remains comfortably within our target range of 55 to 65 per cent.

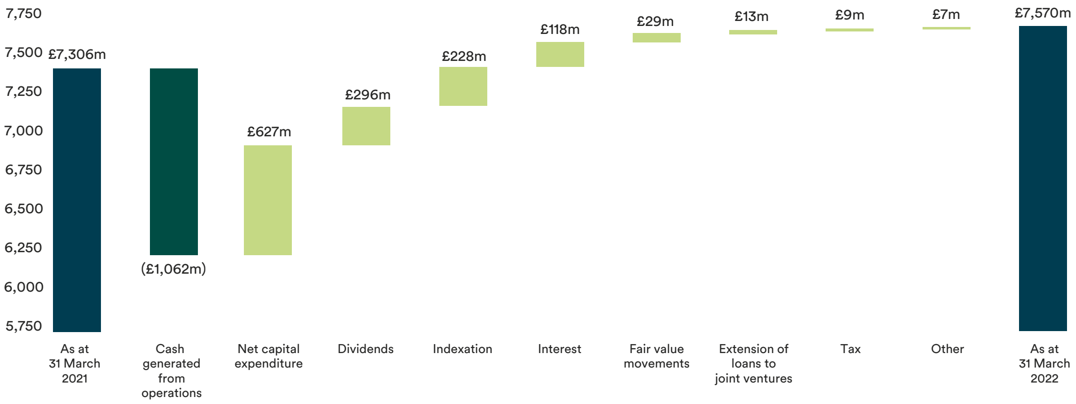
Cost of debt

As at 31 March 2022, the group had approximately £3.2 billion of RPI-linked instruments and £0.4 billion of CPI or CPIH-linked instruments held as debt. In recent years, in response to Ofwat's decision to transition away from RPI inflation linkage, the group has entered into a number of transactions swapping RPI-linked cash flows to CPI-linked cash flows or swapping floating rate cash flows to CPI-linked cash flows. As a result, including these swaps, the group has RPI-linked debt exposure of £3.1 billion at an average real rate of 1.3 per cent, and £1.1 billion of CPI or CPIH-linked debt exposure at an average real rate of -0.6 per cent.

A significantly higher RPI inflation charge compared with the same period last year contributed to the group's average effective interest rate of 5.1 per cent being higher than the rate of 2.5 per cent last year. 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. More information on this can be found on page 83.

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 2.4 per cent for the remainder of the AMP7 regulatory period.

Summary of net debt movement



Our performance in 2021/22

Financial performance

Credit ratings

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

Debt financing

The group has access to the international debt capital markets through its £10 billion medium-term note (MTN) programme. The MTN programme is updated at least annually and this year's update was completed in November 2021, at which time the previous €7 billion euro programme limit was increased and redenominated to £10 billion. The MTN 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 £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. So far in AMP7, we have raised around £1.4 billion, taking advantage of attractive rates available and extending our liquidity position (as at 31 March 2022) out to February 2025.

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

In August 2021, we raised around £74 million of term funding via the issue off our MTN programme of a JPY11 billion privately placed note swapped to GBP with a nine-year maturity, and in September 2021 we priced a £100 million fixed note with a seven-year maturity, the proceeds of which were received in early October.

In April 2022, we raised £100 million of term funding with an eight-year maturity via a bilateral loan with Export Development Canada (EDC). AAA-rated EDC is the Canadian Government's Export Development Agency that looks to promote trade with Canadian firms worldwide. This follows collaboration with EDC in relation to some of the innovation activities that we have undertaken, and we expect such collaboration to continue.

Since March 2021, we have extended £100 million of revolving credit facilities for a further year, renewed £100 million of revolving credit facilities for a further five-year term and entered into £50 million of new revolving credit facilities for a five-year term. The group has also amended the documentation for all of its existing revolving credit facilities to remove references to LIBOR and replace with SONIA.

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 2022, approximately 41 per cent of the group's net debt was in RPI-linked form, representing around 25 per cent of UUW's regulatory capital value (RCV), 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 nine per cent of UUW's RCV, with an average real rate of -0.6 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile, which is around 18 years.

A3

credit rating with Moody's

18 years

average term debt to maturity

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

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

Liquidity

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

At 31 March 2022, we had liquidity out to February 2025, comprising cash and short-term deposits, plus committed undrawn revolving credit facilities. This gives us flexibility in terms of when and how further debt finance is raised to help refinance maturing debt and support the delivery of our regulatory capital investment programme. In October 2021, UUW prepaid a £100 million floating rate loan a year ahead of its scheduled maturity, this being efficient use of our available liquidity.

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 delivered another good year of performance, maintaining high levels of customer satisfaction underpinned by our Systems Thinking approach, improving operational performance, and long-term financial resilience, giving us confidence in our ability to continue to create value for customers, the environment, and other stakeholders.

Liquidity to

February 2025

We are accelerating our AMP7 capital programme and investing an additional £765 million over the regulatory period to help us deliver even more sustainable improvements in customer and environmental performance, and to get ahead of the requirements coming into force through the Environment Act. This investment, together with latest views of inflation, contributes to RCV growth over AMP7 of 21 per cent on a nominal basis, more than 10 per cent higher than we expected at the beginning of the period.

Our sustained high level of operational performance is earning outperformance, and we have increased our target of cumulative net outperformance against customer ODIs by a third to around £200 million in total over AMP7. As a consequence of our performance in AMP7 and the additional investment we are making, we are generating around £750 million of value that we expect to receive through an RCV uplift and additional revenues in the 2025-30 period (AMP8).

2022/23 full-year guidance

- Revenue is expected to be around 1 per cent higher than 2021/22, largely reflecting the November 2021 CPIH inflation of 4.6 per cent, largely offset by the regulatory revenue reduction of 1.3 per cent and over-recovery in the current year due to higher than anticipated consumption.
- Underlying operating costs are expected to be around £100 million higher year-on-year. Approximately half of this increase relates to inflationary cost pressures on labour, chemicals and other contract costs, while the other half largely reflects the 2022/23 operating cost impact of the £765 million additional investment.
- Underlying finance expense is expected to be around £150 million higher year-on-year based on our current inflation forecast. As at 31 March 2022, we had £4.3 billion of index-linked debt exposure, therefore every 1 per cent increase in inflation equates to an around £43 million higher interest charge. Our cash interest in 2021/22 was £118 million and we expect this to be broadly the same in 2022/23, with the overall increase in underlying net finance expense largely relating to the non-cash indexation of our index-linked debt. Our cash metrics therefore remain strong and the higher inflation will also apply to our RCV, of which 70 per cent is exposed to the benefits of higher inflation, giving shareholders around a 1.75 times leveraged position to inflation.
- Underlying tax is expected to be a small charge of up to £10 million in 2022/23, as we continue to optimise the use of capital allowance 'super deductions'.
- Capital expenditure (capex) in 2022/23 is expected to be in the range of £640 million to £690 million, including the 2022/23 element of incremental capital expenditure in relation to the £765 million additional investment.
- We are targeting a net customer ODI reward of around £30 million, which is consistent with our updated investment plans and guidance of around £200 million reward in total over AMP7.
- Our AMP7 dividend policy is to grow the dividend in line with CPIH inflation out to 2025, which for 2022/23 would equate to an increase of 4.6 per cent based on November 2021 CPIH inflation.

Guide to Alternative Performance Measures (APMs)

The underlying profit measures in the following table represent alternative performance measures (APMs) as defined by the European Securities and Markets Authority (ESMA). These measures are linked to the group's financial performance as reported in accordance with UK-adopted international accounting standards and the requirements of the Companies Act 2006 in the group's consolidated income statement, which can be found on page 210. 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.

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

Adjusted item	Rationale
Adjustments not expected to recur	
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.
Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are therefore excluded in arriving at underlying net finance expense as they are determined by macro-economic factors which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit

Operating profit	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m
Operating profit per published results	**610.0**	602.1
Underlying operating profit	**610.0**	602.1
Net finance expense		
Finance expense	**(187.7)**	(103.5)
Investment income	**19.4**	25.0
Net finance expense per published results	**(168.3)**	(78.5)
Net fair value (gains) on debt and derivative instruments, excluding interest on swaps and debt under fair value option	**(138.0)**	(54.3)
Underlying net finance expense	**(306.3)**	(132.8)
Share of (losses) of joint ventures per published results	**(1.8)**	(9.3)
Profit on disposal of joint ventures per published results	**–**	36.7
Profit on disposal of AS Tallinna Vesi joint venture	**–**	(36.7)
Underlying profit on disposal of joint ventures	**–**	–
Profit before tax per published results	**439.9**	551.0
Adjustments in respect of operating profit	**–**	–
Adjustments in respect of net finance expense	**(138.0)**	(54.3)
Adjustments in respect of profit on disposal of joint ventures	**–**	(36.7)
Underlying profit before tax	**301.9**	460.0
(Loss)/Profit after tax per published results	**(56.8)**	453.4
Adjustments in respect of profit before tax	**(138.0)**	(91.0)
Deferred tax adjustment	**562.5**	18.4
Tax in respect of adjustments to underlying profit before tax	**(0.7)**	2.2
Underlying profit after tax	**367.0**	383.0
Earnings per share	**£m**	£m
(Loss)/profit after tax per published results (a)	**(56.8)**	453.4
Underlying profit after tax (b)	**367.0**	383.0
Weighted average number of shares in issue, in millions (c)	**681.9m**	681.9m
Earnings per share per published results, in pence (a/c)	**(8.3)**	66.5
Underlying earnings per share, in pence (b/c)	**53.8**	56.2
Dividend per share, in pence	**43.50p**	43.24p

Average effective interest rate

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

	31 March 2022	31 March 2021
Underlying net finance expense	**(306.3)**	(132.8)
Net pension interest income	**(14.3)**	(17.5)
Adjustment for capitalised borrowing costs	**(52.7)**	(30.4)
Net finance expense for effective interest rate (a)	**(373.3)**	(180.7)
Average notional net debt (b)	**(7,368)**	(7,315)
Average effective interest rate (a/b)	**5.1%**	2.5%

Alignment to wider goals

SUSTAINABLE DEVELOPMENT 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.

Read our sustainable finance framework on our website at
unitedutilities.com/globalassets/z_corporate-site/investor-pdfs/sustainable-finance-framework-2020-final.pdf

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.

Delivering value for:

Decent work and economic growth

Our daily operations provide direct, indirect and induced employment for 22,700 people, and we are a significant 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.

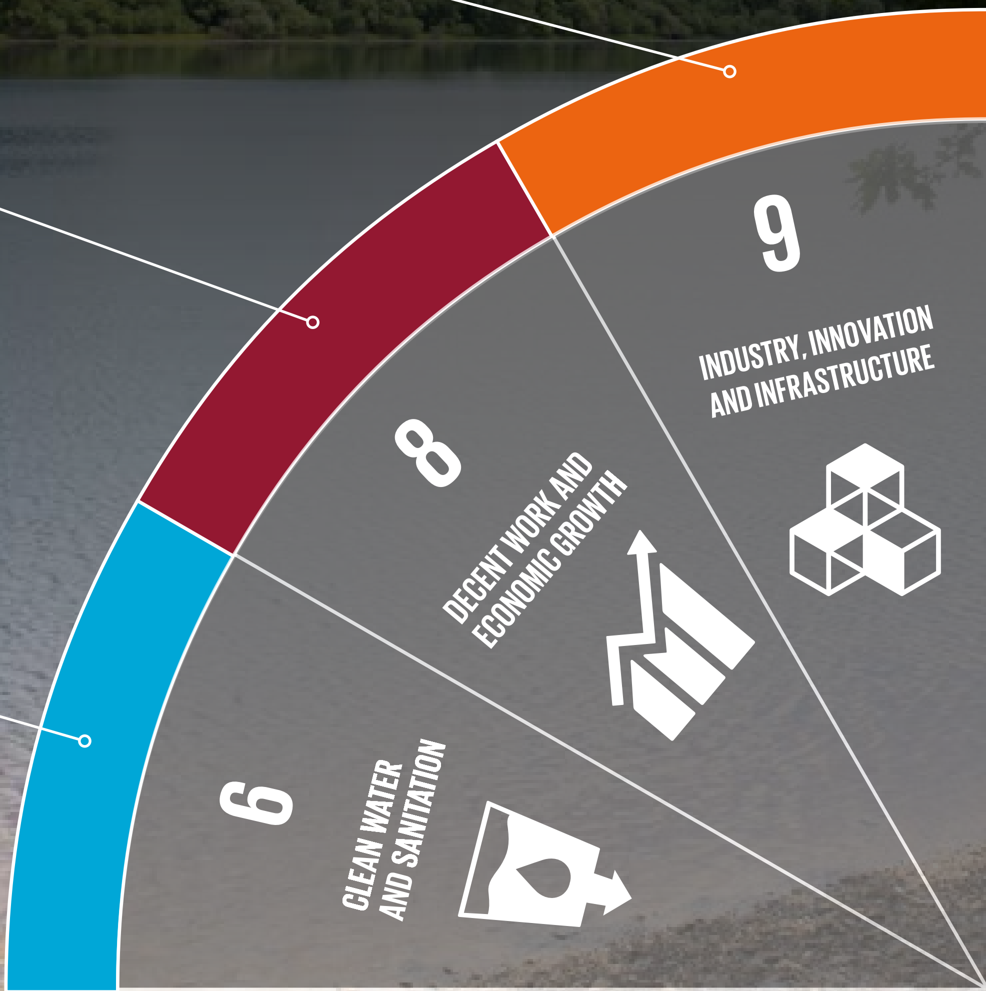
Delivering value for:

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.

Delivering value for:



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).

Delivering value for:

Climate action

Responding to the climate emergency is an imperative for us all.

Delivering against our six carbon pledges and science-based targets whilst ensuring that we, and the region we serve, are resilient to the impacts that a changing climate might bring, is key to our long-term planning.

Read more about **our approach to climate change** on pages 86 to 97

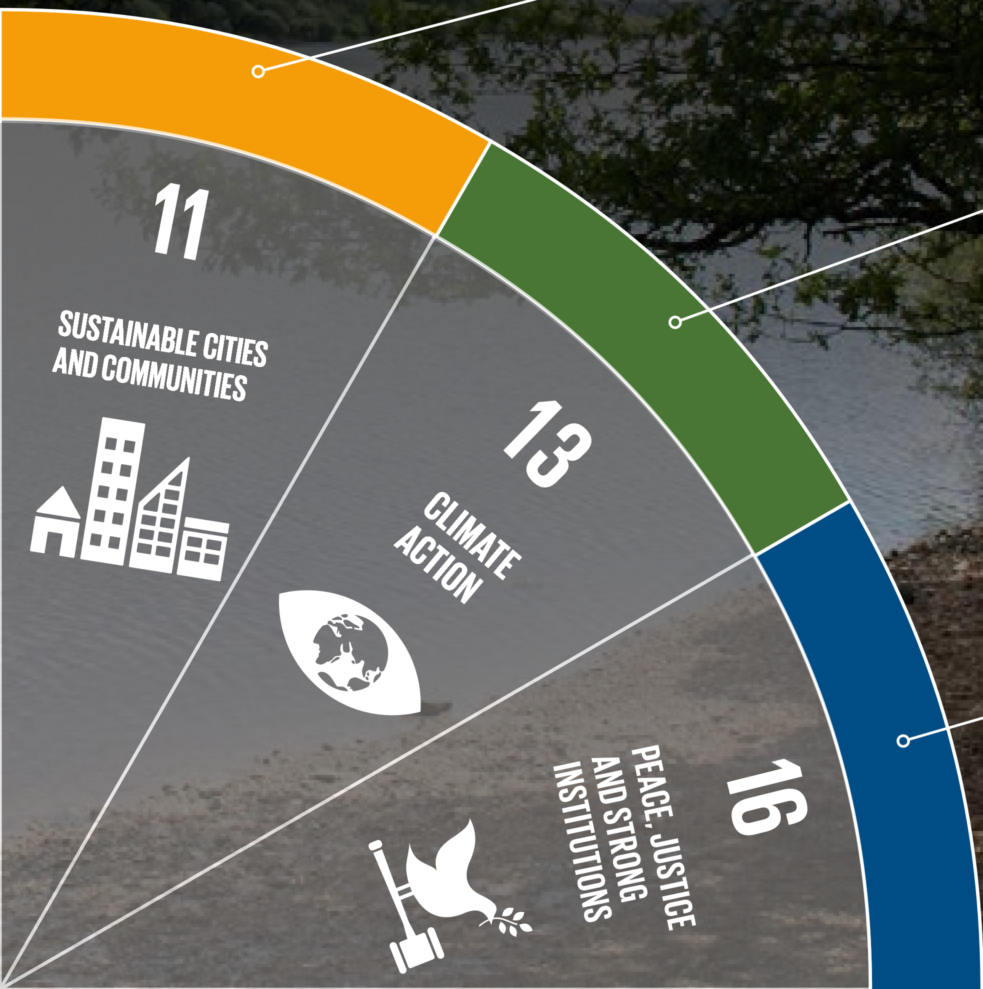
Delivering value for:

Peace, justice and strong institutions

We run our business in a responsible manner, and being trustworthy is one of our core values.

We maintain high standards in corporate governance and ethical standards of business conduct – those systems and processes through which our organisation is managed, controlled and held accountable. We are committed to open, honest and transparent corporate reporting.

Delivering value for:



Our approach to climate change

Task Force on Climate-related Financial Disclosures (TCFD)

Climate change and extreme weather events are critical to our service delivery because of our reliance on a stable climate and the natural environment. Here we report on our latest progress and plans on cutting emissions to reduce future climate change, known as climate mitigation, and how we are maintaining and improving our resilience to climate change, known as climate adaptation.

Our business, and the communities we serve, has already experienced the impacts of climate change, including several record-breaking weather events that caused impacts such as flooding, power cuts and travel disruption. Risks associated with flooding are heightened in the North West because it is the wettest region in the country, and this is projected to increase with climate change. There is overwhelming evidence that we need to prepare for more severe weather events more often, as well as gradual trends for wetter winters, hotter drier summers and rising sea levels. We integrate past and projected climate data throughout our plans to ensure an effective and evolving response. We are committed to playing our part in securing the global goal to curb climate change to no more than 1.5°C.

In the following pages we share our greenhouse gas emissions (GHGs) and progress towards meeting our six carbon pledges and science-based targets (SBTs). We present our six most sensitive climate risks and our new adaptation report. In this section, supported with content elsewhere in this integrated report and on our website, we include disclosures consistent with the TCFD Recommended Disclosures all sector guidance.

Pledge 1

Reduce scope 1 & 2 emissions

↓2.2% compared to baseline

We are making good progress towards our science-based target to reduce scope 1 and 2 emissions by 42 per cent from our baseline by 2030.

2021/22: 135,936 tCO_2e
2019/20: 138,961 tCO_2e (baseline year)

Pledge 2 ✓

100% of electricity used from renewable sources

We achieved this pledge from October 2021

From October 2021 the electricity we purchased was from guaranteed renewable sources. In addition, we generated a record 210 GWh of renewable energy in 2021/22, equivalent to 26 per cent of our total electricity consumption.

Pledge 4

1,000 hectares of peatland restoration by 2030

Restoration activity well underway

We have restoration projects across the North West at different stages of maturity. As well as continuing our site work to completion, we aim to become an early pioneer in applying the Peatland Code at scale to independently verify the carbon benefits.

Pledge 5

Create 550 hectares of woodland by 2030

9 hectares planted and validated to the Woodland Carbon Code

Planting in 2021 was postponed due to weather and tree disease. The remaining 541 hectares have been planned and the funding identified.

Transparency and disclosures

We have a long track record of public carbon and climate change disclosures having estimated and reported our carbon footprint since 2006 and participated in CDP's Climate Change Programme for 12 years. Our reporting is fully compliant with UK Government Environmental reporting guidelines and applies international best practice such as Greenhouse Gas Protocol Corporate Accounting and Reporting Standards (2015). The Science Based Targets initiative (SBTi) assessed and verified our four science-based targets in July 2021 and commended our ambitious 1.5°C aligned scope 1 and 2 target.

We confirm that our annual report includes all climate-related financial disclosures required to be consistent with the TCFD recommendations and recommended disclosures and is in line with the current Listing Rules requirements (as referred to in Listing Rule 9.8.6R(8)). Corporate Citizenship, a leading sustainability consultancy, has reviewed this disclosure and provided an ISAE assurance against the Principles of Effective Disclosure to ensure that consistency with TCFD recommendations including the implementation guidance published in the 2021 Annex.

Where to find our TCFD recommended disclosures

Governance	Pages	Topic
Board's oversight of climate-related risks and opportunities. Management's role in assessing and managing climate-related risks and opportunities.	88 120	TCFD governance Governance structure

Strategy	Pages	Topic
Climate-related risks and opportunities identified over the short, medium, and long term. Impact of climate-related risks and opportunities on our businesses, strategy, and financial planning. Resilience of our strategies, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	24–25 34 46–49 86–87 90 91–93, 94 100–109	Creating value Our approach to materiality Business planning horizons Pledges and targets Climate sensitive risks TCFD strategy TCFD metrics and targets Our risk management

Risk management	Pages	Topic
Processes for identifying and assessing climate-related risks. Processes for managing climate-related risks. How processes identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	89–90 100–109	TCFD risk management Our risk management

Metrics and targets	Pages	Topic
Metrics used to assess climate-related risks and opportunities in line with our strategy and risk management processes. Scope 1, Scope 2, and Scope 3 GHG emissions, and related risks. Targets used to manage climate related risks and opportunities and performance against targets.	52–83 86–87 94 95–97 161–191	Our performance Pledge progress TCFD metrics and targets Energy and carbon report Remuneration

Pledge 3

100% green fleet by 2028

27 fully electric vehicles (EV) now deployed in our fleet with plans for 200 low carbon vehicles by 31 March 2025

We have installed advanced telematics to improve understanding of travel patterns and are trialling options for larger vehicles. We are enabling employees to shift to EV through changes to the company car policies and launch of a salary sacrifice scheme 'EVolve'.

Pledge 6

Set scope 3 science-based target

Targets verified by SBTi

Emissions from our value chain are the most challenging to address so we are working with our supply chain. We are exploring how to improve our calculation methods for scope 3 emissions so that we can consider and openly report the impact of our management choices.

2021 performance

CDP is known for setting the standard for companies on their environmental leadership. In 2021 we achieved an overall B rating, with category scores of A in targets, governance and risk management. We are working to improve the other categories towards achieving an overall A list rating. We were proud to be recognized as a 2021 Supplier Engagement Leader, raising the level of climate action across our value chain.

Examples of our activities to respond to climate change

Haweswater Aqueduct Resilience Programme (HARP)

The Haweswater Aqueduct plays an important role in moving large volumes of water from the Lake District to supply Greater Manchester. The aqueduct was originally completed in 1950 and since 2005 we have been planning how to secure its continued and long-term resilience.

Following extensive planning and stakeholder engagement we are ready to start delivery of a solution designed to meet future demand whilst maintaining a gravity-fed, low carbon water supply. The proposed tunnelling solution has been assessed as having one of the lowest environmental and carbon impacts of all options considered, with further opportunities identified to recycle materials to local sites thus reducing impacts from vehicle movements.

Surface water separation – Blackpool south

We have invested over £30 million to address the combined challenges of climate change, an ageing Victorian sewer network, and increasing urbanisation in Blackpool.

The primary objective of this project was to separate surface water from the combined sewer system. New infrastructure was constructed, including a storm water interception tank, pumping stations, and a new sea outfall to provide a sustainable discharge point for surface waters. This will prevent over 800,000m^3 of surface water from entering the combined sewer system during wet weather. By diverting the surface water away, the flooding risks posed by storms due to the resulting excess volume of wastewater have been significantly reduced.

Governance

TCFD definition
The organisation's governance around climate-related risks and opportunities.

Progress this year
- Oversight and scrutiny of climate change matters by the board and its committees, including approval of our new science-based targets, and review of the adaptation progress report and carbon commitments risk.
- Strengthened governance by expanding our director-led climate change mitigation steering group and introduced six new cross-business working groups.
- Introduced carbon measures into the executive remuneration framework.
- Expanded our internal carbon and climate change teams.
- Supplemented public disclosures through conversations with investors and participation in new climate-related indices and assessments.

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

Read more about the **governance structure of the board, its committees and management committees** on page 120

Read more about the **board and management committees' responsibilities and activities** on pages 120 to 123

Board oversight of climate-related risk and opportunities
2021 saw increased global attention on the climate change emergency culminating at the COP26 climate summit in Glasgow. As board members, our Chief Executive Officer and Chief Financial Officer both show personal leadership for the impact of climate change on our capacity and capability to deliver our services. Climate change-related matters have always been of interest to the corporate responsibility committee in its role to scrutinise environmental topics and initiatives. This year, climate change matters have also been discussed by the audit committee (review of carbon commitments risk) and remuneration committee (linking long-term incentive outcomes to the delivery of carbon pledges).

Management role
CEO Steve Mogford has ultimate responsibility for the group's preparedness for adapting to climate change and driving our mitigation strategy. CFO 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. Along with the executive team, they are tasked with managing the risks and mitigating actions, for example by ensuring the company has the necessary financial resources and skilled people are in place to achieve its climate-related objectives.

Our climate change mitigation strategy starts with 'vision and visibility', reflecting that consideration of climate is becoming an essential factor in both day-to-day and strategic decision-making and behaviours. All of the principal management committees have discussed climate-related matters this year. For example, our leadership team has tracked the delivery of our carbon pledges as part of the quarterly business reviews and initiated a trial of a low emission fuel HVO as a result. The capital investment committee is working to integrate climate issues into its decision-making processes including a carbon reduction incentive for capital programme delivery partners.

In 2021/22, we held two deep-dive workshops to build executive team knowledge and awareness of carbon. This resulted in a refresh of our climate change mitigation governance and the creation of new director-led working groups. These focus on maturing our decision-making and delivering reductions of all greenhouse gas (GHG) emissions while developing our future climate-related strategy and engagement.

Introducing carbon to our executive remuneration

Four carbon measures have been agreed by the remuneration committee for the three-year period ending 31 March 2025, together forming ten per cent of the Long Term Plan (LTP) against which stretching targets have been set. These measures are:

- green fleet vehicles;
- woodland creation;
- peatland restoration; and
- supply chain engagement.

Including targets within our executive remuneration arrangements recognises the importance of our carbon commitments. We have designed these measures to reinforce delivery of our ambitious carbon pledges and science-based targets. We are working to mature these incentive measures in future years, ultimately to align with our science-based emission reduction targets for 2030 and beyond.

Read our **remuneration report** on pages 160 to 191

Risk management

TCFD definition

How the organisation identifies, assesses and manages climate-related risks.

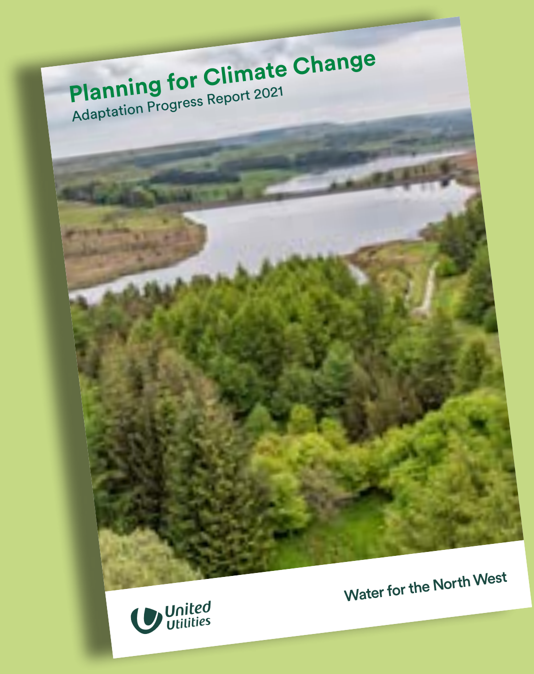
Progress this year

- Published our third adaptation report, including the outcome of a progress review of climate-related risks across the organisation.
- Greater recognition of transitional risks in our corporate risk management system, in particular the investment needed to meet our carbon commitments and the potential costs to the business if we do not.

Future focus

- Produce our PR24 business plan with full integration of carbon reduction and climate resilience priorities.
- Finalise and publish our 2022 Drought Plan.
- Improve our long-term strategic plans for water resources and drainage, integrating advanced climate change analysis to shape our investment and operational approaches in the short, medium and long term (up to 80 years).
- Embed climate change impacts into corporate decision-making tools and processes.

Read more about **how we are managing the risks that are sensitive to climate change** on page 90, with more detail in our adaptation progress report



Our adaptation progress reports can be viewed on our website at **unitedutilities.com/corporate/responsibility/environment/climate-change/climate-change-adaptation**

Climate risk identification and assessment

We have a mature risk and resilience framework for the identification, assessment and mitigation of risks, as described on pages 100 to 101. This framework is used to identify and assess climate-related risks. We consider both physical risks, identified as those related to climate change impacts on our operations or assets, and transitional risks, which are those associated with the necessary transition to a low-carbon economy (e.g. changes to policies, regulation and legislation).

We use a variety of approaches to assess risks, such as risk breakdown structures and PESTLE. We use complex modelling of the physical impacts of climate change in our water resources and drainage management planning, and incorporate Met Office UK climate projections. In our assessment of materiality we recognise that some risk events may happen multiple times so we compare impacts over a long-term (40-year) horizon. This accentuates where climate change, and other demographic changes, influence the frequency of events as well as the consequences.

We have found that horizon scanning for industry research and emerging legal and regulatory changes are particularly useful when considering transitional risks. In our revision of the carbon commitments risk, we incorporated the updated carbon values provided by the department for Business, Energy and Industrial strategy (BEIS). Applying these values resulted in an escalation of the risk to the executive team and board who re-evaluated our response to ensure we continue to effectively manage the risk. Incorporating longer-term climate change impacts explicitly in our corporate risk framework has raised the profile of climate change, allowing the board to consider our appetite and capacity to mitigate and control the risks from within existing risk management processes and with the same thresholds for materiality.

Managing climate-related risks

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

As climate change is a common causal factor for our principal risks (see pages 104 to 105), a review of all event-based risks in our business risk profile was undertaken to assess their sensitivity to climate change. The most sensitive risks are outlined on page 90 and more details, including discussion and examples of activities to mitigate and control for these risks, can be found in our latest adaptation progress report.

Organisational resilience to climate change

In preparing each of our three adaptation progress reports, we assessed the organisation's resilience to specific outcomes of climate change, such as hotter, drier summers and more extreme weather events. We identified over 90 risks that could impact a single business area, for instance wastewater, but we also noted business-wide risks, interdependencies and transitional risks. The outcome of the latest assessment was 79 new or existing mitigating actions listed in our adaptation report along with an update on what has been done to manage the risk to date.

We are maturing our understanding of risk and uncertainty to build and maintain long-term resilience across the corporate, financial and operational structures of the group. Looking ahead, we will explore how innovation can help us to learn more about the profile of risk events, their causes and consequences, and to identify opportunities to improve our capacity and capability. This will help us to identify where climate risks remain uncertain or where existing controls might be inadequate to manage the risk in the long term. This will help us to be better prepared by prioritising issues.

Our approach to climate change
Task Force on Climate-related Financial Disclosures

Our risks most sensitive to climate change
Last year, we presented the outcome of a special risk assessment on the sensitivity of all our event-based risks to climate change. We have updated this assessment through our corporate risk process and the results are shown below. Likelihood and impact are based on the Met Office climate projections using the most likely global emissions scenario known as RCP 6.0, in which emissions peak around 2080 and average temperatures will have risen to between 3 and 3.5°C by 2100.

Risk categorisation
Chronic physical risk – changing trends in weather patterns, such as rising temperatures, sea level and rainfall.

Acute physical risk – chance of severe weather events, such as storms, heat waves and floods.

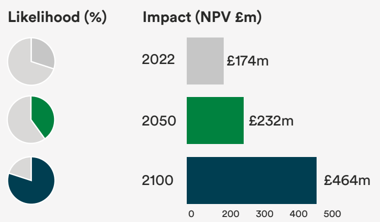
* One of the most significant event-based group risks (see pages 106 to 107).

Control effectiveness
Controls are the activities we undertake to reduce risk or realise an opportunity.

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

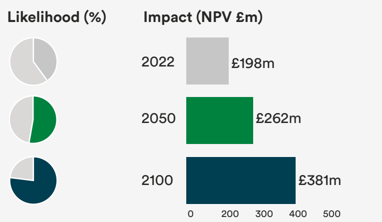
Water sufficiency event
Prolonged dry periods can cause supply challenges. Warmer temperatures intensify these pressures because of increased water usage and evapo-transpiration.

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



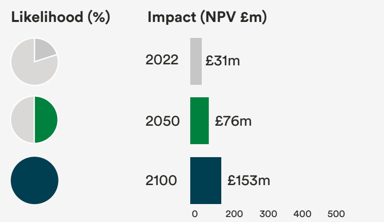
Failure of wastewater network (sewer flooding)*
More frequent and intense storms can overload the wastewater network and lead to severe sewer flooding. Urbanisation makes this worse due to quick run-off from hard surfaces.

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



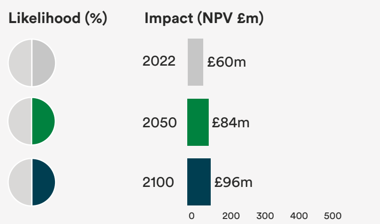
Land management*
Deterioration in land quality due to climate change has both direct and indirect impacts. Hotter, drier summers lead to fire, flood, subsidence and landslip events which in turn have associated health, safety and environmental impacts.

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



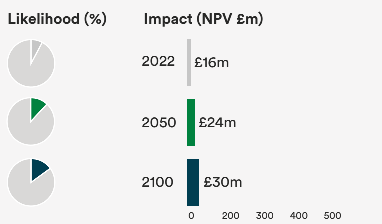
Failure to adequately treat wastewater
Extremely heavy rainfall, which is projected to happen more often, can exceed our wastewater treatment works capacity and result in use of overflows to prevent flooding of assets, streets and homes.

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



Failure of above-ground water and wastewater assets (flooding)
Average winter rainfall is projected to rise, increasing the frequency of extreme events where operational sites are flooded from sea, river or surface water sources.

Controls
- Install permanent flood defences at most flood-prone sites.
- Improve flood forecasting capabilities.
- Build better network connectivity to maintain water supplies during floods.
- Invest in quick recovery once flooding subsides.



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

We are currently updating our assessment of this risk following recently proposed legislative changes included within the Farming Rules for Water. We expect this will significantly restrict the window of permitted recycling of biosolids to agriculture, and therefore exceed the climate change impact we have previously assessed.

Strategy

TCFD definition

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

Progress this year

- Built relationships with key suppliers to reduce environmental impact by sharing best practice and collaborating on how to reduce GHGs.
- Further developed our multi-capital approach to enhance decision-making processes, integrating both GHG impact and attributes of climate resilience.
- Implemented climate change resilience plans (both physical and transitional) across AMP7, incorporating natural capital solutions.

Future focus

- Further develop our mitigation and adaptation strategies and delivery plans.
- Include low carbon and climate adjustable approaches in our PR24 business plan.
- Assess and limit the carbon impact of our PR24 business plan.

Read more about **how our climate-related risks, opportunities and commitments are shaping our strategy and financial planning** on pages 91 to 93

Our climate change mitigation strategy

Planning horizons

Our assets typically have long, even very long, lifespans so we are vulnerable to physical climate risks over the long term, and we are already experiencing the impacts of climate change in the North West. We undertake planning for long (25+ years), medium (5–10 years), and short-term (one year) horizons, enabling us to account for external drivers including climate change, while continuing to fulfil our purpose in a resilient and adaptable way. Our planning horizons are further described on pages 48 to 49.

Short-term climate issues

Extreme weather events such as periods of hot and dry weather, cold snaps and heavy rain events impact our ability to deliver our services. Climate change is already increasing the frequency of these events (see page 93), exacerbating the impact of existing risks such as sewer flooding, asset flooding and asset deterioration as can be seen in the current top ten event-based risks shown on pages 106 to 107.

The North West has felt the significant damage caused by numerous extreme storms over recent years. The region has 28 per cent more rainfall than the average for England and Wales and climate change will further increase the likelihood and severity of intense storms. There is also a significantly higher proportion of combined sewers so, together, this means more pressure on sewerage and treatment infrastructure, and relatively more risk from sewer flooding and/or pollution from storm overflows. Managing the risk of flooding is a priority for us and other agencies in the North West.

Medium and long-term impact of climate change

Predicting the effects of climate change is complex, with greater uncertainty about how our infrastructure will respond to the challenges presented by both climate and demographic changes. We considered the implications of climate change to our business risk profile to ascertain which risks were sensitive to climate change in that climate change would increase their likelihood or severity. To quantify the risk we used the highly respected and relevant Met Office UK Climate Projections 2018 (UKCP18) for weather in the North West. There are four main pathways used for climate modelling and research, each describing climate futures related to the volume of greenhouse gases emitted. For our climate sensitivity assessment we chose the Met Office climate projections for the representative concentration pathway, RCP 6.0, which has an emissions peak occurring in 2080 and an expected 3.0–3.5°C increase in global mean temperatures from pre-industrial levels.

Impact of climate-related risks and opportunities on our business strategy and planning

We have taken a twin track approach to addressing climate change in our business strategy and planning (see page 93). We account for the costs and benefits, of both mitigation and adaptation and in this way manage both physical and transitional climate risks as we deliver our services in a sustainable and resilient way.

Adapting to physical risks

All six of the risks most sensitive to climate change are physical risks, meaning they are disruptive or destructive to our operations or assets. This means there are tangible controls that can be put in place to improve our resistance to weather events, enhance our response and recovery preparations and realise opportunities.

We are applying a systems thinking approach which recognises the complex interdependencies within our business functions and externally across society. This means that interventions to address one risk have multiple benefits. For instance, sustainable drainage systems (SuDS) to slow down or divert rainwater run-off both reduce the risk of sewer flooding and optimise wastewater treatment capacity. Green infrastructure solutions such as SuDS provide an opportunity to deliver wider social value in the community and local environment.

Our approach to climate change

Task Force on Climate-related Financial Disclosures

Strategies for a changing climate

Alongside our focus to address the climate-related risks to our service delivery, we recognise the critical need to secure a stable climate and minimise the need for adaptation over the long term. We are part of the global leadership community that is working to encourage everyone to contribute to achieving the global goal to curb emissions.

In response, our climate change mitigation strategy has four pillars (see page 91). Our focus this year has been to consolidate our ambition and commitments and to enhance the visibility and understanding of climate impacts both within the organisation and to our external stakeholders. We were proud to be the first UK water company to have its targets verified by the Science Based Targets initiative (SBTi) and used this to drive communication and engagement. We held deep-dive sessions with the executive team, developed and launched an employee e-learning module, and had net zero as a theme in our latest Innovation Lab, in which we challenge and collaborate with new suppliers.

Climate change was a topic in our CEO graduate challenge. A team of graduates focused on helping mature plans towards a net zero future by developing a tool to estimate process emissions on a site-by-site basis, promoting our carbon pledges to employees through a social media campaign, and compiling a database of over 200 potential emission reduction opportunities that we are now exploring as part of our mitigation delivery plans.

Resilience of our strategies

Weather is fundamental to how our water, wastewater and bioresources operations function so it is critical we make our assets, systems and strategies climate-ready. More frequent extreme weather events increase the risk of cascade impacts. Multiple different extreme weather events can occur in a single short time frame, such as storms Dudley, Eunice and Franklin in February 2022. Our ability to recognise the compound physical impacts to our system, and have various recovery tactics, is increasingly vital in effective climate change adaptation.

Our public Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP) are examples of where adaptive planning, incorporating climate change scenarios and advanced modelling, are used to shape our plans for the long term (25+ years) whilst staying aligned with our short-term needs. In these plans we describe how we have used complex models to test how resilient our services would be against a range of possible future climate change and demand scenarios (population growth and movement, economic trends and patterns of water use). Understanding these impacts allows us to adapt our plans to improve performance and resilience across key topic areas such as water supply, leakage, sewer flooding and pollution. For example, we have decided to invest to ensure certain drought options are always available, minimising the time it takes to bring them online during dry weather conditions. This will enable us to react more quickly and make supplies more resilient during dry weather. Together with reducing demand through leakage and water efficiency, this has reduced the likelihood of requiring drought permits and temporary use bans.

As well as targeted scenario analysis in WRMP and DWMP, 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', have associated metrics to define possible futures for water and wastewater services in the North West. The scenarios recognise climate change as one of the most critical factors shaping future services and use RCPs 2.6, 4.5 and 8.5 (GHG concentration pathways adopted by the Intergovernmental Panel for Climate Change) to describe how well climate change has been mitigated by society in each case. These different 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.

Note: The forward-looking scenario analyses above reflect uncertainties about the timing and magnitude of climate change in specific contexts and efforts to mitigate and adapt to climate change, which are without historical precedent. Scenarios are hypothetical constructs and are not intended or designed to represent a full description of the future or deliver precise outcomes; they are not forecasts or predictions, nor are they sensitivity analyses.

Twin track approach to climate change

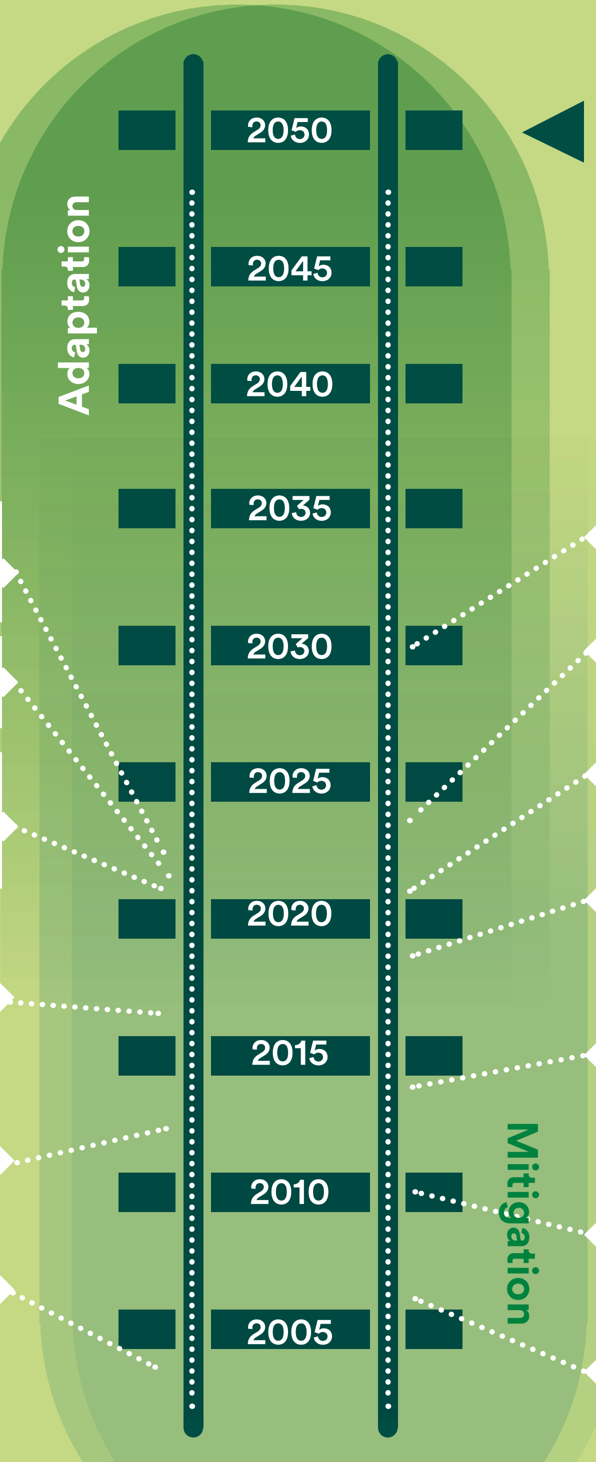
We have been managing adaptation and mitigation for many years, aligning our approach to become more efficient and effective in our response. Our twin track approach to climate change is central to our purpose to provide great water and more for the North West.

Adaptation

The climate of the North West will be significantly different in 2050, with further climate change now inevitable in response to past emissions and global activity on a pathway for a 2 to 4°C rise in average global temperature. We are working to secure resilient services by taking a flexible planning approach that remains agile to changing customer and legislative expectations, the changing climate we see in practice, and the latest climate science, called adaptive planning.

Mitigation

We are signatories of the UN Race to Zero and members of the global leadership Business Ambition for 1.5°C community, working to the global goal to limit average global warming to 1.5°C. This is critical to the long-term affordability and resilience of water and wastewater services.



2022 Latest climate change data (UKCP18) incorporated into long-term water resource planning and adaptive pathways

2021 Third climate change adaptation report published

2020 Risk and resilience review of wastewater asset base to climate change effects to inform long term adaptive planning

2016 Triggered by storms Desmond and Eva – flood risk reduction strategy to reduce risk at key vulnerable sites and updated asset standards to be more flood resilient

2005–15 Pioneered catchment management under SCaMP, our sustainable catchment management programme

2004 Effects of climate change on future water supplies included in WRMP

2030 SBT targets for scopes 1, 2 and 3 emissions

2023 100% of annual purchased electricity will be from guaranteed renewable sources

2021 Our SBTs verified by the Science Based Targets initiative

2018 Made ten-year green fleet commitment

2014 Start of extensive renewable energy installation programme. Now have 70 solar, wind and hydro installations, including Europe's first commercial floating solar array on Godley Reservoir

2010 Returned first climate change questionnaire to CDP

2006 Began annual disclosures of carbon emissions, strategy and targets

Extreme weather events

Hot and dry

Dry weather events occur when below average rainfall is paired with hotter weather, for example the notable periods of dry weather in 2018, 2020 and 2021.

Heavy rain

Storms and prolonged wet weather can cause flooding of our sewer network. In 2020 and 2021, three storms contributed to a notable increase in the overall number of sewer flooding incidents, with 40 per cent of our incidents relating to extreme rain occurring on just six days in 2020.

Cold snaps

We have experienced significant cold snaps; including 2010, 2011 and the 'Beast from the East' in 2018.

Metrics and targets

TCFD definition
The metrics and targets used to assess and manage climate-related risks and opportunities.

Progress this year
- The first UK water company to have targets verified by the SBTi, including for scope 3 emissions. Achieved our pledge 6.
- Delivered pledge 2: 100 per cent of electricity purchased has been renewable since October 2021.
- Reduced scope 1 and 2 emissions by 2.2 per cent (gross) and 3.5 per cent (net) compared to our baseline year 2019/20.
- Improved data collection and tracking of fuel use enabling targeted interventions.

Future focus
- Data improvements for scope 3 emissions with more supplier and product-based estimates, rather than spend-based.
- Work to validate our long-term net zero ambition to the new SBTi Net Zero Standard.
- Use BEIS carbon values as an internal carbon price in our planning for medium and long-term investments, including PR24 (e.g. for 2030 we use the low case value of £140/tCO_2e).

Read more about **delivery of our six carbon pledges** on pages 86 to 87

Read more about **2021/22 greenhouse gas emissions and performance against our SBTs** on pages 96 to 97

Read more about our **2021/22 operational performance** on pages 52 to 75 and also in our annual performance report on our website

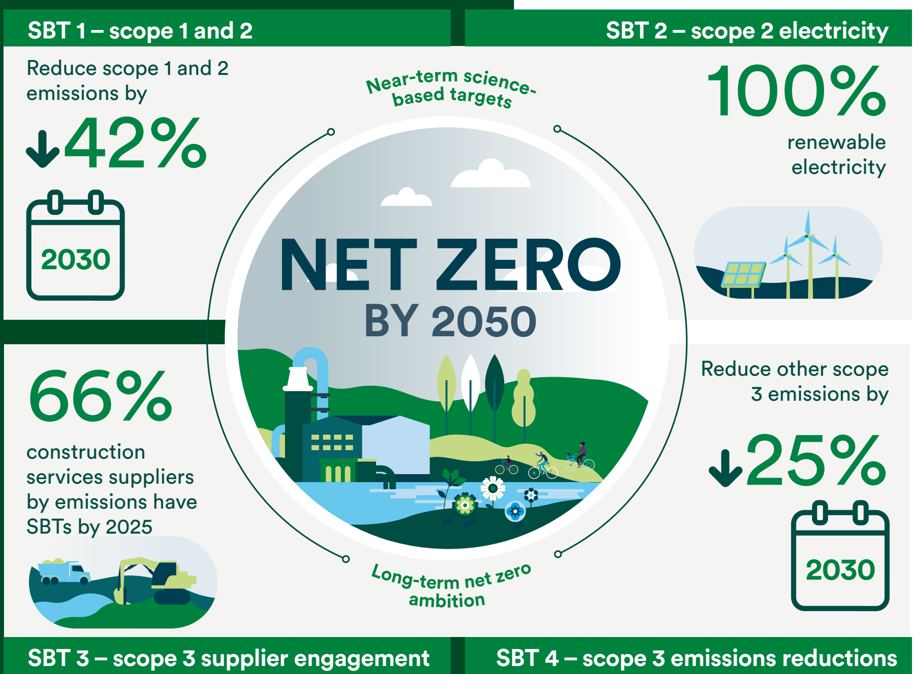
Metrics to assess climate-related risks
Our vulnerability to climate-related risks is determined by two factors: the physical and transitional impacts we experience and the control measures we have put in place to manage the risks and realise opportunities. To manage our physical risks effectively we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

Metrics to manage climate-related risks
We manage our climate-related risks by putting in place controls such as those as set out on page 90 and in Appendix A.3 of the climate change adaptation report. The effectiveness of these controls is seen in our operational performance metrics. The following metrics are recognised as key to our resilience to a changing climate and are reported in the annual performance report:

- External flooding incidents;
- Hydraulic external flood risk resilience;
- Hydraulic internal flood risk resilience;
- Internal sewer flooding;
- Leakage;
- Per capita consumption;
- Raising customer awareness to reduce the risk of flooding;
- Areas of low water pressure;
- Risk of severe restrictions in a drought;
- Risk of sewer flooding in a storm;
- Sewer collapses;
- Unplanned outages;
- Water service resilience; and
- Water supply interruptions.

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

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



Energy and carbon report

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

We use the financial control approach so our energy and carbon accounting is aligned with the consolidated financial statements for United Utilities Group PLC for 1 April 2021 to 31 March 2022. This includes subsidiaries listed in section A8 on page 260.

Energy strategy

Our energy management strategy has four objectives:

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

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

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

Energy efficiency actions taken

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

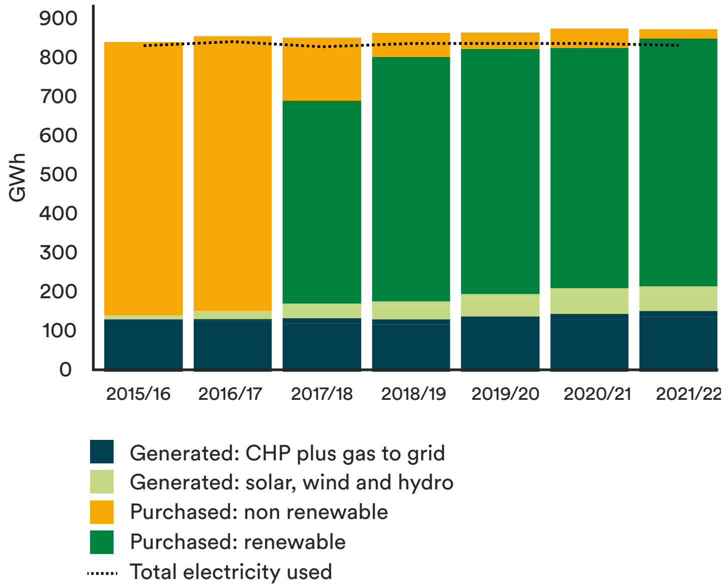
- people – optimising ways of working;
- systems – improving visibility of use and analysis of data systems; and
- technology – targeted investment to remove technological inefficiencies.

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

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

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

Electricity use, purchase and self generation[1]



(1) Electricity purchased plus self generated is in excess of that used. The difference is what was exported to the grid.

	2021/22 GWh	2020/21 GWh	2019/20 GWh
Energy use			
Electricity	**803.3**	807.3	802.3
Natural gas	**33.8**	40.0	38.3
Other fuels[1]	**123.1**	104.0	116.3
Total energy use	**960.2**	951.3	956.9
Electricity purchased			
Renewable tariff – half hourly[2]	**589.4**	591.4	602.9
Standard tariff – non-half hourly[3]	**22.3**	47.8	40.8
Renewable tariff – non-half hourly[3]	**21.6**	–	–
Total electricity purchased	**633.3**	639.2	643.7
Renewable energy generated			
CHP	**133.8**	127.6	121.5
Solar	**47.8**	50.7	42.6
Wind	**4.8**	5.3	5.7
Hydro	**7.2**	6.9	6.8
Biomethane[4]	**15.9**	14.8	14.2
Total renewable energy generated	**209.5**	205.3	190.8
Renewable energy exported			
Electricity[5]	**23.5**	22.4	18.1
Biomethane[4]	**15.9**	14.8	14.2
Total renewable energy exported	**39.4**	37.2	32.3

(1) Other fuels includes liquid fuel purchased for processing and transport plus business mileage in private vehicles converted to GWh using 2021 UK Government GHG Conversion Factors for Company Reporting.

(2) Half hourly supply has been on a renewable tariff with 0g CO_2e/kWh emissions since June 2017.

(3) Non half hourly metered supplies were on a standard tariff up to the end of September 2021. The emissions were 289g CO_2e/kWh in 2019/20, 178g CO_2e/kWh in 2020/21 and 188g CO_2e/kWh in 2020/21. Non half hourly supplies moved to a new supplier on a 0g CO_2e/kWh renewable tariff on 1 October 2021.

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

(5) Electricity exported was generated by solar, wind and hydro.

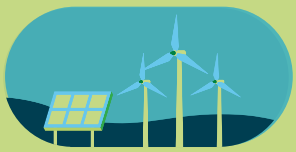
Our approach to climate change

Greenhouse gas emissions

Our carbon footprint is calculated by estimating the individual greenhouse gases that result from all United Utilities' activities, converted into a carbon dioxide equivalent (tCO_2e). We report scope 1, 2 and all relevant scope 3 emissions. Emissions have been estimated using the UK water industry Carbon Accounting Workbook v16 (CAW v16), the 2021 UK Government GHG conversion factors for company reporting and CEDA (Comprehensive Environmental Data Archive) factors. Our greenhouse gas inventory has been independently verified and certified by Toitū carbonreduce programme, as aligned to the GHG Protocol Corporate Accounting and Reporting Standard (2015) and the international carbon reporting standard ISO 14064, Part 1:2018.

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

Scope 2
Emissions from purchased electricity.



SCOPE 1 & 2 GREENHOUSE GAS EMISSIONS		2021/22 tCO_2e	2020/21 tCO_2e	SBT baseline 2019/20 tCO_2e
Scope 1 Direct emissions				
Direct emissions from burning of fossil fuels		19,207	17,371	15,247
Process and fugitive emissions from our treatment works – including refrigerants		96,020	98,569	96,186
Transport: company-owned or leased vehicles		16,507	16,634	15,739
Total scope 1		131,735	132,574	127,172
Scope 2 Energy indirect emissions				
Grid electricity purchased	Market-based[1]	4,201	8,507	11,789
	Location-based[2]	134,492	149,030	164,521
Total scope 2	Market-based	4,201	8,507	11,789
	Location-based	134,492	149,030	164,521
TOTAL SCOPE 1 & 2 (GROSS)	Market-based	135,936	141,082	138,961
	Location-based	266,226	281,604	291,693
Avoided emissions				
Renewable electricity exported		-4,317	-4,184	-3,979
Biomethane exported	Market-based[3]	0	0	0
	Location-based	-10,283	-9,725	-9,302
Green tariff electricity purchased	Market-based	n/a	n/a	n/a
	Location-based	-128,604	-154,095	-136,644
Total avoided emissions	Market-based[3]	-14,600	-13,909	-13,281
TOTAL SCOPE 1 & 2 (NET)	Market-based[3]	131,619	136,897	134,982
	Location-based	118,429	129,680	114,202

(1) Market-based figures use emission factors specific to the actual electricity purchased. If electricity is on a standard grid tariff they are calculated using factors from suppliers' public fuel mix disclosures, as shown in energy use table on page 95.

(2) Location-based figures use average grid emissions to calculate electricity emissions and are shown in blue.

(3) Exported biomethane sold with green gas certificates so has zero avoided emissions in market based accounts. Note in 2022 we have improved disclosure to report both location and market-based methods so the net totals for 2019/20 and 2020/21 have been restated.

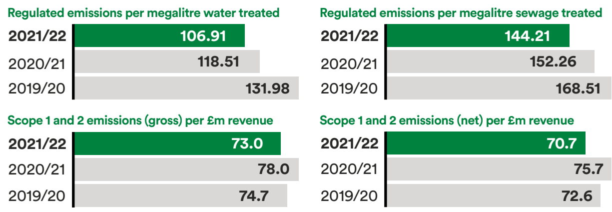
Scope 3
Emissions from our value chain, e.g. sludge disposal, business travel and products and services.

SCOPE 3 GREENHOUSE GAS EMISSIONS	2021/22 tCO_2e	2020/21 tCO_2e	SBT baseline 2019/20 tCO_2e
Scope 3 Other indirect emissions			
Category 1: Purchased goods and services[1]	292,946	271,871	213,442
Category 2: Capital goods[1]	112,498	95,968	128,286
Category 3: Fuel and energy-related emissions	58,948	42,599	45,262
Category 4: Upstream transportation and distribution (sludge transport)	103	1,119	3,374
Category 5: Waste generated in operations (including sludge disposal to land)	25,458	26,333	27,936
Category 6: Business travel (public transport, private vehicles and hotel accommodation)	1,138	1,226	3,508
Category 7: Employee commuting and home working	4,066	4,108	4,231
TOTAL SCOPE 3	495,145	443,224	426,039
Scope 3 SBT measure (excluding category 2)	382,647	347,256	297,753

(1) For Category 1 and 2 we use CEDA (an EEIO (environmentally-extended input-output) inventory) to estimate emissions. Other categories use actual activity records and UK government conversion factors.

United Utilities' greenhouse gas emissions intensity

As in previous years, we state our emissions as tonnes CO_2 equivalent per £million revenue. We include scope 1 and 2 (market-based) emissions only in this measure. We also report the regulated emissions kilograms CO_2 equivalent per megalitre treated (using the location-based method as calculated in the CAW v16), as these are common metrics for our industry.

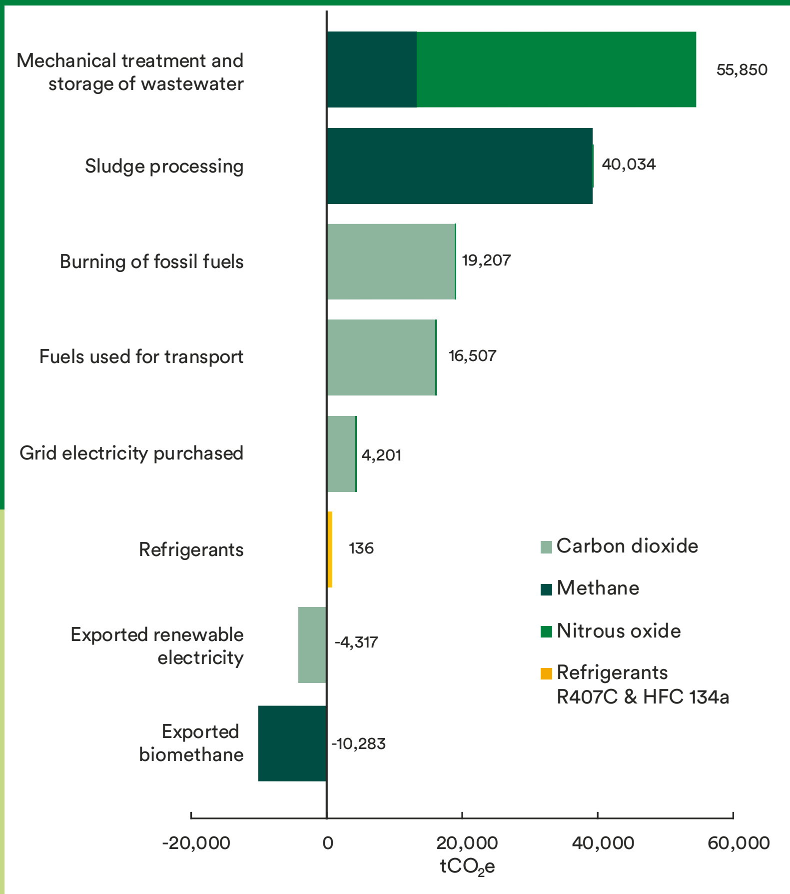


Scope 1 emissions

Wastewater and sludge processes cause 73 per cent of our scope 1 emissions as the gases released, nitrous oxide (N_2O) and methane (CH_4) have much greater global warming potentials than carbon dioxide (CO_2).

Our process emissions are currently estimated as a direct function of the amount of wastewater we treat. We are undertaking research with other UK water companies to better quantify these emissions from measured values and to find ways to reduce or capture those emissions for beneficial use.

We are investigating and trialling ways to reduce our use of fossil fuels, including for transport, through both efficiencies and use of alternative fuels.

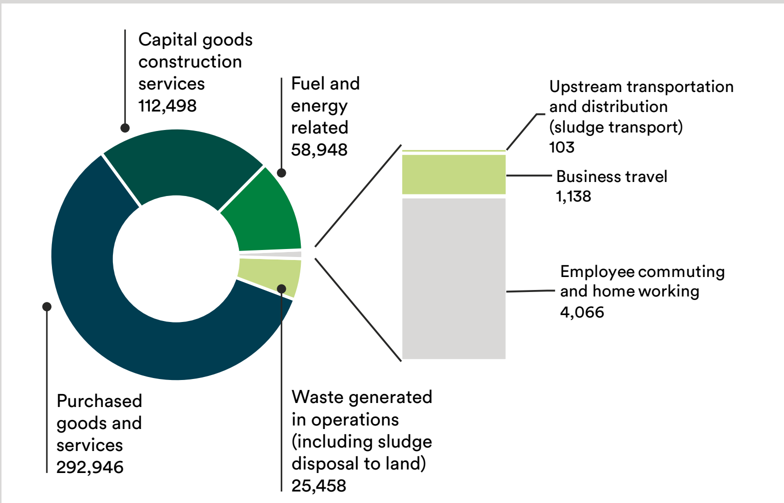


Scope 2 emissions

Our market-based scope 2 emissions have halved this year because we switched our remaining non-renewable purchased electricity to a renewable tariff in October 2021. Next year these emissions will be negligible.

Scope 3 emissions

Like most organisations, most of our scope 3 emissions are in GHG Protocol category 1 (products and services) and category 2 (capital goods); the latter being those provided by our construction services suppliers. We currently calculate category 1 and 2 emissions using records of the amount we have spent. This provides an indicative estimate but does not show the GHG impact of management choices, instead fluctuating with the scale of our investment programme. This can be seen in our increase in reported emissions this year compared to last. We are working internally and with supply chain partners to enhance relevant data and systems so that we can calculate these emissions based on types and quantities of materials used, thereby showing the full impact of our management choices.



Our approach to Task Force on Nature-related Financial Disclosures (TNFD)

Launching in 2023, the Task Force on Nature-related Financial Disclosure (TNFD) aims to provide a risk and disclosure framework for organisations interacting with the natural environment. It will adopt a four-pillar approach similar to that of TCFD covering governance, strategy, risk management, metrics and targets.

Overview

We are dependent upon, and impact, the natural environment from the quality and quantity of water we abstract for treatment and supply of drinking water, through to treated wastewater we return to rivers and biosolids we recycle to land. We are responsible for over 56,000 hectares of water catchment land.

Given the pressures from climate change and population growth on the natural environment, we do not underestimate the contribution we can make in restoring healthy and resilient ecosystems. We need to work collaboratively with like-minded organisations to deliver nature-based solutions as these offer many benefits including carbon sequestration, cleaner water and improved biodiversity. This is at the heart of our Catchment Systems Thinking Approach (CaST).

We've joined the TNFD forum as a contributing member to help us as we become an early adopter of TNFD reporting.

Governance

Our interactions with the natural environment are broad and complex. Overall accountability rests with executive management who strive to comply with the legal and regulatory requirements as set out in our environmental policy. Matters are regularly reviewed at the board's corporate responsibility committee. The environmental advisory group is a management group with a remit to ensure the delivery of the environmental policy commitments including nature-related strategies (e.g. land, catchment, clean air, plastics, waste, water quality, water resources, and natural capital). Governance for these strategies is through cross-departmental working groups comprised of subject matter experts and decision makers to drive implementation. Governance around investment in nature-related risks and opportunities is applied as part of our Internal Control Manual.

Strategy

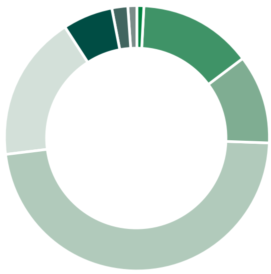
Protecting and enhancing the natural environment is a key part of the 'and more' of our purpose. We protect the environment through maintaining compliance and meeting regulatory requirements. We enhance by driving performance, adopting best asset management practices, and investing in nature-based and other environmental solutions. Our environmental policy is underpinned by a framework of strategies and long term plans in response to nature-related risks and opportunities. Some of these plans are statutory requirements, such as the Water Resources Management Plan, and are reviewed every five years as part of the price review process. Our company business plan details the delivery plans for the five years up to 2025.

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

Read more at **unitedutilities.com/corporate/responsibility/stakeholders/catchment-systems-thinking**

Much of the land that we own is designated as Sites of Special Scientific Interest (SSSI), which indicates the importance of the habitat for biodiversity. Ninety-four per cent of SSSIs on our land now meet favourable or unfavourable recovering condition status, in part because we pioneered the use of nature-based solutions to address raw water quality when we started our SCaMP programme in 2005. Designated habitats include blanket bog, moorland and heath and are home to many important species. We recognise our role as a steward of our land and make decisions based on the benefits and impacts our operations have on the natural environment. The land we own is made up of different land cover types, such as grassland and woodland.

Land cover types across our land holding



Land cover type	%
Arable	1%
Bog	14%
Woodland	11%
Grassland	48%
Mountain, moorland and heath	18%
Fresh water	6%
Urban area	2%
Other	0%

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

Risk management

Many key risks in our risk management assessments are linked to the natural environment. The risk breakdown structure that underpins our operational risk assessment framework includes consequences related to biodiversity, flooding, drought, water quality, recreational access, carbon storage, air quality and waste. Through our longer-term planning processes, we model a range of environmental risks such as a one in 100-year storm or drought and take appropriate action to include mitigation options in the plans. Read more about our risk and resilience framework on pages 100 to 102.

There is a close link between nature and climate change with many pressures on the natural environment becoming more acute as the climate changes. Our climate change adaptation report highlights key physical risks related to the natural environment. Two of our carbon pledges – on tree planting and peatland restoration – are intrinsically linked to the natural environment.

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

Read more at **unitedutilities.com/globalassets/documents/pdf/pr24---unlocking-nature-based-solutions-to-deliver-greater-value.pdf**

Metrics and targets

To measure our performance we demonstrate delivery against contributing targets from a number of statutory requirements such as the condition of protected sites, biodiversity net gain, environmental performance and supporting strategies. Our long-term nature-based targets align with government expectations such as achieving 75 per cent favourable condition for SSSI locations by 2042. We are committed to improving surface, groundwater and bathing water quality in the immediate term and beyond. We will input to the consultation on the Environment Act water targets in 2022 as these will be an important mechanism to drive environmental improvement and meet the objectives for the water environment in the Government's 25-year environment plan.

We are the only water company to set a natural capital outcome delivery incentive in our business plan for 2020–25. This is measured by demonstrating additional value created through ecosystem services for customers and the environment. We achieve this by implementing nature-based solutions where they offer best value compared against a hard-engineered solution (e.g. to improve water quality). Read more about our environmental performance on pages 64 to 67.

We were a key contributor to the North West's first natural capital account developed in collaboration with many regional organisations. By considering this baseline value, we can benchmark the impact of future changes to our natural assets and quantify improvements. It is helping to understand how valuable the region's natural capital assets are. In 2022, we will update our own corporate natural capital account as part of a five-yearly review cycle and we will report on this next year.

Next steps

In March 2022, the TNFD unveiled the first version of its nature-related risk-management and disclosure framework. The framework, which will be modified over the next 18 months, is designed to align with the International Sustainability Standards Board, which was officially unveiled at COP26. Working with the Taskforce we will continue to develop how we disclose nature-related information.

Our risk management

Our risk and resilience framework

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

Our approach to risk and resilience

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for 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 and resilience framework provides the foundation for the business to anticipate threats to delivering an effective service in these challenging times, and to respond and recover effectively when risks materialise. Key components of the framework include:

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

Continuous improvement is a key feature of the framework, which incorporates a maturity assessment model to identify areas to enhance. Based on risk management capabilities relative to five levels of maturity, a recent assessment has supported the development of a road map of improvements. This includes further enhancement to risk appetite and tolerance, greater focus and analysis of cross-cutting themes and improved escalation of data from operational risk management systems.

Risk appetite and tolerance

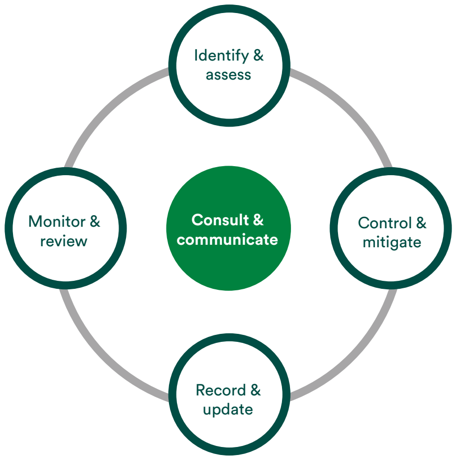
Focused on supporting decision-making, the risk appetite and tolerance framework consists of a package of measures. The General Risk Appetite represents financial limits against which event-based risks are compared at each full and half-year assessment and reporting cycle. In parallel are a series of strategic statements which align directly to the principal risks (see pages 104 to 105). Each statement reflects the strategic intent, strategic theme, relevant stakeholders and governance, but fundamentally emphasises the attitude to risk taking and control relative to four descriptors:

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

As a regulated company providing essential public services none of the principal risks have risk accepting as a strategic direction or approach.

Underpinning each strategic statement, and currently under development, are a series of more tangible, tactical statements with specific levels and limits.

How we identify and assess risk



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

Each risk is event based and is sponsored by a senior manager who is responsible for the analysis of the corresponding causal factors, consequences and the control effectiveness, taking account of both the internal and external business environment. This process quantifies the likelihood of the event occurring and the full range of potential impacts from a minimum (best case) to a maximum (worst case). Comparing this position against the desired target state, in combination with the strengths, weaknesses and gaps of the control environment, supports the decisions for further mitigation as appropriate. This ongoing analysis culminates in the biannual business unit risk assessment (BURA) which forms part of the governance and reporting process (as outlined opposite) to ensure consistency of approach and a true reflection of the risk facing the company. It also serves to calibrate the most significant risks from a financial and reputational context and to assess how these relate to our risk appetite.

Governance and reporting process

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

Twice yearly the 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 (as detailed on pages 104 to 105), and emphasises the most significant event-based risks (summarised on pages 106 to 108) 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 (see page 109). In addition to the biannual risk reporting, specific risk topics are reported to the board to support decision-making. The 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.

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.

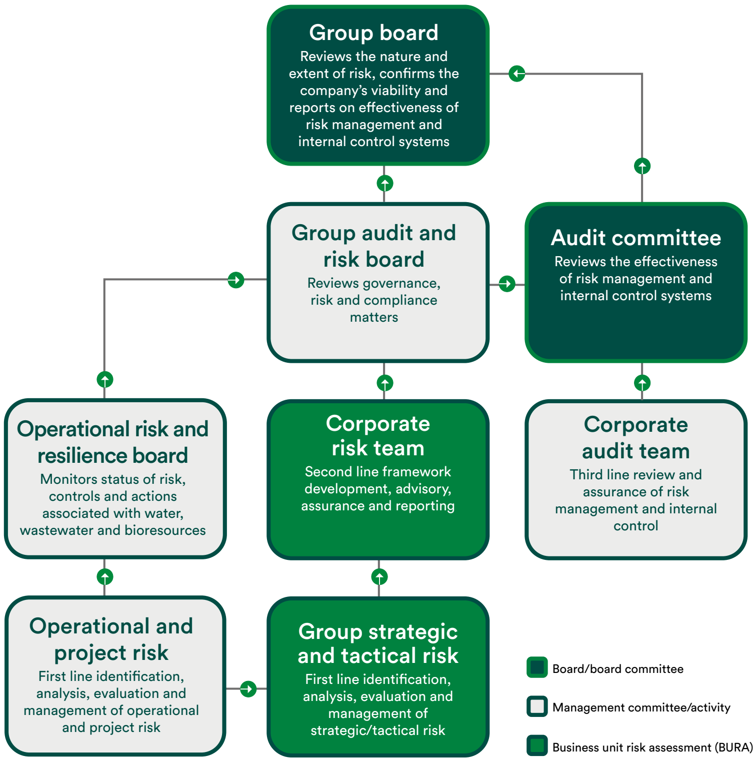
The executive-led GARB focuses on: the adequacy, effectiveness and performance of governance processes; risk management and internal control; monitoring compliance and assurance activities; identification of emerging themes and trends; and resilience across the group.

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 is based on the value chain of the company, with the ten principal risks representing inherent risk areas (primary and supportive) where value can be gained, preserved or lost relative to the performance, future prospects or reputation of the company. Underpinning the principal risks, the profile consists of approximately 100 event-based risks, each of which is allocated to one of the ten inherent risk areas based on the context of the event, enabling the company to consider interdependency and correlation of common themes (see page 102) and control effectiveness.

The governance and reporting process



Principal risk heat map

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

Six of the principal risks have remained relatively stable in the last twelve months with the following four demonstrating an increase in exposure:

- **Wastewater service** associated with change in legislation;
- **Supply chain and programme delivery** due to economic conditions;
- **Health, safety and environmental** due to the uncertainty of achieving the net zero carbon commitments; and
- **Political and regulatory** due to the challenge of delivering customer and environmental improvements whilst maintaining fair value to customers

See pages to 104 to 105 for further details of the principal risks.

Risk exposure

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

- Decreased
- Stable
- Increased

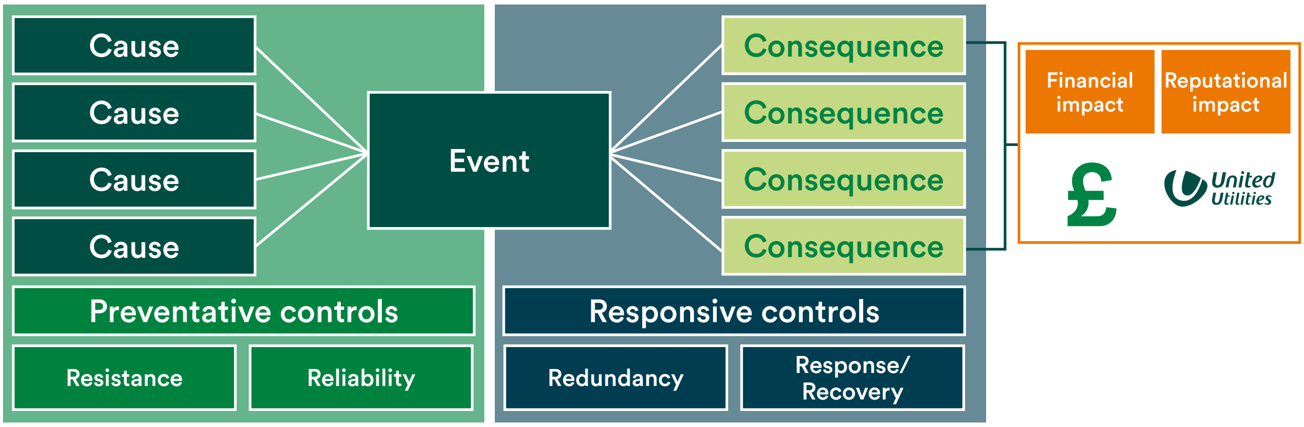
Principal risks

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

Our risk management

Common themes

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



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 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) – see pages 86 to 97.
- **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: post-Brexit changes in law bring an element of uncertainty; and the introduction of competition, while positive to customers and markets, can affect ongoing revenue and the asset base.
- **Economic conditions:** Macro events 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, corporate culture is important to maintain high performance and cuts across the majority of risks in the profile. In an increasingly challenging business environment, our focus is to continue to embed a culture of innovation, customer service and behaving in a responsible manner 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 four common impact themes:

- **Customers:** Customers are impacted through our service offering, the quality of their experience when dealing with us, and how our operational and capital schemes affect them in the community.
- **Environment:** Our assets, operations and capital programmes can have a significant impact on the environment in both rural and urban settings. As a major land owner and operator of a large fleet of vehicles, the way we manage these also has environmental implications.
- **Investors:** The vast majority of risks in the profile have financial implications that could affect shareholder investment in the short and long term. Reputational impact associated with ethics, environmental protection and efficiency is also relevant for investors' interest in the company.
- **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.


United
Utilities
Water for the North West

Our risk management

Our principal risks

Inherent risk area (principal risk)[1]	Strategic theme	Sponsor(s)	Principal risk description	Causal factors themes (Drivers/influences of risk)
1 Water service		• Water, wastewater and digital services director	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.	• Climate change • Demographic change • Legal and regulatory change • Asset health
2 Wastewater service		• Water, wastewater and digital services director	The failure to remove, treat and return water to the environment and recycle sludge to land.	• Climate change • Demographic change • Legal and regulatory change • Asset health
3 Retail and commercial		• Customer and people director • General counsel and company secretary	Failing to provide good and fair service to domestic customers and third-party retailers or a failure of or issue in relation to non-regulated interests.	• Legal and regulatory change • Economic conditions • Asset health • Culture
4 Supply chain and programme delivery		• Commercial, capital delivery and engineering director	The potential ineffective delivery of capital, operational or functional processes/programmes including change.	• Legal and regulatory change • Economic conditions • Culture
5 Resource		• Customer and people director • Health, safety and wellbeing and estate services director • Water, wastewater and digital services director	The potential failure to provide appropriate resources (human, technological or physical) required to support business activity.	• Climate change • Legal and regulatory change • Economic conditions • Asset health • Culture
6 Finance		• Chief financial officer	The potential inability to finance the business appropriately.	• Demographic change • Legal and regulatory change • Economic conditions • Asset health
7 Health, safety and environmental		• Environment, planning and innovation director • Health, safety and wellbeing and estate services director	The potential harm to employees, contractors, the public or the environment.	• Climate change • Asset health • Culture
8 Security		• General counsel and company secretary	The potential for malicious activity (physical or technological) against people, assets or operations.	• Economic conditions • Asset health • Culture
9 Conduct and compliance		• Corporate affairs director • General counsel and company secretary	The failure to adopt or apply ethical standards, or to comply with legal and regulatory obligations and responsibilities.	• Climate change • Demographic change • Legal and regulatory change • Economic conditions • Asset health • Culture
10 Political and regulatory		• Corporate affairs director • General counsel and company secretary • Strategy, policy and regulation director	Developments connected with the political, regulatory and legislative environment.	• Legal and regulatory change • Economic conditions

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

- Decreased
- Stable
- Increased

Our strategic themes

The best service to customers

At the lowest sustainable cost

In a responsible manner

Consequence themes and stakeholder groups	Appetite and tolerance[2]	Control/mitigation	Top five event-based business risks (*most significant group risks – see pages 106 to 108)
• Customers • Environment • Investors	**Water** Averse	• Strict quality controls and sampling regime • Physical and chemical treatment with automation • Cleaning, maintenance and replacement of assets • Water resources and production planning • Pressure/flow management and leak detection • Integrated network and response capability	• Failure of Haweswater Aqueduct* • Water sufficiency* • Failure to treat water • Failure of the distribution system (leakage) • Dam failure*
• Customers • Environment • Investors	**Wastewater** Prudent **Bioresources** Moderate	• Physical and chemical treatment • Odour management systems • Drainage and wastewater management plans • Wastewater network operating model • Cleaning, maintenance and replacement of assets • Customer campaigns	• Wastewater network failure (sewer flooding)* • Failure to treat sludge* • Recycling biosolids to agriculture* • Wastewater treatment (permits) • Mersey Valley Sludge Pipeline
• Customers • Investors	**Retail** Prudent **Commercial** Moderate	• Customer-focused initiatives • Best practice collection techniques • Customer segmentation • Priority Services scheme • Data management and data sharing • Non-regulated operation governance	• Customer experience • Cash collection • Billing accuracy • Wholesale revenue collection • Developer services
• Communities • Customers • Environment • Investors • Suppliers	**Supply chain** Prudent **Programme delivery** Moderate	• Category management • Supplier relationship management • Capital, change and operational programme management • Portfolio, programme and project risk management	• Price volatility* • Unfunded developer programmes • Security of the supply chain • Dispute with supplier • Capital delivery programme
• Customers • Employees • Investors	**Resource** Moderate	• Adoption of effective technology • Multiple communication channels • Training and personal development • Talent, apprentice and graduate schemes • Change programmes and innovative strategies • Maintenance, replacement or renovation of assets	• Land management • IT asset support • Loss or failure of NIS systems • Business critical data • Employee relations
• Customers • Employees • Investors	**Finance** Prudent	• Long-term refinancing • Liquidity reserves • Counterparty credit exposure and settlement limits • Hedging strategies • Sensitivity analysis • Monitoring of the markets	• Credit ratings* • Pension scheme funding deficit* • Financial outperformance* • Tax efficiency/fair share* • Totex efficiency challenge*
• Communities • Employees • Environment • Investors	**Health, safety and wellbeing** Averse **Environment** Averse	• Strong governance and management systems • Certification to ISO 45001 and ISO 14001 • Benchmarking, auditing and inspections • Targeted engagement and improvement programmes • Carbon reduction initiatives • Self-generation of energy	• Carbon commitments* • Disease pandemic* • Occupational health exposure • Minor injuries • Process safety (bioresources and wastewater)
• Communities • Customers • Employees • Investors	**CNI and SEMD** Averse **Other** Prudent	• Physical and technological security measures • Strong governance, inspections and audits • Security authority liaison and NIS compliance • System and network integration • Business continuity and disaster recovery • Insurance	• Cyber* • Terrorism* • Criminality • Fraud • Data protection
• Communities • Customers • Employees • Environment • Investors • Suppliers	**Legislation** Averse **Other** Prudent	• Ethical supply chain, diversity and inclusivity policies • Data classification and levels of authorisation • Stakeholder engagement activities • Audits and peer reviews • Governance, risk assessment and horizon scanning • Brand comparisons and dashboard of culture metrics	• Water Plus • Bribery • Non-regulated assets • Procurement compliance • Corporate governance and listing rules compliance
• Customers • Employees • Environment • Investors	Appetite or tolerance cannot be determined due to no genuine choice or control	• Consultation with government and regulators • Communication with customers	• Price Review 2024 outcome* • Upstream competition (bioresources) • DPC exit – HARP • ASHE index • Upstream competition (water resource)

Notes

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

(2) **Appetite and tolerance:** Averse: A strong opposition to accept risk within business strategy or operational activity. Prudent: A reluctance to accept risk within business strategy or operational activity, but careful acceptance within tight boundaries. Moderate: Willingness to accept risk with regard to business strategy or operational activity provided this is within reasonable limits. Accepting: Willingness to accept risk with regard to business strategy or operational activity. (NB As a regulated company providing essential public services none of the principal risks have risk accepting as a strategic direction or approach).

Our risk management

The company's most significant event-based risks

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

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

1. Price Review 2024 outcome

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

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

Assurance: Extensive customer research and several external providers have been commissioned for technical optioneering. Second line assurance is provided through a dedicated price review team and a PR24 programme board. An internal audit is scheduled and external assurance is currently under procurement.

2. Failure of the Haweswater Aqueduct

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

Control/mitigation: A capital project to replace the tunnel sections of the aqueduct has already commenced with the completion in November 2020 of one section. The remaining sections are due to be replaced as part of Haweswater Aqueduct Resilience Programme (HARP) by 2029.

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

3. Wastewater network failure (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.

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

7. Failure to treat sludge

Risk exposure: This risk relates to the interdependency between wastewater and bioresource treatment activity in light of changing demographics, asset health and legislative/regulatory change. Industrial Emissions Directive (IED) now applying to biological treatment of sewage sludge within AMP 7, with no investment assigned to this requirement is a key factor.

Control/mitigation: The Throughput, Reliability, Availability, and Maintainability (T-RAM) of our facilities is a key area of mitigation, with formal service level agreements between the two core activities. In relation to IEDs, discussions at national level are being held to move the high capital cost improvements into PR24.

Assurance: Wholesale assurance and engineering technical governance provide second line assurance. Subject to cyclical internal audit and ad-hoc external strategic reviews.

8. Recycling of biosolids to agriculture

Risk exposure: This risk represents various impact scenarios including operational failures, increased restrictions or total ban of recycling biosolids to agriculture. Referencing the EA's interpretation of the Farming Rules for Water (FRfW) regulations and the increasing threat to recycling a large proportion of biosolids.

Control/mitigation: United Utilities is accredited to the UK Biosolids Assurance Scheme (BAS), which certifies that our treatment and recycling activities meet regulatory requirements and best practice. We also work closely with farmers and landowners and have robust standard operating procedures established with contractors.

Assurance: Wholesale assurance and engineering technical governance provide second line assurance. Subject to both cyclical internal and external audit.

9. Price volatility

Risk exposure: This risk reflects the inflationary pressures across all commodities, notably energy, associated with the post COVID-19 economic bounce back which have been exacerbated further by the conflict in Ukraine.

Control/mitigation: Contract provision with suppliers, hedging policy and supply agreements manage volatility and minimise vulnerability in the contract and price risk with the suppliers including periods of agreed fixed pricing and negotiation of CPI/H uplift on an annual basis.

Assurance: Market analysis and supplier engagement, combined with quarterly business reviews provide second line assurance. Due to the scale of procurement an energy governance panel has oversight over procurement and use.

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.

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

B. Financial outperformance

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

Control/mitigation: Interest rate and inflation management, ongoing monitoring of markets and regulatory developments, and company business planning.

Assurance: Second line assurance and oversight is provided by the board and treasury committee in addition to executive quarterly business reviews. Subject to cyclical internal audit reviews.

C. Dam failure

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

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

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

Key:

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

4. Cyber

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

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

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

5. Water sufficiency

Risk exposure: Water sufficiency is one of the most sensitive risks to climate, with the frequency of recent periods of extended hot, dry weather being evidence of changing circumstance and the potential for implementation of water use restrictions on customers.

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

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

6. Carbon commitments

Risk exposure: This risk focuses on the capacity and capability to decarbonise water and wastewater activity relevant to the Public Interest Commitments (PIC) to achieve net zero by 2030 in light of the growth pressures, lack of technological advances or innovation and the fundamental change of approach required.

Control/mitigation: We will continue to develop near-term initiatives to address process and energy emissions, and create woodland and restore peatland, while responding to an evolving policy and technological landscape. We are also developing a long-term strategy to reduce emissions and to fully understand and optimise potential decarbonisation initiatives and pathways.

Assurance: Water industry research and technical support combined with a climate change mitigation steering group provides second line assurance. An internal audit is scheduled and external assurance of emissions, regulatory reporting lines and science-based targets has been established.

10. Credit rating

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

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

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

D. 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.

Assurance: Tax policies are based on advice from multiple sources, including accountancy firms. Third-party assurance is provided by internal audit and accountancy firms.

E. 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.

Assurance: Wholesale assurance provides second line assurance, with internal audit undertaking various reviews.

F. Terrorism

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

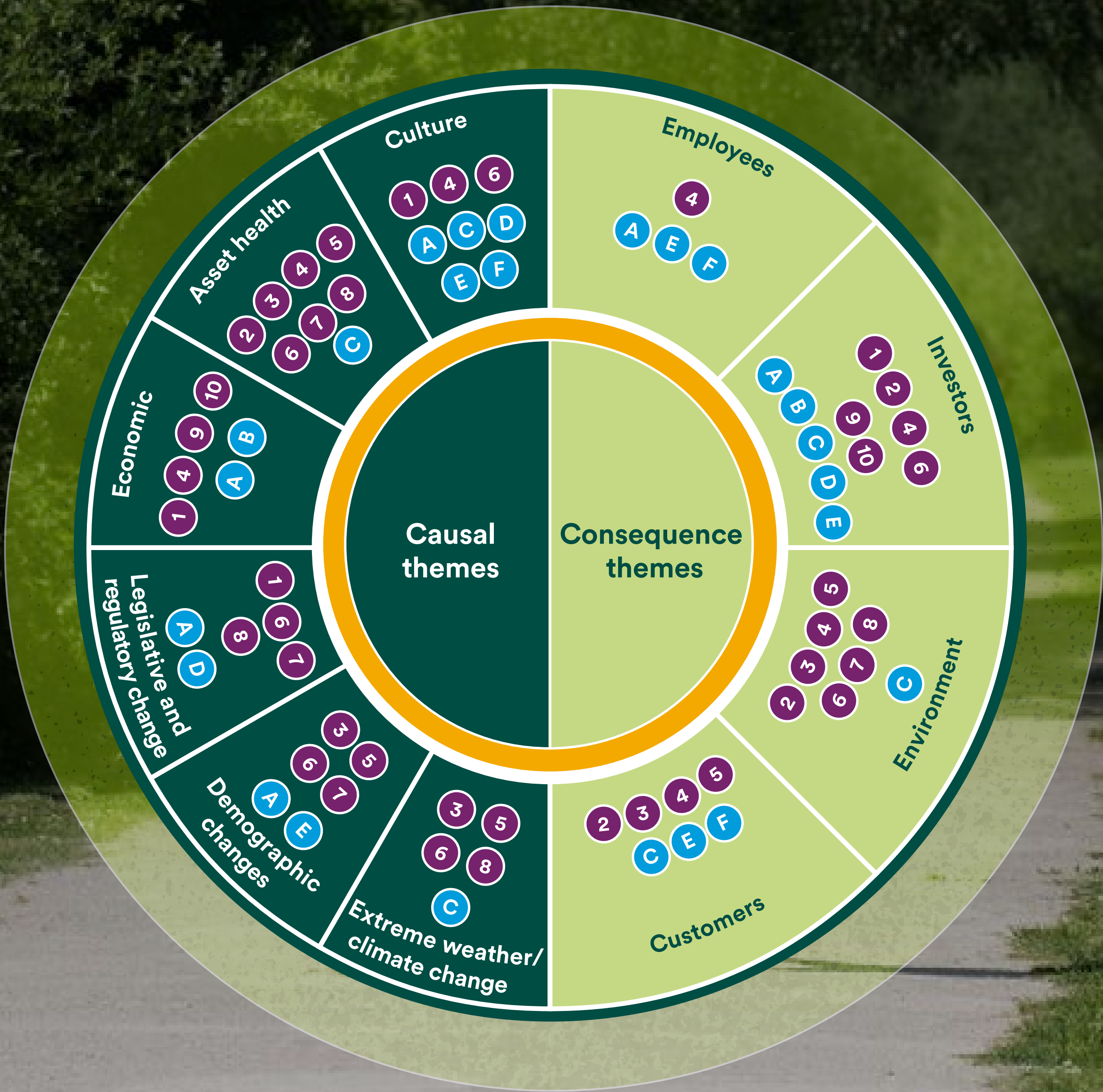
Control/mitigation: A risk-based protection of assets in line with the Security and Emergency Measures Direction (SEMD) and close liaison with the Centre for the Protection of National Infrastructure (CPNI), regional counter terrorist units, local agencies and emergency services.

Assurance: Security posture is based on various threat advisors. Second line assurance is provided by the security steering group. In addition, internal audit undertakes cyclical audits with external technical assurance being delivered by specialists.

Our risk management

The company's most significant event-based risks

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



Most significant event-based risks

1 Price Review 2024 outcome
2 Failure of Haweswater Aqueduct
3 Wastewater network failure (sewer flooding)
4 Cyber
5 Water sufficiency
6 Carbon commitments
7 Failure to treat sludge
8 Recycling of biosolids to agriculture
9 Price volatility
10 Credit rating
A Pension deficit
B Financial outperformance
C Dam failure
D Fair payment of tax
E Disease pandemic
F Terrorism

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

New and emerging risks

Following horizon scanning activity undertaken by the business, a watching brief is held over risks/issues which are worthy of note due to their new, emerging or reputational status, and typically have too high levels of uncertainty or complexity to quantify.

- **Plastics:** Attention on single-use plastic and microplastic (plastics less than 5 mm) pollution is ongoing, with their presence in the environment being linked to the water cycle. We are responding proactively and have formed a two pillar approach to addressing plastics, focusing on operational plastic waste and plastic in the water cycle.
- **Perfluoroalkyl and polyfluoroalkyl substances (PFAS):** There is a growing focus on PFAS chemicals including from our public liability insurers who are looking to exclude related liability claims. PFAS are manufactured chemicals used in everyday products. Known as 'forever chemicals', they are persistent, bioaccumulate and may be toxic even at low levels. We have completed an assessment of the likely presence of PFAS in raw water sources, the results of which are incorporated into the Drinking Water Safety Plan and aligned to the requirements set out by the Drinking Water Inspectorate.

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.

In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal at the end of March 2022. A decision is expected during summer 2022, which may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses.

Beyond this, there is nothing to report regarding material litigation, including in respect of the Argentina multiparty 'class action' reported on in previous years, and to which there have been no material developments.

Conflict in Ukraine

The conflict in Ukraine has led to a number of risks emerging (growing, developing or becoming more prominent) from a security and economic perspective.

- **Cyber:** The likelihood of the cyber risk has been increased to reflect the rising tensions between Russia and the west, while taking into account the adoption of increased security measures which include security operations teams on extended high alert and the rapid deployment of technical blocking of critical indicators of compromise.
- **Price volatility:** This risk reflects inflationary uplift across multiple commodities with energy the most volatile.
- **Security of the supply chain:** This risk reflects the knock on impact of inflationary pressure on manufacturing output with some production facilities reducing operations. It also reflects sanctions imposed against Russia and Belarus and the restriction or prevention of access to certain goods.
- **Cash collection:** Inflationary pressure is having a significant impact on the cost of living, affecting customers' ability to pay bills.
- **Supplier viability:** This risk reflects the impact the unprecedented price increases are having on suppliers who cannot honour locked prices in contracts and the threat of suppliers going into administration with a knock-on effect to operations and the capital delivery programme.
- **Credit rating:** Whilst underlying credit quality is not a concern, the impact of high inflation on finance expense results in the potential for Credit Agency thresholds to be breached when combined with other factors such as additional investment spend to meet environmental and service improvements over and above price review allowances.

Legislative/regulatory change

In addition to the emerging economic conditions exacerbated by the conflict in Ukraine, legislative and regulatory change is also a prominent emerging theme which impacts a number of event-based risks.

Relatively recent developments include uncertainty associated with the Environment Agency's interpretation of the Industrial Emissions Directive (IED) and Farming Rules for Water (FRfW) and implications for ongoing compliance, process and investment across wastewater and bioresources risk.

As a responsible company, United Utilities is committed to the protection and enhancement of the environment and can demonstrate many previous and current initiatives, the most recent being the road map to 'better river health' including a pledge to invest £230 million into 184 kilometres of rivers by 2025. We will continue to work closely with all our regulators and partners to deliver better solutions including full cooperation with the ongoing industry wide investigation by Ofwat and the Environment Agency into possible unpermitted sewage discharges into rivers and watercourses.

The Environment Act, which was enacted in November 2021, has potentially far more significant implications for the water sector, due to it being the UK's new framework of environmental protection. Depending on how the new legislation will be interpreted and applied, meeting its requirements may demand a fundamental shift in the water industry's approach to environmental risks, requiring significant investment across multiple AMPs.

Promoting a diverse and inclusive culture

We are committed to promoting diversity, inclusion and equality right across our business. We recruit from all areas of our community to help ensure our business reflects the customers we serve, and we strive to make sure all our people feel valued regardless of their gender, age, race, disability, sexuality or social background.

Governance

Sir David Higgins
Chair

Responsibilities: Responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

Qualifications: BEng Civil Engineering, Diploma Securities Institute of Australia, Fellow of the Institute of Civil Engineers and the Royal Academy of Engineering.

Appointment to the board: May 2019; appointed as Chair in January 2020.

Skills and experience: Sir David has spent his career overseeing high profile infrastructure projects, including: the delivery of the Sydney Olympic Village and Aquatics centre; Bluewater Shopping Centre, Kent; and the delivery of the 2012 London Olympic Infrastructure Project.

Career experience: Sir David was previously chief executive of: Network Rail Limited; The Olympic Delivery Authority; and English Partnerships. He has held non-executive roles as chair of both High Speed Two Limited and Sirius Minerals plc. In December 2019 he stepped down as non-executive director and chair of the remuneration committee at the Commonwealth Bank of Australia.

Current directorships/business interests: Chair of Gatwick Airport Limited and a member of the Council at the London School of Economics. He is Chair of United Utilities Water Limited.

Independence: Sir David met the 2018 UK Corporate Governance Code's independence criteria (provision 10) on his appointment as a non-executive director and chair designate.

Specific contribution to the company's long-term success: Sir David's experience of major infrastructure projects and his knowledge and understanding of the role of regulators will be invaluable in meeting the challenges of the current regulatory period and beyond. As chair of the nomination committee he is responsible for ensuring the succession plans for the board and senior management identify the right skillsets to face the challenges of the business.

Steve Mogford
Chief Executive Officer (CEO)

Responsibilities: To manage the group's business and to implement the strategy and policies approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Skills and experience: Steve's experience of the highly competitive defence market and of complex design, manufacturing and support programmes has driven forwards the board's strategy of improving customer service and operational performance at United Utilities. His perspective of the construction and infrastructure sector provides valuable experience and insight to support United Utilities' capital investment programme.

Career experience: Steve was previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica, chief operating officer of BAE Systems PLC and a member of its PLC board. His early career was spent with British Aerospace PLC. He is a former non-executive director of G4S plc.

Current directorships/business interests: He is Chief Executive Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers. With effect from 1 August 2022, he will join the board of QinetiQ Group plc as a non-executive director.

Specific contribution to the company's long-term success: As the Chief Executive Officer, Steve has driven a step change in the company's operational performance, and has implemented a Systems Thinking approach to underpin future operational activities and improved performance.

Phil Aspin
Chief Financial Officer (CFO)

Responsibilities: To manage the group's financial affairs, to contribute to the management of the group's business and to the implementation of the strategy and policies approved by the board.

Qualifications: BSc (Hons) Mathematics, Chartered Accountant (ACA), Fellow of the Association of Corporate Treasurers (FCT).

Appointment to the board: July 2020.

Skills and experience: Phil has extensive experience of financial and corporate reporting, having qualified as a chartered accountant with KPMG and more latterly through his role as group controller. He has a comprehensive knowledge of capital markets and corporate finance underpinned through his previous role as group treasurer and his FCT qualification. Having been actively engaged in the last four regulatory price reviews he has a strong understanding of the economic regulatory environment.

Career experience: Phil has over 25 years' experience working for United Utilities. Prior to his appointment as CFO in July 2020, he was group controller with responsibility for the group's financial reporting and prior to that he was group treasurer with responsibility for funding and financial risk management. He has been a member of EFRAG TEG and chaired the EFRAG Rate Regulated Activities Working Group.

Current directorships/business interests: Phil was appointed as a member of the UK Accounting Standards Endorsement Board in March 2021. He is chair of the 100 Group pensions committee and a member of both the 100 Group main committee and the stakeholder communications and reporting committee. He is Chief Financial Officer of United Utilities Water Limited and a non-executive director of Water Plus, a joint venture with Severn Trent serving business customers.

Specific contribution to the company's long-term success: Phil has driven forward the financial performance of the group and delivered the group's competitive advantage in financial risk management and excellence in corporate reporting.

Board role

- Chair
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- N Nomination committee
- C Corporate responsibility committee
- T Treasury committee
- R Remuneration committee
- A Audit committee
- Chair of the committee

Louise Beardmore

Chief Executive Officer designate (CEO designate)

Responsibilities: To work with, and support, the Chief Executive Officer in managing the group's business and to lead the creation of UUW's PR24 business plan, covering the next five-year regulatory period.

Qualifications: BSc (Hons) Business Management, Fellow of the Chartered Institute of Personnel Development, Vice-President of the Institute of Customer Services.

Appointment to the board: May 2022

Skills and experience: Louise has extensive experience working in utility companies both in the UK and internationally and she consistently demonstrates the ability to successfully design, drive and implement organisational strategy in different operating environments. She has a strong strategic mind set and a track record of delivering major transformational change within regulated utility and service structures, improving performance for all stakeholders.

Career experience: Louise joined United Utilities on its graduate programme and has comprehensive experience of the company, its customers and its regulators. She was appointed as customer service and people director in 2016, prior to which she held a number of senior positions across the United Utilities group. She has led teams in business transformation, water operations, electricity and telecoms as well as customer service and people capabilities both in the UK and internationally. She has recently completed the corporate director programme at Harvard Business School.

Current directorships/business interests: Louise is Chief Executive Officer designate of United Utilities Water Limited. She is a non-executive director of Engage for Success and named on the Northern Power Women's 'Power List' in recognition of her contribution to diversity, inclusion and talent, paving the way for female leaders in business.

Specific contribution to the company's long-term success: Louise's strategic vision and constant customer focus will continue to build on the group's significant performance and delivery for customers, communities and the environment.

Mark Clare

Senior independent non-executive director

Responsibilities: Responsible, in addition to his role as an independent non-executive director, for discussing any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or Chief Executive Officer.

Qualifications: Chartered Management Accountant (FCMA).

Appointment to the board: November 2013.

Skills and experience: Through his previous roles at British Gas and BAA, Mark has a strong background operating within regulated environments. His extensive knowledge of customer-facing businesses is particularly valuable for United Utilities in the pursuit of our strategy to improve customer service.

Career experience: Mark was previously chief executive of Barratt Developments plc. He is a former trustee of the Building Research Establishment and the UK Green Building Council. Mark held senior executive roles in Centrica plc and British Gas. He is a former non-executive director at BAA plc, Ladbrokes Coral PLC and Aggreko plc.

Current directorships/business interests: Mark was appointed as senior independent non-executive director at Wickes Group plc and as chair of the remuneration committee in April 2021. He is non-executive chair at Grainger plc and a non-executive director at Premier Marinas Holdings Limited. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: As senior independent non-executive director, Mark applies his own considerable board experience gained during his career to United Utilities and provides a sounding board to the executive in many areas.

Liam Butterworth

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MBA Business Administration and Management, CIM Marketing, HND Mechanical Production Engineering.

Appointment to the board: January 2022

Skills and experience: As a serving CEO, Liam brings strong engineering and industrial technology experience to the board, with a track record of managing performance and enhancing corporate culture.

Career experience: Liam has over 30 years' experience in the automotive industry. He started his career at Lucas Industries as an apprentice toolmaker, before moving into marketing, sales and purchasing at FCI Automotive. Joining Delphi Technologies plc in 2012, he became CEO in December 2017. He joined GKN Automotive Limited, owned by Melrose plc, as CEO in 2018.

Current directorships/business interests: Liam is CEO of GKN Automotive Limited. He is also a non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Liam's operational experience contributes to the board's continuing focus on the performance of the business via the Systems Thinking approach.

Stephen Carter CBE

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's agenda on acting responsibly as a business.

Qualifications: Bachelor of Laws (Hons).

Appointment to the board: September 2014.

Skills and experience: As the chief executive of a FTSE 100 listed company, Stephen brings current operational experience to the board. His public sector experience provides additional insight in regulation and government relations. His day-to-day experience in the information and technology industries ensures that the board is kept abreast of these areas of the company's operating environment.

Career experience: Stephen previously held senior executive roles at Alcatel Lucent Inc. and a number of public sector/service roles, including serving a term as the founding chief executive of Ofcom. He stepped down as a non-executive director at the Department for Business Energy and Industrial Strategy in December 2020. He is a former chair of Ashridge Business School. A Life Peer since 2008.

Current directorships/business interests: Stephen is group chief executive of Informa plc. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Stephen's experience as a current chief executive and his previous work in the public sector and government provides valuable insight for board discussions on regulatory matters.

Kath Cates

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: Solicitor of England and Wales.

Appointment to the board: September 2020.

Skills and experience: Kath has spent most of her career working in a regulated environment in the financial services industry. Since 2014, she has focused on her non-executive roles, chairing all the main board committees and undertaking the role of senior independent director.

Career experience: Kath previously was chief operating officer at Standard Chartered plc before which she held a number of roles at UBS Limited over a 22-year period, prior to which she qualified as a solicitor. She is a former non-executive director at Brewin Dolphin Holdings plc and RSA Insurance Group plc, where she chaired the remuneration committee.

Current directorships/business interests: Kath is a non-executive director at Columbia Threadneedle Investments where she chairs the TPEN audit committee. She is a non-executive director of TP ICAP Group Plc and Brown Shipley. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Kath's broad board experience and knowledge of different regulated sectors enables her to contribute to board governance and risk management at United Utilities.

Alison Goligher

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the board's activities concerning directors' remuneration.

Qualifications: BSc (Hons) Mathematical Physics, MEng Petroleum Engineering.

Appointment to the board: August 2016.

Skills and experience: Alison has strong technical and capital project management skills, having been involved in large projects and the production side of Royal Dutch Shell's business. This experience of engineering and industrial sectors provides the board with additional insight into delivering United Utilities' capital investment programme.

Career experience: Royal Dutch Shell (2006 to 2015), where Alison's most recent executive role was Executive Vice President Upstream International Unconventionals. Prior to that she spent 17 years with Schlumberger, an international supplier of technology, integrated project management and information solutions to the oil and gas industry.

Current directorships/business interests: Alison is a non-executive director and chair of the remuneration committee at Meggitt PLC and a part-time executive chair at Silixa Ltd. In February 2021 she was appointed as a non-executive director of Technip Energies NV. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Alison's understanding of the operational challenges of large capital projects and the benefits of deploying technology provides valuable insight into addressing the longer-term strategic risks faced by the business. Her role as the designated non-executive director for workforce engagement provides the board with a better understanding of the views of employees and greater clarity on the culture of the company.

Paulette Rowe

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board.

Qualifications: MEng + Man (Hons), MBA.

Appointment to the board: July 2017.

Skills and experience: Paulette has spent most of her career in the regulated finance industry and so provides the board with additional perspective and first-hand regulatory experience. Her experience of technology-driven transformation contributes to United Utilities' customer experience programme and its Systems Thinking approach.

Career experience: Previously held senior executive roles in banking and technology at Facebook, Barclays and the Royal Bank of Scotland/NatWest. Former trustee and chair of children's charity The Mayor's Fund for London.

Current directorships/business interests: CEO of Integrated and Ecommerce Solutions and member of the Paysafe Group executive since January 2020. Paysafe, a former FTSE 250 company, is now privately owned by PE firms CVC and Blackstone. She is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Paulette's wide-ranging experience in regulated sectors, profit and loss management, technology and innovation enables her to provide a first-hand contribution to many board topics of discussion. In her current executive role she often faces many of the same issues, and has been able to provide support to senior management at United Utilities.

Doug Webb

Independent non-executive director

Responsibilities: To challenge constructively the executive directors and monitor the delivery of the strategy within the risk and control framework set by the board and to lead the audit and treasury committees.

Qualifications: MA Geography and Management Science, Chartered Accountant (FCA).

Appointment to the board: September 2020.

Skills and experience: Doug has extensive career experience in finance from qualifying as a chartered accountant with Price Waterhouse, his executive roles as CFO of major listed companies and more recently through his non-executive positions and focus on audit committee activities.

Career experience: Doug was previously chief financial officer at Meggitt PLC from 2013 to 2018 and prior to that, he was chief financial officer at the London Stock Exchange Group plc and QinetiQ Group plc. He is a former non-executive director and audit committee chair at SEGRO plc, having stepped down in 2019.

Current directorships/business interests: Doug currently serves as a non-executive director and audit committee chair at Johnson Matthey plc, BMT Group Ltd and the Manufacturing Technology Centre Ltd. He is an independent non-executive director of United Utilities Water Limited.

Specific contribution to the company's long-term success: Doug applies his financial capabilities and his technical knowledge and experience covering audit and treasury matters in his role as chair of both the audit and the treasury committee strengthen the board's financial expertise.

Board role

- Chair
- Executive director
- Senior independent non-executive director
- Independent non-executive director

Committee membership

- N Nomination committee
- C Corporate responsibility committee
- T Treasury committee
- R Remuneration committee
- A Audit committee
- Chair of the committee

Changes to the board

Brian May left the board at the end of the company's AGM in July 2021, he ceased to be a director of United Utilities Water Limited at that time.

Neither **Mark Clare** nor **Stephen Carter** are seeking reappointment at the AGM in July 2022 having served on the board for nearly nine and nearly eight years respectively. As a result, at that time both will cease to be directors of United Utilities Water Limited.

Louise Beardmore was appointed after the year-end as a director and CEO designate on 1 May 2022 and, at that time, as a director of United Utilities Water Limited.

Corporate governance report
Letter from the Chair

Sir David Higgins
Chair

Quick facts
- Sir David Higgins met the independence criteria as set out in provision 10 of the 2018 UK Corporate Governance Code (the code) when he was appointed.
- The code requires that at least half of the board, excluding the Chair, should be non-executive directors whom the board considers to be independent. At 31 March 2022, seven out of the remaining nine directors were independent non-executive directors.
- The company secretary attends all board and committee meetings and advises the Chair on governance matters. The company secretariat team provides administrative support.
- The directors' biographies (see pages 112 to 115) include specific reasons why each director's contribution is, and continues to be, important to the company's long-term sustainable success.
- All directors are subject to annual election at the annual general meeting (AGM) held in July. The board concluded, following the completion of the evaluation of the effectiveness of the board, that each director continues to contribute effectively.
- The board recommends that shareholders vote in favour of those directors standing for a further term at the forthcoming AGM, as they will be doing in respect of their individual shareholdings.

Quick links
Schedule of matters reserved for the board: **unitedutilities.com/corporate-governance**

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at **frc.org.uk**

The board is proud to serve customers in the North West and keen to work with organisations operating in our region that share our values.

Dear shareholder
As I write, and cast my thoughts back to the early part of the year, our way of life and world of work was still very much dominated by restrictions associated with the pandemic. By the end of our financial year, we have transitioned at pace in some respects to the normality of our working lives before COVID-19. Virtual board meetings became a necessity during the pandemic, and, notwithstanding the usual electronic hiccups that we are all now so familiar with, provided an efficient alternative enabling us to ensure the usual governance mechanisms were adhered to. Still, it is good now to be again sitting alongside colleagues in meetings – and to be joined by Liam Butterworth, who was appointed as an independent non-executive director in January 2022. More detail on his appointment can be found on page 133.

Listening to our employees
Our Employee Voice panel (the panel) is chaired by Alison Goligher. The panel's work has been insightful in helping the board understand how management was responding to employees' needs and wellbeing during the pandemic. Having myself attended a meeting of the panel during the year, as did Kath Cates and Paulette Rowe, I saw first-hand that Alison's style as chair encourages open and interactive debate and meetings are very well attended. Panel meetings provide a rich source of employee-derived information for Alison to bring back to contribute to board discussions, and a view on whether there is any misalignment between the culture that the board sees and hears about from interactions and reporting by management, and the culture at grassroots level within the business.

The panel was involved in the planning and implementation of the hybrid working model which has now been applied to suitable roles across the organisation, a move undoubtedly accelerated as an outcome of the pandemic and now very much an important element for prospective employees in the employment market.

Proving our purpose
Throughout last year our employees were unstinting in their efforts to support our purpose to provide great water and more for the North West. The board extends its gratitude for their considerable commitment in serving customers, particularly during the additional challenges of the pandemic. We experienced unprecedented household consumption of water, putting immense pressure on water stocks, particularly in the Lake District during the summer of 2021, adding to the impact on our operational teams.

Diversity, equality and inclusion
As a board we are mindful of the benefits across the organisation of being a diverse, equitable and inclusive employer, and seek to bring about change to the demographics of our employees so that they better represent the traditionally overlooked groups within the communities we serve. The progress against our plans that has been achieved during the year is set out on pages 44 to 45. There are a number of limiting factors to the pace of change, particularly given the locations of our major hubs of employment, the large

number of traditionally male-dominated STEM roles in the business and our low rate of employee churn, but we are working hard to make the group an attractive employer across the gender and ethnic spectrum.

We have recently updated our board diversity policy (see page 133), explicitly setting out my role, as Chair of the board, of collectively fostering an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members. The policy was further amended: increasing the target for female representation on the board to at least 40 per cent and by including a target for the appointment of a female to one of the senior board positions.

Environmental, social and governance (ESG)

On pages 86 to 94 of this annual report we have included climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD). For a number of years we have reported against the TCFD, and for the first time at the forthcoming 2022 annual general meeting in July, the notice of meeting includes a resolution seeking an advisory vote on our climate-related financial reporting. Our stakeholders and other interested parties are increasingly seeking more reassurance on our environmental credentials. Proposing a resolution to shareholders at the annual general meeting, on an advisory basis, seems a logical next step as part of our strategy to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner. Furthermore, as part of the remuneration committee's review of the directors' remuneration policy, opportunities were sought to better reflect environmental matters in our executive remuneration arrangements. From 2022, our long-term incentives will include carbon measures, and in the new policy that will be put to shareholders for approval at the AGM there is an increased focus on environmental outcomes. See pages 163 and pages 169 to 176 for details about the policy review and the proposed new policy.

As a regionally-based company we are keen to develop strong collaborative working relationships with organisations that share our values and work in our geographic region, such as the joint initiative recently announced with The Rivers Trust, as part of our plan for Better Rivers: Better North West. Along with ensuring our operations progressively reduce impact to river health, our plan includes creating more opportunities for everyone to enjoy rivers and waterways. More information on our plan can be found on page 67.

In the following pages of this corporate governance report we have set out how the board has applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the code). On page 177 we have explained our proposals in relation to code provision 38.

Looking ahead

With the second year of the 2020–25 asset management period behind us, the board is beginning to focus on the early stages of the next price review process for the 2025–30 asset management period. Louise Beardmore will take the lead in the creation of the company's PR24 business plan, following her appointment as CEO designate with effect from 1 May 2022. Further information on the CEO designate appointment process can be found on page 130.

After 12 years, and leading the transformation of the group into one of the top performing water and wastewater businesses, Steve Mogford has expressed his wish to step down from the board and retire in early 2023. Until that time, he will continue to lead the business and in doing so provide a transition period for the leadership to pass to Louise.

In my time as Chair, I have found Steve to be a remarkable individual, and I look forward to continue working with him over the coming months.

Both Mark Clare and Stephen Carter will step down at the conclusion of the 2022 AGM, on behalf of the board I wish to thank them both for their valuable support and wish them well for the future.

Sir David Higgins
Chair

Read more about **working in partnerships** on page 55

Read more about **investing £765 million to deliver customer and environmental outcomes** on page 71

UK Corporate Governance Code

Reporting on the application of principles and against the provisions of the 2018 UK Corporate Governance Code

> "We have included climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures."

Corporate governance report

Board leadership and company purpose

1

Principle A:
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

We set out our application of principle A and provision 1 on pages 118 and 119, our reporting against risk as part of provision 1 on pages 100 to 109. The S172(1) Statement is on page 40.

Principle B:
The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The board is satisfied it has applied principle B - see page 16. See pages 125 to 126 and 183 for our reporting against provisions 2 and 5.

Principle C:
The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Application of principle C to identify the resource within the business is delegated to management, but monitored by the board through the measurement of performance. See page 137 regarding our succession pipeline, and page 139 for the board's approach to risk management and internal control.

Principle D:
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Engagement of stakeholders fulfilling the application of principle D, and our reporting against provision 3 is set out on pages 127 to 128 in relation to our engagement with shareholders and stakeholders.

Principle E:
The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The board recognises the importance of a two-way flow of communication and the importance of employees having the facilities to raise matters of concern. See pages 30, 60 and 126 to 127 in relation to engagement with employees for our reporting against provisions 5 and 6.

Providing great water and more for the North West

Embedding our purpose
Board members, individually and collectively, are cognisant of their statutory duties as set out in the Companies Act 2006 (the Act). In accordance with section 172 of the Act, directors are individually required to act 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. In doing so, the directors must have regard to the likely consequences of any decision in the long term and the interests of, among other matters, employees, customers, suppliers, the community and the environment, and on the company's reputation. By virtue of the long-term nature of the water and wastewater industry, thinking about our stakeholders is an integral part of our decision-making process and underpinned by our regulatory contract. The board's 2021/22 S172(1) Statement can be found on page 40, and provides examples of how our purpose is embedded in board decisions.

Incorporating sustainability in our stewardship along side creating value
Long-term sustainability is a key component of the way in which the board manages the business. With many parts of the water and wastewater network across the North West built over 100 years ago, the board continues to apply the ethos of sustainability and building assets that last, and, crucially, operate efficiently and effectively to serve customers' needs. The group's planning horizons can be found on pages 46 to 49. During the year, the board held deep-dive sessions to consider the group's Water Resources Management Plan and its Drainage and Wastewater Management Plan. Sustainability and environmental protection drivers underpin both these plans.

Set out on page 22, as part of our business model, is how value is created for our shareholders and other stakeholders in a sustainable manner. The board's governance approach, its culture and the way it operates the business is to behave responsibly towards all of the group's stakeholders.

Being a guardian for future generations
Environmental issues are high on the list of matters considered by the board. The corporate responsibility committee takes the lead in overseeing management's development of our climate change mitigation strategy, and reports regularly to the board on the matter. Plans are progressing to drive the group's transition to a low carbon future by minimising our contribution to global warming through a reduction in our carbon emissions. Carbon has been incorporated as a factor to be considered in:

- our investment appraisal and decision-making processes;
- our land management practices to enhance/improve natural capital;
- the innovation that we encourage both within our operations and through working with our partners and suppliers; and
- our implementation of a 'circular' mindset.

The board is kept fully informed by management on the impacts of climate change from an operational perspective. Extreme weather events impacting our region and our operations in recent years are increasingly common. When such incidents occur, the CEO keeps board members fully apprised of the impact on operations via virtual meetings and other forms of communication. The board would be informed of any material points of learning identified in the post-incident review process, and progress with the implementation of material actions. Our reporting against TCFD can be found on pages 86 to 94.

Improving river health and recreation
During the year, the board has been fully engaged in considering the criticism aimed at the group for its part in the health of some of the rivers in our region. This criticism has also been widely made in relation to a number of other companies operating in the wastewater sector. The sewerage network in the North West carries sewage and rainwater. Storm overflows are incorporated into the wastewater network to help to prevent the flooding of streets, homes and businesses during periods of heavy rainfall. When sewers and treatment plants are operating at full capacity they can spill storm water (including diluted sewage) into rivers via the storm overflow. The board has committed to £230m in environmental improvements, supporting at least a one third sustainable reduction in the number of spills recorded from our storm overflows by 2025 compared to the 2020 baseline.

Working with our regulators
Ofwat has introduced a new approach for major capital construction projects, namely Direct Procurement for Customers (DPC). The group's first project that has been approved for procurement via the DPC method is the Haweswater Aqueduct Resilience Programme (HARP), which the board considered during the year. The information currently available suggests that the DPC route has the potential to offer the best value for customers and therefore supports the position that this should be tested by progressing HARP through a DPC procurement process. Given the importance of this asset to the business, this decision is included in the statement by the directors in performance of their statutory duties in accordance with S172(1) of the Act and set out on page 40.

Diversity, equality and inclusion
The board recognises the need to recruit and retain fantastic people to enable the delivery of a great service as part of the long-term sustainable success of the business. Good progress has been made on the journey to drive forward diversity, equality and inclusion within the business, as evidenced by the findings of the specialist inclusion partner who conducted a progress review during the year, observing that there was now much greater recognition of the strategic importance of diversity, equality and inclusion within the business with 'great progress in all audited areas', since their initial engagement in October 2020. Further information on diversity, equality and inclusion can be found on pages 44 to 45. Furthermore, as part of the board diversity policy (see page 133) the 'tone from the top' by the Chair has been set, by including the requirement for an inclusive and belonging environment being fostered in the boardroom encouraging open and frank contributions from all board members.

Delivering against our regulatory contract
Under the current regulatory model, we are a monopoly supplier of water and wastewater services to our domestic customers. Simplistically, the opportunities for improving our financial performance are based on outperforming our five-year contract. Underlying this is

Overview of the board's responsibilities

- Sets the strategy of the group, ensuring the long-term success of the group for customers, investors and wider stakeholders.
- Is responsible for challenging and encouraging the executive team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set.
- Has responsibility for ensuring the company's internal control systems (including financial, operational and compliance) and processes are sound and fit for purpose (see pages 154 to 155).
- Must ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives. It reviews managerial performance annually.
- Approves appointments to and removals from the board and membership of the committees.
- Applies the principles of the code and reports against the provisions.
- Has oversight of major capital expenditure projects within UUW that exceed £150 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business.

Quick link

Terms of reference: **unitedutilities.com/corporate-governance**

Corporate governance report

a complex set of regulatory key performance indicators, including total expenditure (totex) outperformance, the outcome delivery incentive (ODI) mechanism, customer measure of experience (C-MeX) and financing expenditure (see pages 50 to 83) which are managed and monitored by the business.

Governance structure for the board and its committees
The board has responsibility for establishing the strategy, which is broken down into the three strategic themes. The governance structure encompassing the board, its principal committees and the principal management committees (and set out in the diagram below) contributes to ensuring that the group focuses on its strategic themes.

In line with the code, the board delegates certain roles and responsibilities to its principal board committees. While the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matters more deeply and gain a greater understanding of the detail. The committees then report back to the board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the board on matters requiring its approval. The reports of the principal board committees required by the code can be found on the subsequent pages. Minutes of the board and principal board committee meetings (with the exception of the remuneration committee) are tabled at board meetings and the chairs of each of the board committees report verbally to the board on their activities. The Chair chairs the nomination committee; all other principal board committees are chaired by independent non-executive directors who have particular skills or interests in the activities of those committees.

The executive team is chaired by the CEO, and its members are the senior managers who have a direct reporting line to the CEO. The executive team meets monthly. It is responsible for the day-to-day running of the business and other operational matters and implementing the strategies that the board has set. The diagram below shows the principal management committees and a brief description of their roles. These committees are vital to the implementation of the group's strategic themes, enabling senior management to meet together to discuss the needs of the business, raise issues, identify and delegate appropriate actions, and monitor progress. The board receives reports providing an updated overview of the business, and its financial and operational performance at every scheduled meeting,

Short biographies of the executive team can be found on the company's website at **unitedutilities.com/executive-team**

Governance structure of the board and its principal committees and the principal management committees

Group board
Chair – Sir David Higgins

Chief Executive Officer – Steve Mogford

Principal board committees

Audit committee
Chair: Doug Webb
Contribution to our strategy:
See pages 143 to 154

Remuneration committee
Chair: Alison Goligher
Contribution to our strategy:
See pages 160 to 194

Nomination committee
Chair: Sir David Higgins
Contribution to our strategy:
See pages 130 to 138

Corporate responsibility committee
Chair: Stephen Carter
Contribution to our strategy:
See pages 156 to 159

Treasury committee
Chair: Doug Webb
Contribution to our strategy:
See page 155

Principal management committees

Executive team
Chair: Steve Mogford, CEO
Contribution to our strategy:
This forum is responsible for implementing the board's strategy and the day-to-day operation of running the business and the CEO will cascade decisions made by the board to the business via this forum.

Group audit and risk board
Chair: Steve Mogford, CEO
Contribution to our strategy:
See page 101

Quarterly business review
Chair: Steve Mogford, CEO
Contribution to our strategy:
This forum is responsible for the quarterly review of operational, financial and health and safety performance.

Political and regulatory group
Chair: Gaynor Kenyon, corporate affairs director
Contribution to our strategy:
This forum is responsible for discussing political and regulatory issues affecting the company, where any 'horizon scanning' issues are raised and business responses to consultations are agreed.

Capital investment committee
Chair: Steve Mogford, CEO
Contribution to our strategy:
The committee is responsible for authorising expenditure relating to the capital investment programme.

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

Summary of board activity in 2021/22

Actions	Outcomes	Cross reference	Link to strategic themes
Leadership and employees			
Review of health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors.	Continued focus on the 'home safe and well' programme embedding a health and safety culture within the business, with added focus being placed on process safety improvements at operational sites.	See pages 60 to 62	
Review of board succession plans.	Succession plans for the appointment of a CEO designate and a non-executive director during the year and approved changes to the membership of the board committees.	See pages 130 to 134	
Reviewed progress with our aspiration for a diverse and inclusive workforce.	Board kept apprised of programme of work to increase diversity of the workforce and improve inclusivity, with progress independently assessed.	See pages 44 to 45	
People deep-dive session.	Provide the board with an in-depth view of the group's comprehensive people plan focusing on optimising next ways of working; accelerating digital capability; rewarding for outcomes; improving change and leadership capability; talent management and the effective employee experience.	See pages 60 to 62	
Reviewed and discussed the results of the annual employee engagement survey and received updates on employee voice workforce engagement mechanisms, including the Employee Voice panel chaired by Alison Goligher, the non-executive director designated for engagement with the workforce.	Board kept informed of the activities and insight provided by the Employee Voice panel and its links to the employee network groups, and the panel's contribution to the work on diversity and inclusion and the 'next ways of working' project.	See page 126	
Reviewed the company's dashboard of culture metrics and associated analysis.	Monitored and assessed culture and agreed it was aligned with the company's purpose, values and strategy.	See page 125	
Strategy			
Reviewed and monitored the progress against the climate change mitigation/carbon reduction strategy.	Board apprised of the maturing governance structures and options being considered to reduce the group's carbon footprint.	See pages 86 to 97	
Price Review 2024 (PR24) deep-dive session – developing strategy for PR24 relating to customers, stakeholders and financial matters. Discussed the timeline for PR24 and the overlap with related price review submissions, including the Drainage and Wastewater Management Plan, the Water Resources Management Plan and the Water Industry National Environment Plan.	Provided the board with an in-depth view on the price review process to facilitate the provision of strategic guidance.	See pages 48 to 49	
Received regular updates at each meeting of items with a strategic component, such as emerging changes to regulation, major capital expenditure and business structuring decisions.	Facilitated more informed board discussion and planning.	–	
Bioresource, energy and carbon deep dive session.	Provided an in-depth review of progress to develop a northern hub for sewage sludge treatment and consideration of the non-appointed business strategy for the bioresources market and reviewed the bioresources asset strategy.	See pages 95 to 97	
Held a full day meeting to consider the strategic development of the group and its long-term priorities.	In-depth review of the Haweswater Aqueduct Resilience Programme and Direct Procurement for Customers approach, water and wastewater strategy and the 2025–30 price review.	See page 40	

Corporate governance report

Actions	Outcomes	Cross reference	Link to strategic themes
Governance			
Reviewed and debated the overall risk profile of the group, and in particular the principal risks, emerging risks and risk appetite, including a review of the most significant operational risks.	Endorsed the nature, extent and management of key business risks and endorsed the view that the risk appetite approach and framework remained fit for purpose.	See page 100	
Reviewed the risk management systems, including financial, operational and compliance controls and reviewed the effectiveness of the internal control systems.	The risk management and internal control systems were considered to be effective.	See page 139	
Reviewed and discussed developments in cyber crime.	Approved the activities undertaken to enhance the effectiveness of the group's security controls.	See page 107	
Reviewed the terms of reference for the audit, remuneration, treasury and corporate responsibility committees and received post-meeting reports from the chairs of each committee summarising discussions and actions.	Approved amendments to the terms of reference of the company's committees as appropriate.	–	
Reviewed biannual updates on changes and developments in corporate governance.	Matters implemented as considered appropriate.	–	
Reviewed and discussed the internal evaluation of the board, its committees and individual directors and conflicts of interest.	Identified action points and any ongoing training needs.	See page 136	
Reviewed the performance of the statutory auditor and recommendation for reappointment at the 2022 AGM.	Accepted the recommendation from the audit committee that KPMG be reappointed at the 2022 AGM.	See page 150	
Reviewed the resolutions and notice of meeting for the 2022 AGM.	Approved the resolutions to be proposed at the AGM, and convened the AGM.	See page 197	
Reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain.	Approved the 2022/23 slavery and human trafficking statement.	See page 197	
Reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud.	Concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud.	See pages 127 and 154	
Reviewed the BEIS consultation on 'Restoring trust in audit and corporate governance'.	Approved the submission of the group's response to the BEIS consultation.	See page 151	
Considered the impact of the Russian invasion of Ukraine on the supply chain.	Sought to mitigate the impact on the supply chain and source alternative suppliers where possible.	See page 109	
Regulated business and its stakeholders			
Regular review of the progress of the Direct Procurement for Customers (DPC) approach and readiness of UUW as part of the project to replace sections of the Haweswater Aqueduct.	Board kept fully apprised of progress at key stages of the project through regular presentations at board meetings, deep-dive sessions and as part of strategy discussions. The UUW board approved the submission of the Outline Business Case to Ofwat under DPC.	See page 40	
Water resources deep dive.	Provided an in-depth view of the strategy for managing water resources and consideration of the opportunities to deliver new sources along with the planning process for the Water Resource Management Plan.	See page 48	
Reviewed customer service performance measures.	In-year customer performance measures monitored against regulatory targets.	See page 58	
Drainage and Wastewater Management Plan deep dive.	Provided an in-depth review of the submission and the opportunity for the board to challenge management's approach and provide strategic guidance prior to submission of the plan in June 2022.	See page 48	
Considered the final capital sanction to close out the West Cumbria supplies project to provide a long-term sustainable water supply to customers on the west coast of Cumbria.	Approved the final capital sanction.	See page 33	

Actions	Outcomes	Cross reference	Link to strategic themes
Other group business			
Considered the opportunities to dispose of United Utilities Renewable Energy Limited (UURE) and its non-regulated renewable asset portfolio.	Endorsed the marketing of UURE for sale.	See page 152	
Considered the consolidation of credit support in the form of guarantees to Water Plus to comply with the requirements of the Wholesale-Retail Code.	Approved the consolidation of credit support facilities, aligning with those provided by Severn Trent, the joint venture partner.	See page 256	
Shareholder relations			
Received and discussed a presentation by Rothschild Investor Advisory on investors' views and perceptions of the group in relation to, among other things: strategy; the group's unique selling proposition; performance; and how the company compares with other listed water and wastewater companies.	Provided the board with an indirect view of investor perceptions.	See page 127	
Regularly received and discussed feedback from roadshows, presentations and face-to-face meetings between investors and the Chair, CEO and/or the CFO and other communications received from large investors.	Provided the board with a direct view of investor perceptions and provided a point of comparison with the indirect approach.	See page 127	
Financial			
Reviewed the 2020–25 business plan and the 2022/23 budget.	Noted the 2020–25 business plan and approved the 2022/23 budget.	–	
Reviewed and approved the half and full-year results and associated announcements and applicable dividend payments.	Approved the half and full-year results and associated announcements and considered and approved the interim and final dividend payments to be paid to shareholders.	–	
Reviewed management's proposed going concern and long-term viability statement.	Approved the going concern and long-term viability statement.	See pages 140 to 142	
Reviewed tax policies and objectives proposed by management for 2021/22.	Approved tax policies and objectives for 2021/22.	See page 192	
Reviewed the annual pensions update.	Pensions strategy affirmed and endorsed the preferred methodology for Guaranteed Minimum Pension equalisation.	See page 232	
Reviewed the annual treasury update.	Approved the treasury policies; the group's funding requirements for the year and the potential sources to meeting these funding requirements; and managing the group's interest rate and other market risk exposure.	See page 155	
Reviewed the annual insurance programme for 2022/23.	Approved the annual insurance programme for 2022/23.	–	
Reviewed progress with material litigation involving the group.	Strategy to defend claims robustly affirmed.	See page 109	

Key

The best service to customers

At the lowest sustainable cost

In a responsible manner

Attendance at board and committee meetings

Eight scheduled board meetings were planned and held during the year (2021: eight). A number of other board meetings and telephone conferences were held during the year, as the need arose. The table below shows the number of scheduled meetings attended and the maximum number of scheduled meetings that the directors could have attended. Only in exceptional circumstances would directors not attend board and committee meetings. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of the non-executive directors has raised concerns over the time commitment required of them to fulfil their duties. Scheduled meetings are normally held face to face, but due to the COVID-19 restrictions impacting the early part of the year, meetings were held virtually.

On the evening before most scheduled board meetings all the non-executive directors meet either by themselves, or together with just the CEO, or with the entire board and the company secretary. This time is usefully spent enabling board members to build a rapport with each other and a relationship on a personal level, share views and consider issues impacting the company, resulting in better board dynamics and decision-making. In the early part of the year, due to the COVID-19 restrictions, these informal pre-board meeting sessions were held virtually.

	Board meetings[1]	Audit committee	Remuneration committee	Nomination committee	Corporate responsibility committee	Treasury committee
Sir David Higgins	8 / 8			6 / 6		
Steve Mogford	8 / 8				4 / 4	
Phil Aspin	8 / 8					3 / 3
Mark Clare	8 / 8		5 / 5	6 / 6		
Liam Butterworth	1[2] / 1	1[2] / 1		2[2] / 2		
Stephen Carter	8 / 8	3[3] / 4		4[3] / 6	4 / 4	
Kath Cates	8 / 8		5 / 5	6 / 6		
Alison Goligher	8 / 8		5 / 5	6 / 6	4 / 4	
Brian May	4[4] / 4	1[4] / 1	2[4] / 2	1[4] / 1		1[4] / 1
Paulette Rowe	8 / 8	4 / 4		6 / 6	1[5] / 1	
Doug Webb	8 / 8	4 / 4	3[6] / 3	6 / 6		2[6] / 2

● Meetings attended ● Possible meetings

(1) Actual number of meetings attended/maximum number of scheduled meetings which the directors could have attended during the financial year ended 31 March 2022.

(2) Liam Butterworth was appointed to the board and as a member of the audit committee and the nomination committee on 1 January 2022.

(3) Stephen Carter was unable to attend one meeting of the audit committee and two meetings of the nomination committee due to other commitments.

(4) Brian May stepped down from the board at the AGM held in July 2021.

(5) Paulette Rowe was appointed as a member of the corporate responsibility committee with effect from 26 October 2021.

(6) Doug Webb was appointed as chair of the audit committee, as a member and chair of the treasury committee and as a member of the remuneration committee on Brian May stepping down from the board in July 2021.

Purpose, vision, values and culture

Our purpose is to provide great water and more for the North West. Our vision is to be the best UK water and wastewater company through providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In setting the company's purpose, the board took into account information and views from stakeholders, utilising much of the research and engagement that contributed to our 2020–25 business plan submission and feedback obtained from customers as part of the company's brand refresh undertaken during 2019/20. For the year ended 31 March 2022, the board is satisfied that the formulation of our aspirations in terms of our purpose, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

Our values demonstrate how we behave individually and collectively as the board and how we ask our employees to behave. Our employees are fundamental to delivering our strategy and achieving our purpose. Our values of being customer focused, trustworthy and innovative underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do.

Monitoring our culture

Throughout the organisation, our culture is monitored to ensure behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture.

We are pleased to have received external validation of our approach to monitoring culture, featuring as a best practice case study with the Financial Reporting Council 'Creating Positive Culture Opportunities and Challenges Report', December 2021. A recent independent audit found our approach to be a "pragmatic and effective model" for supporting the board in their role of monitoring and assessing culture and a "useful framework for driving improvements and interventions" (PwC, February 2021).

01
Dashboard of cultural metrics

In addition to the existing reporting, management has developed a dashboard of cultural metrics, providing a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from: the annual employee engagement survey; human resources policies in relation to diversity, equality and inclusion along with associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other key performance indicators relating to how we behave as a responsible business. During the year, the United Utilities culture model was developed as set out below.

02
Existing reporting structures for discussion

There are a number of existing reporting structures that allow these cultural metrics to be measured, discussed and challenged by the board and its committees, many of which are regularly provided to the board at its scheduled board meetings.

03
Alignment with purpose, values and strategy

The board was satisfied that policies, practices and behaviours within the business were aligned with the company's purpose, values and strategy.

United Utilities culture model

- We have agreed four categories which are key for setting our culture – people, values, strategy and purpose.
- There is a supporting dashboard of cultural metrics, many of which are presented and considered by the board and its committees throughout the year.
- We have separate board updates on our Employee Voice panel to share the 'lived experience' of employees, together with an update on our annual employee opinion survey.

Corporate governance report

Read more about **our employees** on pages 60 to 63

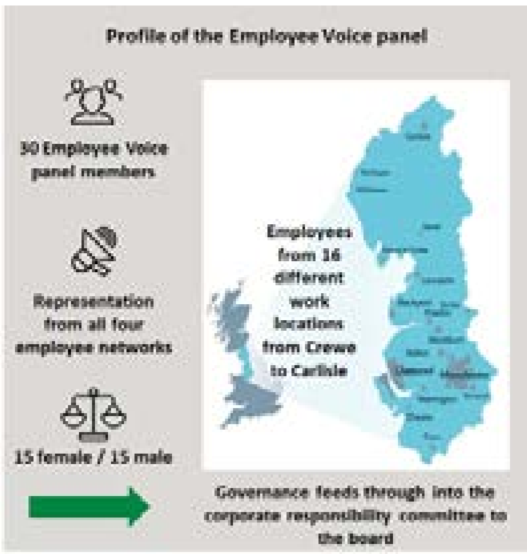
Read more about **diversity, equality and inclusion** on pages 44 to 45

Listening to our employees

Our employees are at the heart of the culture of our business and their 'lived experience', is a key part of the board's assessment and monitoring of culture. Alison Goligher, the current designated non-executive director for engagement with the workforce, facilitates two-way dialogue between the board and employees. There is an open invite to all board members to attend meetings of the panel and during this year, Sir David and Kath Cates have participated and answered questions from panel members on board strategy.

Alison chairs the Employee Voice panel (the panel) formed from representatives of a number of employee groups and employee networks from within the business and with representatives drawn from across the geographical region. Alison has met the panel virtually four times throughout the year. In order to ensure two-way communication, Alison provides updates to the panel from the perspective of the board and its committees, and similarly she provides feedback to the board on the work of the panel. Alison also has regular meetings with senior trade union representatives as part of the agreed panel approach.

The panel has adapted its approach during the pandemic and moved from face-to-face and site meetings to virtual meetings. These have proved popular with panel members, particularly field-based operational staff who find it much easier to attend virtually than travel from their operational sites. There are 30 members of the panel and membership rotates approximately every two years.



The panel has been provided with business updates and information sessions to broaden their knowledge of the board and corporate governance. The three key sub-groups have focused on the continual improvement of the employee opinion survey, supporting our employee networks to promote diversity and inclusion across the company, and to explore in more detail the drivers and measures of organisation culture. The culture sub-group has focused its energies on obtaining a grass-roots view of the changes to the ways of working during the pandemic and contributed to the 'next ways of working' project. It also contributed to discussions on topical issues relating to culture, such as the focus on racial inequality.

Employees' views are measured annually through the employee engagement survey with the objective of taking any required action to improve how permanent employees feel about the company and understand its direction. Employees are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance. Along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate two-way communication and engagement with the views of employees' representatives.

The group has a commercial arrangement with a third party for the provision of agency staff and contractors. Engagement and communication in relation to these members of the wider workforce is managed directly by the third party via a dedicated third party account manager who liaises directly with the company's human resources team. If there is any significant change activity, a representative of the third party joins the project team, thereby ensuring consistency when communicating key information to employees, agency staff and contractors.

Set out on page 30 is the company's approach to our engagement with and creating value for employees, with health, safety and wellbeing a priority. Furthermore, an explanation of the company's approach to rewarding the workforce can be found in the report of the remuneration committee on page 183.

The board

Employee voice panel
Chair: Alison Goligher (non-executive director)

Employee networks groups:
- Multicultural
- GENEq
- Armed Forces
- LGBT+
- Ability

Employee champion groups:
- Health, safety and wellbeing champions
- Engagement champions
- Colleague engagement group
- Career development forums

Early careers and management:
- The Early Careers board
- Aspiring managers
- Apprentices
- Graduates
- Bands 3 and 4 managers

Union partners
- UNISON
- Unite
- GMB
- Prospect

Employee Voice panel

Outcomes from the work since the panel was established to strengthen the 'employee voice' in the boardroom include:

- The transfer of the governance of the annual employee survey to the Employee Voice panel. The panel enhanced the underlying anonymity of the survey for employees and provided more opportunities to provide free text comments. Survey questions were updated to reflect key topics, including: wellbeing; inclusivity; and working differently;
- Additional administrative and communications resource was made available for network groups and executive sponsors identified; and
- Panel members' views were sought on the 'next ways of working' project, the 'home safe and well' project and the 'diversity and inclusion' audit.

Whistleblowing policy

The following sets out the company's compliance with code provision 6.

As part of our two-way communication the board has responsibility for reviewing the group's arrangements for individuals to raise matters of concern and the arrangements for the investigation of such matters. The group's whistleblowing policy (the policy) supports the culture within the group where genuine concerns may be reported and investigated without reprisals for whistleblowers. A confidential telephone helpline and a web portal are available to enable employees (including agency workers and contractors) to raise matters of concern in relation to possible incidents of fraud, dishonesty, corruption, theft, security and bribery. Furthermore, employees are encouraged to raise any matters relating to health and safety and any activities of the business that have caused or may cause damage to the environment, such as pollution or other contamination. Both the helpline and web portal are operated by a third party, enabling any concerns to be reported anonymously. The policy states that no employee will be victimised for raising a matter in accordance with the policy. Matters raised with the helpline/portal are in the first instance raised with the relevant director and investigated by senior managers independent of any involvement of the issues being considered. Details of the findings of the investigation and proposed solution are considered by the whistleblowing committee (whose membership comprises the company secretary, the customer services and people director, the strategy, policy and regulation director, the head of internal audit and the commercial, engineering and capital delivery director) and which meets quarterly. The board routinely reviews matters considered by the whistleblowing committee, the outcome of the investigation and the ways in which the matters were brought to a conclusion, thus ensuring that the core value of integrity is upheld and fostering an environment where employees feel it is 'safe to speak up' and to do so without fear of reprisal.

Board engagement with shareholders and other stakeholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the marketplace through the following channels:

- The investor relations adviser produces an annual survey of investors' views and perceptions about United Utilities, the results of which are presented and discussed by the board;
- The board receives regular updates and feedback on investor meetings involving the CEO, CFO and/or investor relations team and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- The executive and non-executive directors are available to meet with major shareholders and institutional investors. When revising the directors' remuneration policy, the chair of the remuneration committee invited engagement from the company's major shareholders. Feedback from any such engagement would be shared with all board members.

Institutional investors

As well as current investors, we engage actively with institutional investors who do not currently hold shares in United Utilities, as we are keen to ensure our business is well understood across the investment community, and to hear and discuss the views of all investors.

We have an active investor relations programme, which includes:

- An invitation to major shareholders to meet with the Chair;
- A regular schedule of meetings between the CEO and CFO and representatives from our major shareholders, supplemented with meetings hosted by our investor relations team;
- Presentations by the CEO and CFO to groups of institutional investors, both on an ad hoc basis and linked to our half and full-year results announcements and at our 'Capital Markets Days' and an event focusing on ESG matters;
- The programme covers a range of major global financial centres, typically including the UK, Europe, North America and the Asia Pacific region;
- Regular feedback provided to the board on the views of our institutional investors following these meetings; and
- Close contact maintained between the investor relations team and a range of City analysts that conduct research on United Utilities.

In 2021/22, our investor relations activities were conducted through a combination of virtual and face-to-face meetings. We met or offered to meet with 80 per cent (2020/21: 81 per cent), by value, of the active targetable institutional shareholder base (after adjusting for shareholders who do not typically meet with companies, such as indexed funds).

Frequent areas of common interest arising in meetings with investors include operational and environmental performance, customer service, capital investment, efficiency initiatives, regulatory performance, regulatory changes and ESG matters. Investors are always keen to observe financial stability and are interested in: the level of gearing versus regulatory assumptions; cost of finance; our debt portfolio and debt maturity profile; future financing requirements; and dividends. Investors are keen to understand how the company is performing relative to the price review allowances and targets each year, along with the potential implications of regulatory change.

Retail shareholders

Despite the privatisation process being around 30 years ago, we have retained a large number of individual shareholders with registered addresses in the North West – in fact, over 50 per cent of registered shareholdings on the share register. We have historically held our AGM in our region in Manchester, which enables our more local shareholders, many of whom are customers, to attend the meeting. The 2022 AGM will be held in a hybrid format. There is a considerable amount of information on our website, which provides information on our key social and

Investor dialogue with the Chair

During the year, the Chair offered to meet with 13 institutional investors, and nine meetings were held. Common themes from these discussions were:

- our corporate reporting of ESG matters;
- board governance topics;
- board succession; and
- the recent Ofwat/Environment Agency investigation into the operation of storm overflows.

Corporate governance report

Read more about **engaging with our stakeholders** on pages 30 to 32

Read more about our **treasury committee** on page 155

environmental impacts and performance during the year. Together with the annual and half-yearly results announcements, our annual report and financial statements are also available on our website; these are the principal ways by which we communicate with our retail shareholders. Our company secretariat and investor relations teams, along with our registrar, Equiniti, are on hand to help our retail shareholders with any queries. Information for shareholders can also be found on the inside back cover of this document, with a number of useful website addresses.

Other stakeholders

The board has direct contact with other stakeholder representatives, including: Ofwat and YourVoice (the independent customer challenge group). The chair of YourVoice attends a UUW board meeting to provide an opportunity for discussion, in-depth customer insight and the sharing of views.

The remuneration committee regularly engages with stakeholders, including employees. During the year, a consultation exercise was undertaken to gather stakeholders' views on the proposed directors' remuneration policy and the intention to introduce carbon measures in to the long-term incentive arrangements, with supportive feedback being received.

Engagement with representatives of all our stakeholder groups occurs widely across many aspects of the business, and more information can be found on pages 30 to 32.

Further information on stakeholder engagement can be found in the report of the corporate responsibility committee on page 156 and in the measures reported on pages 52 to 74.

Relations with banks and credit investors

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise funding to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle and beyond. We are heavily reliant on successfully raising long-term funding from banks and credit investors to fund our capital investment programme and refinance upcoming debt maturities.

This requires long-term support from our credit investors who invest in the company by making term funding available in return for receiving interest on their investment and repayment of principal on maturity of the loans or bonds. We arrange term debt finance in the debt capital markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is primarily raised via the group's London listed multi-issuer Euro Medium Term Note Programme (the programme limit was increased and redenominated from EUR7 billion to £10 billion in November 2021), which gives us access to the sterling and euro public bond markets and privately arranged note issues. Committed credit facilities are arranged with our relationship banks on a bilateral basis.

Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union (EU), remains a significant lender to United Utilities Water, currently providing around £1.1 billion of loan funding supporting past capital investment programmes, with our existing EIB loan portfolio expected to 'run-off' in line with the scheduled maturities of each loan.

A greater proportion of the group's term finance is therefore likely to come from the debt capital markets, including funding raised under the group's sustainable finance framework that was established in November 2020. In July 2021, the group published its inaugural sustainable finance framework allocation and impact report, which provides credit investors with details on the use of proceeds of our debut sustainable bond issue, along with the selected case studies on eligible projects funded.

The group currently has gross borrowings of circa £7,979.8 million. Given the importance of debt funding to our group, we have an active credit investor programme coordinated by our group treasury team, which provides a first point of contact for credit investors' queries and maintains a dedicated area of the company's website. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds that may be existing holders of the group's debt or potential holders. Regular mailings of company information are sent to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks, the EIB and the credit rating agencies.

More information can be found on our website at **unitedutilities.com/corporate/investors/credit-investors**

Rating agency services continue to be provided to the group by Moody's Investors Service Limited, Fitch Ratings Ltd and S&P Ratings UK Limited under contracts signed at the beginning of 2020 for an initial three-year term. Debt capital markets issuance by the group has therefore been made on a solicited basis by all three rating agencies during the 2021/22 financial year.

Outcome of 2021 AGM

At the 2021 AGM, votes were cast in relation to approximately 70 per cent of the issued share capital (2020: 69 per cent; 2019: 67 per cent). All 21 resolutions proposed by the board were passed by the required majority; there were no significant votes cast against the board's recommendations.

Votes cast in favour of the election/reappointment of the board directors were as follows:

Sir David Higgins	99.72%	Kath Cates	99.91%
Steve Mogford	99.96%	Alison Goligher	99.74%
Phil Aspin	99.91%	Paulette Rowe	99.74%
Mark Clare	91.59%	Doug Webb	99.91%
Stephen Carter	99.74%		

Division of responsibilities

2

Principle F:
The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensure that directors receive accurate, timely and clear information.

The internally facilitated board evaluation (see pages 135 to 137) tested and confirmed the Chair's application of principle F. Sir David was independent on appointment when assessed against the circumstances set out in provision 10, his biography is on page 112.

Principle G:
The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

The internal board evaluation (see pages 135 to 137) tested and confirmed the application of principle G, concluding that the skills and experience of executive and independent non-executives were appropriate with the board working together as a cohesive unit, but maintaining the clear division of responsibility between the board and the executive management team. See pages 112 to 115 for our reporting against provision 10; and the governance structure of the board and its principal committees on page 120.

Principle H:
Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

As part of the annual review of conflicts of interest, the board was satisfied that, after taking into account the other commitments of directors, board members had sufficient time to meet their board responsibilities and principle H had been applied (see page 129). The board demonstrated constructive challenge and offered strategic guidance and advice to management in relation to the delivery of the Haweswater Aqueduct Resilience Programme using the Direct Procurement for Customers approach (see page 40).

Principle I:
The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The internally facilitated board evaluation tested and confirmed the application of principle I, the views of board members were sought on whether the necessary support and information was provided effectively and efficiently, see page 136.

Chair of the board

The role and behaviour of the Chair is fundamental to the effective operation and decision-making of the board and in creating an atmosphere where open and frank discussion is facilitated and encouraged. The roles and responsibilities of the Chair are set out as part of the company's governance framework. Sir David was independent on appointment when assessed against the circumstances set out in provision 10 of the code.

It is the role of the Chair, supported by the company secretary, to drive forward the business agenda of board meetings to ensure that the board is kept abreast of the regulatory drivers and strategic needs of the business, and to ensure that the directors receive accurate, timely and clear information. The Chair and company secretary hold regular meetings to discuss agenda items and board materials. Board packs are distributed electronically five days before the meeting. Ensuring board materials are of an appropriate length, on what can be particularly complex and technical issues, is a constant challenge, and progress has been made during the year by the introduction of a revised board paper template.

Conflicts of interest and time commitment

The following section sets out the company's compliance with provision 7.

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chair of any potential conflict or potential new appointment or directorship. Additionally, the board reviews the position of each director annually. No changes were recorded that would impact the independence of any of the directors. No conflicts of interest had arisen during the year.

The board does not specify the precise time commitment it requires from its non-executive directors in taking on the role as they are expected to fulfil it and manage their diaries accordingly. The board is content that none of its directors is overcommitted and unable to fulfil their responsibilities as a board director for United Utilities. Each individual's circumstances are different, as is their ability to take on the responsibilities of a non-executive directorship role. Should a director be unable to attend meetings on a regular basis, not be preparing appropriately or not contributing appropriately to board discussions, the Chair would be responsible for discussing the matter with them and agreeing a course of action.

During the year, permission was sought from the board to take on additional non-executive responsibilities by: Kath Cates as a non-executive director of Brown Shipley, and by Steve Mogford who will join the board of QinetiQ Group plc as a non-executive director with effect from 1 August 2022.

Executive directors are not normally allowed to take on more than one non-executive position, a non-executive role is considered to be beneficial from a developmental perspective.

Nomination committee

Sir David Higgins
Chair of the nomination committee

The appointment of a new chief executive officer for any company is an important decision, and a responsibility that the nomination committee must think long and hard about to ensure it appoints the best person to fit the role, the company and its culture, and meet the expected challenges ahead.

Dear shareholder

During the year, the committee has spent considerable time on improving and developing a more structured approach to executive succession planning, a need highlighted during the 2020/21 evaluation of the committee's performance. We announced on 27 April 2022 that Steve Mogford had expressed his wish to step down as CEO in early 2023, and that Louise Beardmore, customer service and people director, would be appointed as a director and CEO designate with effect from 1 May 2022. The committee engaged Lygon Group to undertake the CEO succession process, further information on the process can be found on page 133.

During his tenure as CEO, Steve has led the transformation of the group to become one of the top performers in the water and wastewater sector. Steve has championed the company's ethos of behaving as a responsible business for so many years. The committee was acutely aware that Steve's successor would need to demonstrate the same passion and commitment to ensuring the continued implementation of the group's strategic themes; providing the best service to customers; at the lowest sustainable cost and in a responsible manner. Since her appointment in 2016 as customer service and people director, Louise has spearheaded the customer initiatives on affordability and looking after the needs of vulnerable customers. She has a strong strategic mind set, and a track record of leading teams that have delivered major transformational change within regulated utility and service structures, improving profitability and delivering enhanced outcomes for multiple stakeholders. Louise is a passionate advocate of United Utilities. Suffice to say, the company and its ethos are in her DNA and she was a natural fit to succeed Steve.

Quick facts

- All members of the committee are independent, thus fulfilling the code requirement that a 'majority of members of the nomination committee should be independent non-executive directors'. On joining the board, all independent non-executive directors become members of the nomination committee.
- The role of the committee is to lead the process for appointments to the board and ensure plans are in place for orderly succession to both the board and senior management positions and oversee a diverse pipeline for succession.
- The company secretary attends all meetings of the committee.
- The customer services and people director has responsibility for human resources, she regularly attends meetings and is responsible for engaging with executive search recruitment advisers.
- The CEO is not a member of the committee, but from time to time is invited to attend. Neither the Chair nor the CEO would participate in the recruitment of their own successor.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Nomination committee members:

Sir David Higgins
Chair of the nomination committee

Mark Clare

Liam Butterworth

Stephen Carter

Kath Cates

Alison Goligher

Paulette Rowe

Doug Webb

Furthermore, the committee was particularly pleased that Louise will have the opportunity to work alongside Steve prior to his retirement next year.

In making the appointment, the committee took into account the importance of the CEO:CFO dynamic, concluding that Louise and Phil Aspin, with their combined skills and experience, would be a strong team, having extensive knowledge of the group, its culture and an in-depth understanding of the water sector and the regulatory framework it operates within. As was the case with Phil's appointment in 2021, Louise has been a core part of Steve's team in implementing the group's transformational journey over the last 11 years. After the rigorous external and internal appointment process, identifying Louise as the outstanding candidate, the committee was particularly pleased to promote an internal candidate to the CEO designate role, and it demonstrates the strength in the senior management team that Steve, as CEO, has developed and fostered.

The committee, as part of the planned board succession, conducted a search during the year for the appointment of a new independent non-executive director to replace Mark Clare who is approaching nine years' service on the board. Serving beyond a nine-year term for a non-executive director is identified in the code as being one of the reasons that could affect a non-executive director's independence. For this reason, we say a fond farewell to Mark, our senior independent director since 2014, at the annual general meeting in July 2022. Furthermore, Stephen Carter, chair of the corporate responsibility committee, informed the board that he would not be seeking re-election at the annual general meeting after nearly an eight-year term. We express our thanks and gratitude to both Mark and Stephen for their considerable contribution to the group. The committee's search concluded in the appointment of Liam Butterworth as an independent non-executive director in January 2022. As a serving CEO, Liam brings strong engineering and industrial technology experience to the board and his experience of managing performance will provide additional commercial focus as we embark on the 2025–30 regulatory price review process. Having grown up in the North West, he has a close affinity with our region.

As a consequence of the various board changes, the committee reviewed the membership and diversity of the board committees (more information can be found on page 133).

With Mark Clare stepping down, the committee needed to consider who among its members was best placed to succeed Mark as the senior independent director (SID). Alison Goligher was felt to be best placed to fulfil this important role. Her board colleagues recognise that she is an outstanding leader and her communication style, approach and values fit well with the ethos of the company. Furthermore, with this as her first SID role, it would provide a new challenge for Alison.

At 31 March 2022, 30 per cent of the board were female. At the conclusion of the annual general meeting in July 2022, subject to all board directors receiving the required number of votes, our board diversity policy targets will be met, namely that: at least 40 per cent of the board be female, at least one of the senior board positions be held by a female and that at least one member of the board is from a minority ethnic background.

As a collective, and with some relatively new board members among us, we are working hard to prepare for the forthcoming price review process.

Sir David Higgins
Chair of the nomination committee

Read more about **our approach as a responsible business** on page 12

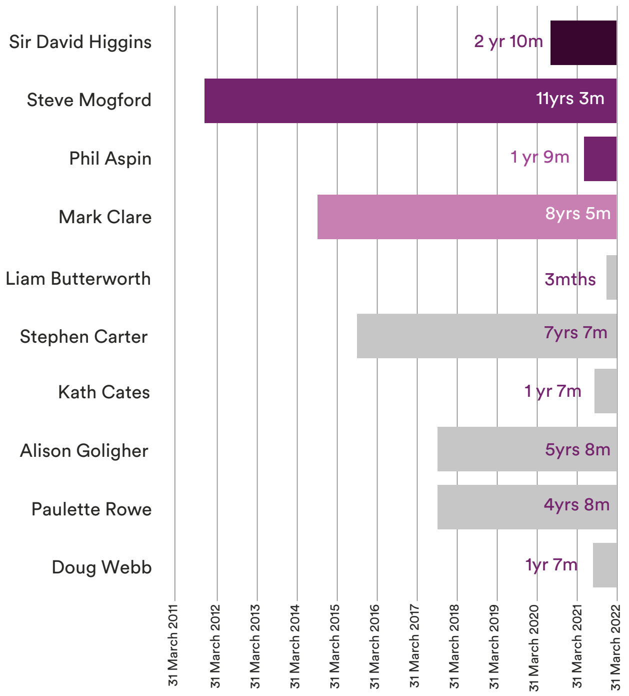
Read more about **diversity, equality and inclusion** on pages 44 to 45

Main responsibilities

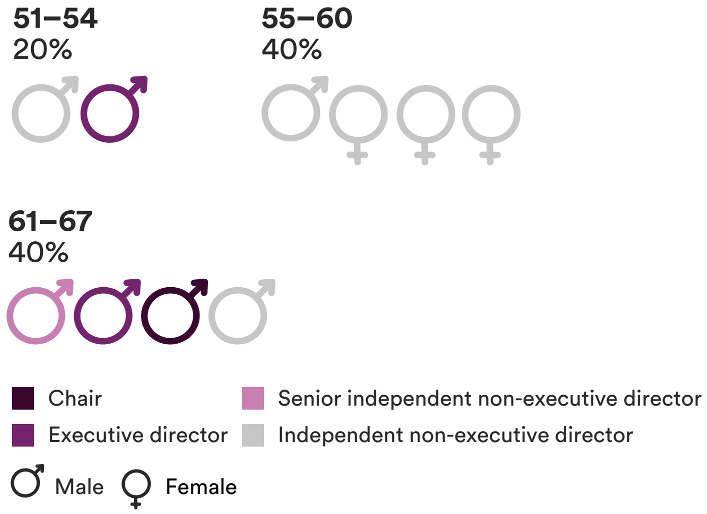
- Lead the process for board appointments and make recommendations to the board about filling vacancies on the board, including the company secretary.
- Consider the succession planning of directors and members of the executive team.
- Make recommendations to the board on refreshing the membership of the board's principal committees.
- Review directors' conflict authorisations.
- Consider requests from executive directors for election to the boards of other companies and make a recommendation to the board.
- Consider requests from non-executive directors for election to the boards of other companies; this role has been delegated to the Chair (other than in respect of his own requests).

> "Steve has championed the company's ethos of behaving as a responsible business for so many years."

Directors' tenure as at 31 March 2022



Age and gender profile as at 31 March 2022



Composition, success and evaluation

3

Principle J:
Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The board is satisfied it has applied principle J. An explanation of the board appointment and succession planning activities can be found on pages 133 to 134 and forms our disclosure as part of provision 23, our policy on board diversity is on set out below and details of the gender balance of senior management on page 134. Information on the company's approach to diversity, equality and inclusion is set out on pages 44 to 45. Our disclosure against provision 20 is on page 133.

Principle K:
The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

The board is satisfied it has applied principle K. Biographies of the board can be found on pages 112 to 115. An overview of directors' areas of expertise is set out in the skills matrix on page 134 and the length of service of board members on page 132. Board biographies include our reporting against provision 18.

Principle L:
Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The board is satisfied it has applied principle L. Details of the board evaluation and disclosure against provision 23 can be found on pages 135 to 137.

Summary of the board diversity policy

- Ensure the selection process for board appointments provides access to a range of candidates. Any such appointments will be made on the basis of merit and objective criteria, and within this context should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Ensure that the policies adopted by the group will promote diversity in the broadest sense among senior managers who will in turn aspire to a board position.
- Ensure that the board, led by the Chair, collectively fosters an inclusive and belonging environment in the boardroom, enabling open and frank contributions from all board members.
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms.
- Adopt measurable objectives from time to time for achieving diversity on the board, which shall be to maintain at least 40 per cent female representation, to have at least one director from a minority ethnic background*, and to have at least one of the positions of: chair, CEO, senior independent director or CFO held by a female.

* Defined by reference to categories recommended by the Office for National Statistics (ONS) excluding those listed by ONS as coming from a white ethnic background.

What has been on the committee's agenda during the year?

Board succession
The succession planning matrix tool and skills matrix (see page 134) for board directors is used to support the planning process for board appointments. The skills matrix captures the skills and experience board directors' need as a collective, to be able to deliver the company's purpose and strategic themes. The succession planning matrix tool highlights the code governance requirements; existing directors' terms of appointment and a forecast/anticipated time frame when an individual might leave the business; the projected strategic needs of the business and resulting preferred experience of any potential new board member; existing potential internal successors to a role (where identified) and those who could act as an interim should the need arise. A candidate suitable for the role of CEO would need to demonstrate that their management approach would fit with the company's culture of behaving responsibly. The committee would seek to consult with the incumbent CEO, given his unique knowledge and perspective of the group, on his view of the needs of the business going forward. Neither the Chair nor the CEO would be involved in the appointment process of their successor.

Board succession – non-executive
In line with the board succession plan, and the approximate timescales therein, the process of the appointment of Liam Butterworth as an independent non-executive director was undertaken during the year with a view to replacing Mark Clare as he approached almost nine years on the board. The committee is supported during any non-executive director recruitment process by the customer services and people director, Louise Beardmore, as part of her human resources responsibilities. The executive search firm Lygon Group were engaged as part of the recruitment process.

Board succession – executive
As stated above, the committee sought the views of Steve Mogford on the attributes of the candidate best placed to succeed him in the CEO role, but he was not involved in the final decision. The Chair, supported by the company secretary, led the process to identify suitable candidates for the CEO role and the executive search firm Lygon Group were engaged as part of the recruitment process, having demonstrated, of the executive search firms considered, that they had the best understanding and knowledge of the group and its culture. Against the brief for the role, Lygon Group undertook the internal appraisal process for a number of internal candidates and identified a number of potential external candidates for the committee to consider. Louise Beardmore, in relation to her human resources responsibilities, had no involvement in the process other than being an internal candidate.

Other than providing executive search services on previous occasions Lygon Group have no other connection with the company.

Membership of the principal board committees

Doug Webb took over the role as chair of the audit committee and of the treasury committee when Brian May left the board in July 2021. Doug had served as a member of the audit committee since his appointment in September 2020 and chairs the audit committee at Johnson Matthey plc. Prior to his appointment as chair of the treasury committee, Doug had attended a meeting of the committee. Doug also replaced Brian as a member of the remuneration committee. On his appointment, Liam Butterworth was appointed as a member of the audit committee.

Paulette Rowe, having being appointed as a member of the corporate responsibility committee during the year, will succeed Stephen Carter as the committee's chair at the conclusion of the annual general meeting. Having been a significant contributor to the work on diversity, equality and inclusion, and with an interest in social matters, and as a former trustee and chair of a children's charity, Paulette is well placed to lead the committee.

On Alison Goligher's appointment as SID at the conclusion of the AGM she will step aside as chair of the remuneration committee, although remaining as a member of the committee, to be succeeded by Kath Cates. Kath has considerable experience as a remuneration committee chair, having held the role for three years at RSA Insurance Group plc.

The board has applied the board diversity policy to the board committees, thereby ensuring female representation on each committee. Furthermore, it is satisfied that the membership of the audit committee is in accordance with provision 24, and that the membership of the remuneration committee is in accordance with provision 32.

Board diversity

The board diversity policy is to "ensure the selection process for board appointments provides access to a range of candidates. Any appointments will be made on the basis of merit and objective criteria, and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, but with due regard for the benefits of diversity on the board, including gender diversity." The objective of the policy is for new directors to bring something different to the board table, be it in terms of experience, skills, perspective, interests or other attributes. The selection process and application of the board diversity policy aims to attract board members whose values reflect those of the company and that of our strategic theme of behaving in a responsible manner. As referred to above, our board diversity policy would be brought to the attention of any executive search firm used as part of the selection and appointment process for a board position. Feedback would be sought from the search firm in terms of their success in attracting potential candidates in terms of their diversity of attributes. Feedback would also be gathered first hand through the interview process with candidates conducted by other board members and taken into consideration in identifying those suitable for the role in question.

As a board, the benefits of diversity and inclusion and associated benefits to the decision-making process are widely recognised and is a topic regularly discussed with major investors. When Mark Clare and Stephen Carter step down from the board at the annual general meeting, the measurable targets of at least 40 per cent female representation on the board and one director from an minority ethnic background will be met. On the board at 31 March 2022, female representation was 30 per cent and there was 10 per cent representation by a director from a minority ethnic background. Amongst the workforce, employees from a minority ethnic background represented 2.7 per cent (9 per cent of employees choose not to disclose). We recognise the benefits of diversity across our business with initiatives in place to support women in the workplace and tackle the ethnic imbalance of our workforce, thereby aligning with our strategic theme of operating our business in a responsible manner (see page 12).

Skills matrix of board directors

	Sir David Higgins	Steve Mogford	Phil Aspin	Louise Beardmore	Mark Clare	Liam Butterworth	Stephen Carter	Kath Cates	Alison Goligher	Paulette Rowe	Doug Webb
Finance/ accounting			✓		✓			✓			✓
Utilities		✓	✓	✓	✓		✓				
Regulation	✓	✓	✓	✓	✓		✓	✓		✓	✓
Government	✓		✓		✓		✓				
Construction/ engineering	✓	✓			✓	✓			✓		
Industrial						✓			✓		✓
Customer-facing		✓	✓	✓	✓		✓	✓		✓	
FTSE companies		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Digital/ technology		✓		✓	✓	✓	✓	✓		✓	
ESG		✓	✓	✓	✓		✓	✓	✓	✓	✓
Current CEO/ CFO of FTSE 350 *							✓				
Former CEO/ CFO of FTSE 350	✓				✓						✓

* Excludes UU

Non-executive director's induction programme

Since joining the board in January 2022, Liam Butterworth has spent time with members of the executive team and met with representatives from the company's advisers as follows:

- The CFO and members of the finance function and gained external perspective from representatives of the group's statutory auditor, KPMG;
- The water, wastewater and digital services director to gain an understanding of the company's operations and digital monitoring and control of the group's water and wastewater network and assets and insight into the group's IT systems;
- The company secretary to gain an understanding of the group's corporate structure, governance arrangements and associated processes and met with Slaughter and May, the group's legal advisers, to receive an external perspective on governance best practice;
- The commercial, engineering and capital delivery director to gain an understanding of the group's capital delivery programme and, in particular, insight into the Haweswater Aqueduct Resilience Programme;
- The customer services and people director to discuss the actions undertaken by the business to improve services to customers, and along with the director of health, safety, wellbeing and estates, a number of topics in relation to the group's employee agenda were discussed;
- The strategy, policy and regulation director and the director of environment, planning and innovation to discuss the requirements of the economic and quality regulators; and
- The corporate affairs director to gain an understanding of the group's engagement with political stakeholders.

Evaluation of the effectiveness of the board, board committees and individual directors

An annual evaluation of the board, its committees, the Chair and the individual directors is conducted as recommended by the code. This year the evaluation was facilitated internally by the company secretary, in consultation with the Chair and the board committee chairs. The most recent external evaluation was conducted by Independent Audit Limited during 2020/21. The process of how the evaluation was conducted is set out below.

Overall, the self assessment evaluation completed by the directors and others attending and supporting the board committees, concluded that the board and its committees functioned well, were well chaired and the position was positive. Members of the committees had the appropriate skills, experience and a particular interest in the work of the committee to debate issues and provide challenge to management. All of the individual directors demonstrated the expected level of commitment to the role and contributed effectively during board discussions.

Internally facilitated self-assessment evaluation process

1 Questionnaires

The evaluation was based on the completion of questionnaires (including questions to be scored and free text questions) by board members assessing both the performance of the board and each of its principal committees, as well as that of the Chair. Each director also completed a self-assessment questionnaire assessing their own performance.

Board members were also asked to provide a view on how well the actions identified in the 2020/21 evaluation had been addressed.

In addition to board members, other members of the executive team and representatives of external advisers who regularly attend and support the committee meetings were asked to participate in the evaluation process.

2 Appraisal

The results were collated by the company secretary.

3 Consultation

The results were then shared and reviewed with the Chair and each of the chairs of the relevant committees and presented at a meeting of the relevant committee and discussed. The results of the board evaluation were presented to the board for discussion.

The Chair reviewed the performance of the individual directors.

Mark Clare, as the senior independent non-executive director (SID) led the review of the Chair. He held a discussion with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair.

4 Evaluation and actions

The conclusions of the evaluation were reached and actions identified as set out on page 136.

A summary of the review of the responses of the self-assessment questionnaire process is set out below:

2021/22 areas of assessment	Commentary and actions
Strategic oversight	Responses indicated the need for the board to be kept aligned with progress and developments on the PR24 plan; and ensuring board members understood the strategic drivers of the group's various regulators and focused on climate change and improving asset resilience.
Board composition, dynamics and expertise	It was felt there was an appropriate mix of skills and experience with members drawn from a range of backgrounds. The diversity among the personalities provided a good mix, and there was a good dynamic between members. Meetings were generally conducted in a way that encouraged open communication and the proper resolution of issues.
Board agenda	Responses indicated there was a good coverage of the items of strategic importance, but board time must be made sufficiently available to consider strategic matters where non-executive directors could add most value.
Managing risk	Risk was considered to be well managed and the board had a clear overview of the principal risks. Deep dives on risk topics (see pages 121 to 123) provided during the year had been particularly well received.
Support and information	Respondents felt meetings were well chaired and the board arrangements and administration provided by the company secretary and his team were effective. Views were sought on the use of virtual meetings, with the consensus being that, whenever possible, board members and key contributors should be present either all virtually or all face to face. From time to time, it would be satisfactory for guests attending for just a short section of the meeting to attend virtually.
Committees	• **Audit committee:** there was a good balance in meetings over in-depth discussions and time management. More focus on risk management, processes and controls would be beneficial and on the growing importance of non-financial/ESG reporting. • **Remuneration committee:** the committee worked well with all views being heard and debates focused and inclusive. The committee should ensure any future ESG metrics were understood and incorporated in a meaningful way into the new directors' remuneration policy and long-term plan. • **Nomination committee:** there was a good level of debate and discussion, and it would be helpful to expand discussion on all aspects of diversity of any potential candidates. Improved focus on long-term succession planning was needed along with ensuring talent management and retention of senior management was debated. • **Corporate responsibility committee:** given the broad range of ESG activities within the committee's remit, respondents felt the committee should focus on the areas where it could add greater value and link in with the PR24 process. • **Treasury committee:** respondents felt the committee should continue to test the existing policies to ensure they remained relevant and consider the treasury-related challenges of PR24.
Individual directors	The responses from the questionnaires completed by each director assessing their own effectiveness were reviewed by the Chair. Individual directors were asked, among other things, to identify how they could improve their overall contribution to the board and its committees and if they had any skill or knowledge gaps that could be addressed. The following were identified: to attend more site visits and interactions with specific areas of the business and more interaction and engagement opportunities with the senior management team and employees. The review supported the view that all the directors were considered to be contributing effectively to the board and all demonstrated the expected level of commitment to their roles.
Chair	The responses from the questionnaires completed by each director assessing the Chair's performance were reviewed by the senior independent director (SID) and discussed at a session with the non-executive directors without the Chair present. The SID also discussed the Chair's performance with the CEO and CFO. Detailed feedback was provided to the Chair. It was concluded that the Chair had fulfilled the expected commitment to the role and was an effective leader of the board.

2020/21 evaluation recommendations	Actions taken during 2021/22
Greater visibility of the people skills, characteristics and diversity for the future needs of the business along with enhancing the oversight of culture.	Resourcing strategies, where appropriate, are being adapted to address emerging risks around resourcing and skills particularly in entry level and digital and technology roles and in building robust early careers talent pools.
Provide more opportunities to consider IT security and other emerging risks.	The board received two specific updates on information technology and operational technology security activities and matters concerning cyber security regulation and legislative compliance.
Nomination committee: develop a more structured approach towards the executive succession pipeline.	The committee has spent considerable time on improving and developing a more structured approach to executive succession planning.
Remuneration committee: consider the employee's perspective on how remuneration and wider policies align with the group's values and impact culture.	Through its engagement with the employee voice panel, including when consulting with stakeholders on the proposed remuneration policy, the committee was able to consider how the executive remuneration approach was perceived by employees, and the extent to which the principles cascaded through the company. See page 183 for details on the cascade of remuneration through the organisation.
Audit committee: provide better insight on how the key risk and control functions operated together.	Progress made in this area in particular in relation to the joint project between the risk and control functions to update the RADAR system and the fraud risk management review (see page 154).
Corporate responsibility committee: ensure the focus on areas where the committee could add greatest value to the ESG debate and seek more feedback from the board on its activities.	The committee concluded that its role was to ensure that the PR24 submission was aligned with the group's purpose and that its contents focused on, for example, carbon, resilience and affordability.

Ongoing board development and training

Board directors regularly receive updates to improve their understanding and knowledge about the business and, in particular, its regulatory environment. As part of the individual director's element of the board evaluation exercise, directors are asked to identify any skills or knowledge gaps they would like to address. Directors made a number of suggestions, as set out on page 136.

Consideration of ESG issues are fundamental to the way in which we operate as a responsible business at United Utilities; such matters are central to board discussions (see the summary of board activity on pages 121 to 123 and the report of the corporate responsibility committee on pages 156 to 159). The board's approach to these matters is reflected in our strategic themes, and our corporate culture of behaving in a responsible manner as reflected throughout the strategic report. Through presentations and discussions with representatives of YourVoice, the independent customer challenge group, whose role is predicated on protecting customer interests in how the group goes about its business, the board is kept informed of customer, in-region environmental affairs and social matters.

In addition to this less formal approach to board development, during the year the board received briefings from both Slaughter and May (legal and governance matters) and KPMG (governance changes relating to reporting requirements), along with a number of other advisers. Non-executive directors completed an in-house online training course on water quality awareness. A number of board members attended events organised by Ofwat for non-executive directors.

Our non-executive directors are conscious of the need to keep themselves properly briefed and informed about current issues and to deepen their understanding of the business. During the year, Alison Goligher has again chaired the Employee Voice panel as part of the ongoing work to ensure the board has a direct link to understanding the views of employees (see page 126) of the business. Paulette Rowe has contributed to the work on diversity, equality and inclusion (see pages 44 to 45).

Induction of new non-executive directors

An induction programme is arranged for new non-executive directors. The programme for Liam Butterworth is set out on page 135. On joining the board, non-executive directors would meet members of the operational teams and visit some of the key operational sites and capital projects to ensure they get a first-hand understanding of the water and wastewater business. New directors receive information on the key duties of being a director of a regulated water company. They are required to meet with representatives of Ofwat prior to appointment.

Wider succession pipeline and talent management

For a number of years, the group has had a written succession plan for the executive directors and other members of the executive team, which includes outline timescales. The plan was developed further during the year and a more structured approach adopted towards the executive succession pipeline. The plan identifies an interim internal successor to fill a role in the short term should the need arise, and the longer-term development needs of potential successors to be able to fulfil a role on a more permanent basis. As with all board appointments, in aiming to appoint the best person to fulfil a role, it would be common when recruiting for a senior role, for an external search to be conducted alongside an internal candidate recruitment process.

Any changes that are required to the profile of the management team to reflect the changing needs of the business are considered by the board in the executive succession plan. Succession and development initiatives for senior executives include executive mentoring and coaching and/or participating in an executive business school programme, as appropriate. Leadership development centres have been delivered to identify and validate potential for future director and senior leader positions and develop a number of

Read more about **our apprenticeship schemes** on page 63

Read more about **our employees** on pages 60 to 62

role-ready diverse candidates to provide the group with leadership capacity in an increasingly complex environment. Senior managers are encouraged to take on a non-executive directorship role as part of their personal development, but it is recognised that this is very much a personal commitment for each individual. The current talent programme at a senior level is well embedded and we believe a non-executive appointment for senior managers provides an excellent opportunity for both personal and career development, and is a way of gaining valuable experience that may be applied at United Utilities so long as no conflicts of interest occur.

During the year, board directors had a number of opportunities to meet with members of the executive team, both formally when senior managers were required to present at board meetings on matters related to their responsibilities, and on more informal occasions.

Our graduate and apprentice programmes are thriving and from time to time, board members have the opportunity to attend events and meet with members of these programmes and other employees identified as potential talent within the business.

Historically, our industry has been male dominated, but measures are in place to increase diversity in broad terms among our employees (see pages 44 to 45). At present fifty per cent of our executive team (excluding the CEO and CFO) is female, as yet there is no ethnic diversity among the team. The gender balance of the direct reports of the executive team is 65 per cent male and 35 per cent female, representation of ethnic minorities is 3 per cent. Gender pay data can be found on page 44.

Along with the wider employee population, we continue to work towards improving the diversity of our succession pipeline as part of our ongoing diversity and inclusion plans.

Financial oversight responsibilities of the board

Audit, risk and internal control

4

Principle M:
The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Our application of principle M is formalised in our non-audit services policy and terms of engagement with the auditor as agreed by the committee. The head of internal audit and risk reports to the committee and to the CFO but only on a functional basis, thereby ensuring a direct line of communication between internal audit and the committee. In accordance with provision 25, an explanation of the independence and effectiveness of the external audit process can be found on pages 148 to 149, and the reappointment of the statutory auditor on page 150. The board considered and was satisfied on the integrity of the financial and narrative statements, as advised by the audit committee in accordance with DTR 7.1.3(5).

Principle N:
The board should present a fair, balanced and understandable assessment of the company's position and prospects.

We have applied principle N, as confirmed by our disclosure against provision 27, which can be found on page 198 and is supported by our disclosure against provision 25 on pages 147 to 148.

Principle O:
The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Our risk management framework and principal risks are on pages 100 to 109. Further information on the company's internal audit function and controls can be found on pages 153 to 154 and together set out our application of principle O.

Board's responsibility for financial oversight

One of the fundamental roles of the board is to oversee the financial performance of the business. The board is supported in this role by the audit committee whose activities are described on pages 143 to 154. The board reviews the financial performance of the company at every scheduled board meeting, receiving a report from the CFO which provides the board with the up-to- date position of the consolidated financial statements, interpretative analysis and other key performance indicators, metrics and ratios. The board takes into account the review by the audit committee of the financial and narrative statements, and the auditor's views on the key risks and judgements identified and given particular focus in their audit work and set out in their report (see pages 202 to 209), and the information and explanations provided by management in relation to their key judgements and adjustments to APMs (see page 82). The board considered the review and assurance process undertaken by management, and considered by the audit committee to support the application of principle N. The board concluded that in the 2021/22 annual report and financial statements it had presented a fair, balanced and understandable assessment of the company's position and prospects, and the board was satisfied on the integrity of the financial and narrative statements. Furthermore, the board approved the accounts and provision of the directors' responsibility statement at its meeting on 25 May 2022, see page 198.

Oversight of financial aspects of ESG

ESG, and behaving responsibly, has been a long-term commitment and part of the board ethos for many years and is embedded throughout the business. It naturally flows through into the board's approach to the integrity of the group's financial reporting. Recognising that climate change is a key risk to the group's provision of water and wastewater services (see page 102), 2021/22 is the third year that the group has reported against the TCFD recommendations. As part of the processes supporting the provision of the 'fair, balanced and understandable' statement, the board took into account the existing processes of review and assurance of the TCFD and wider narrative reporting. Management reviewed the assurance processes relating to narrative reporting and ESG matters, particularly those relating to TCFD reporting, and determined that the levels of assurance provided by the combination of the work by internal audit and of the various third parties was satisfactory at this time – a stance endorsed by the audit committee. The TCFD report addresses the TCFD recommendations and includes, for the second year, scenario analysis (see page 92). Inclusion of climate-related information in accordance with the TCFD is mandatory for the company in its 31 March 2023 annual report.

Board's approach to risk management and internal control

The board discharges its responsibility for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives through the risk appetite framework. As a key part of the risk management framework, risk appetite (see page 100) captures the board's desire to take and manage risk relative to the company's obligations, stakeholder interests and the capacity and capability of our key resources.

The board is responsible for ensuring that the company's risk management and internal control systems are effectively managed across the business and that they receive an appropriate level of scrutiny and board time. The risk profile is reviewed in conjunction with the full and half-year reporting cycle alongside deep dives and routine performance reviews.

The group's risks predominantly reflect those of all regulated water and wastewater companies. These generally relate to the failing of regulatory performance targets or failing to fulfil our obligations in any five-year planning cycle, potentially leading to the imposition of fines and penalties, in addition to reputational damage. Climate change is a causal risk theme that underpins our core operations and provision of water and wastewater services to customers (see page 102).

Review of the effectiveness of the risk management and internal control systems

During the year, the board reviewed the effectiveness of the risk management systems and internal control systems, including financial, operational and compliance controls. Taking into account the principal risks and uncertainties set out on pages 100 to 109, the ongoing work of the audit committee in monitoring the risk management and internal control systems (see pages 153 and 154) on behalf of the board, (and to whom the committee provides regular updates), the board:

- was satisfied that it had carried out a robust assessment of the emerging and principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; and

- had reviewed the effectiveness of the risk management and internal control systems, including all material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

After review, the board concluded that through a combination of the work of the board, the audit committee and the UUW board (which has particular responsibility for operational and compliance controls), the company's risk management and internal controls were indeed effectively monitored throughout the year.

The board's review of the effectiveness of risk management and internal control systems took into account:

- the biannual review of significant risks and emerging risks (see pages 100 to 109);
- the assurance (both internal and external) of the most significant business and operational risks of the group;
- the review of matters correlating to specific event based operational risks (see pages 106 to 107);
- the outcome of the biannual business unit risk assessment process (see page 100);
- the activities and review of the effectiveness of the internal audit function (see page 153);
- the opinion provided by internal audit in relation to their work, that "the governance, risk management and internal control framework was suitably designed and effectively applied within the areas under review";
- the self-assessment provided by management confirmed compliance with a range of key internal policies, processes and controls (see page 154);
- the review of reports from the group audit and risk board (see page 101);
- the oversight of treasury matters, in particular debt financing and interest rate management (see page 155); and
- the review of the business risk management framework and management's approach and tolerance towards risk (see page 100).

Going concern and long-term viability

The following section sets out the company's compliance with part of provisions 30 and 31.

The board, following the review by the audit committee, concluded that it was appropriate to adopt the going concern basis of accounting (see page 217). Similarly, in accordance with the principles of the code, the board concluded, following the recommendation from the audit committee, that it was appropriate to provide the long-term viability statement based on an assessment period of seven years. Assurance supporting these statements was provided by the review of: the group's key financial measures and contingent liabilities; the key credit financial ratios; and the group's liquidity and ongoing ability to meet its financial covenants. As part of the assurance process, the board also took into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks, and include emerging and more topical risks.

These principal risks and uncertainties are detailed on pages 100 to 109, as are the risk management processes and structures used to monitor and manage them. Biannually, the board receives a report detailing management's assessment of the most significant risks facing the company. The report gives an indication of the level of exposure, subject to the mitigating controls in place, for the risk profile of the group, while also highlighting the reputational and customer service impact. This provides the board with information in two categories: group-wide business risks; and operational risks. The board also receives information during the year from the treasury committee (to which the board has delegated matters of a treasury nature – see page 155), including such matters as liquidity policy, the group's capital funding requirements and interest rate management.

Long-term viability statement

The directors have assessed the viability of the group, taking account of the group's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of the group's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2029.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on page 46 assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and is key to achieving the group's aim of providing the best service to customers at the lowest sustainable cost and in a responsible manner over the longer term, underpinning our business model set out on pages 20 to 83.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the group. Specifically, risks associated with current levels of economic uncertainty and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the group's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 100 to 109. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

Within the context of this long-term planning and management of risks, the group's principal business operates within five-year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the group's long-term viability.

Viability assessment: resilience of the group

The viability assessment is based upon the group's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- the group's current liquidity position – with £1.1 billion of available liquidity at March 2022 providing a significant buffer to absorb short-term cash flow impacts;
- the group's robust capital solvency and credit rating positions – with a debt to regulatory capital value (RCV) ratio of circa 60 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- the group's expected performance, underpinned by its historical track-record; and
- the current regulatory framework within which the group operates – which provides a high degree of cash flow certainty over the regulatory period and the broader regulatory protections outlined below.

The group has a proven track-record of being able to raise new finance in most market conditions, and expects to continue to do so into the future. This is despite the group no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long-term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the group's viability based on the resilience of the group and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing the group, as set out on pages 100 to 109. The baseline plan against which the viability assessment has been performed incorporates the estimated impact of current high levels of inflation which are expected to endure in the near term before falling to more normal levels. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of the group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the group's TCFD disclosures on pages 86 to 94; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; current economic uncertainties including high levels of inflation and a squeeze on the cost of living impacting the group's customer base; and the potential for a restriction to the availability of financing resulting from a capital markets crisis.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. Risks associated with current economic conditions are reflected within the baseline position, with further potential downside risks (most notably in relation to bad debt and low inflation) covered by the individual scenarios modelled, and collectively within a combined scenario.

Read more about **significant issues** on pages 151 to 152

Read more about **relations with banks and credit investors** on page 128

Read more about **our principal risks** on pages 104 to 109

Read more about **going concern basis of accounting** on page 217

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to the group's baseline plan:

Scenario modelled	Link to risk factors
Scenario 1: Totex £500m one-off impact in 2022/23	Broadly representing the largest 'severe but reasonable' risk which is a critical asset failure, all assumed to be operating costs
Scenario 2: Totex underperformance of 10% (c£120m–c£140m) per annum for 2022/23–2028/29	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but reasonable' risks (including environmental, cyber security and network failure risks)
Scenario 3: CPIH inflation of 2.0% below baseline plan for 2022/23 and 2023/24, and 1.0% below baseline plan for 2024/25–2028/29	Consistent with quantum of inflation impacts modelled within top 10 severe but reasonable risks
Scenario 4: An increase in bad debt of £15m per annum from 2022/23 to 2028/29	Aligned to internal risk factor on debt collection.
Scenario 5: Additional ODI penalty of c£50m per annum	Assumes mid-point of UUW's baseline and final determination P90 ODI position
Scenario 6: Combined scenario – 50% of scenarios 2-5	50% of scenarios 2-5

Example mitigations (of which none are required to remain viable under the scenarios modelled):

- Issuing of new finance
- Reduction in discretionary totex spend
- Capital programme deferral
- Closing out of derivative asset position
- Restriction of dividend
- Raising of new equity

The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

The most extreme of the severe but reasonable scenarios modelled, without any mitigating action, resulted in: the group comfortably retaining investment grade credit ratings; liquidity of more than one year; and no projected breaches of financial debt covenants.

Viability assessment: reverse stress testing

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the group's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance, including hybrid debt; capital programme deferral; reduction in other discretionary totex spend; the close-out of derivative asset positions; the restriction of dividend payments; and access to additional equity.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.

Corporate governance report
Audit committee

Doug Webb
Chair of the audit committee

Quick facts

- Doug Webb has chaired the committee since July 2021. He is a chartered accountant and is considered by the board to have recent and relevant financial experience, having served as chief financial officer of a number of listed FTSE companies. He retired from his most recent executive role at Meggitt PLC in 2018.
- All members of the committee are independent non-executive directors and the board is satisfied that the committee as a whole has competence relevant to the sector. Attendance at audit committee meetings is set out on page 124, and the relevant directors' biographies can be found on pages 112 to 115.
- Other regular attendees at meetings at the invitation of the committee include the CEO, the CFO, the company secretary, the head of audit and risk, the group controller, and representatives from the statutory auditor, KPMG LLP (KPMG). None of these attendees are members of the committee.
- The representatives from KPMG and the head of audit and risk each have time with the committee and the company secretary to raise freely any concerns they may have without management being present.
- The committee is authorised to seek outside legal or other independent professional advice as it sees fit, but has not done so during the year.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Audit quality has again been high on the committee's list of priorities, in particular, its scrutiny of the findings of the Financial Reporting Council's 2021 audit quality review which, as applicable to the group, it challenged the auditor to address.

Dear shareholder

This is my first report to you as chair of the audit committee, having succeeded Brian May who stepped down at the AGM in July 2021. I joined the board as a non-executive director and as a member of the committee in September 2020, which enabled me, prior to taking over as chair, to experience a year in the group's audit cycle (see the diagram on page 145). My background is in finance, having qualified as a chartered accountant with Price Waterhouse. I currently serve as chair of the audit committee at Johnson Matthey plc and I previously chaired the audit committee at SEGRO plc, until stepping down as a non-executive director in 2019. I was chief financial officer at Meggitt PLC from 2013 to 2018, I believe my financial experience has prepared me well to lead the committee in providing challenge both to management and to the external auditor.

This is a time of considerable change and evolution in the role of the audit committee – with the increasing demands for greater assurance in areas of narrative and non-financial reporting which have not traditionally been part of the committee's role. This is the third year the company has reported against the TCFD's recommendations (see pages 86 to 94), and ahead of the mandatory climate-related financial disclosure for the company for the year ending 31 March 2023. The statement, as required by Listing Rule 9.8, can be found on page 86. In readiness for next year, the committee asked management to further enhance the assurance processes (see page 148) underpinning the provision of the TCFD report along with other elements of the narrative reporting, further contributing to the assessment of whether "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy".

Audit committee members:

Doug Webb
Chair of the audit committee

Paulette Rowe

Stephen Carter

Liam Butterworth

Read more about **accounting policies** on page 219

Read more about **the impact of climate change** on page 206

The increasing focus of investors on the impact of climate change has again been reflected in the viability assessment underpinning the long-term viability statement (see page 140) which the committee endorses prior to approval by the board.

Following the publication of the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance', to which the company formally responded in July 2021, management reviewed the group's internal control environment in preparation to address the likely evolution of the UK regulatory landscape as it relates to financial reporting. Management was supported in this review by an independent third party who commented that the current maturity of the group's capabilities, governance and operating model pertaining to internal controls over financial reporting was higher that was typically seen currently within other UK listed businesses. However, further enhancements could be made to address the evolving landscape. The committee was reassured by this review and its contribution to enhancing the group's audit and assurance processes, and to steps taken during the year towards the formulation of an audit and assurance policy (see page 151). Management has also discussed with the committee the group's preparedness toward the provision of a resilience statement, if required, in future years (see page 147). Based on assessments of the group's viability, resilience and long-term prospects that are currently formed, the group is well positioned to address developments in this area.

Audit quality has again been high on the committee's list of priorities, in particular its scrutiny of the findings of the FRC's 2021 audit quality review (AQR) published in July 2021 (and available on the FRC's website). The committee's challenge to KPMG was to address the lessons of the 2021 AQR's findings as they were applicable to the group, as well as enhancing the quality and transparency of the services provided as auditor. Ian Griffiths, KPMG's lead audit partner, responded to the committee's challenge by committing to provide to the committee the details of the independent partner's review of the audit, as part of the 2022 year-end sign-off processes. Other audit quality processes (see page 148) included a technical review and a second-line of defence review by another team independent of the audit team.

In its assessment of the effectiveness of the statutory audit process relating to the year ended 31 March 2021, the committee committed to assessing whether the additional audit quality processes that had been proposed for the 31 March 2021 audit such as: improving the communication between the KPMG audit team and the internal audit team through regular discussion sessions; raising audit points in a timely manner and improved project management of the year-end process, had been effectively implemented. The findings of the assessment (see page 149) were presented to the committee in September 2021, which concluded that the additional processes had been effectively implemented, and would be retained for the 31 March 2022 year-end audit.

Auditor independence is a key principle and contributing factor to audit quality. It is reviewed as part of the audit scope and re-examined prior to the accounts being approved and signed by the board. The auditor must be independent of the company. The committee has time set aside during its meetings to meet with the auditor without management in order that they can speak freely and raise any concerns.

Independence is a key focus for the auditor, whose staff must comply with their firm's own ethics and independence criteria which must be consistent with the FRC's Revised Ethical Standard (2019). Information on how the committee assesses the independence of the auditor can be found on page 149. The statutory auditor presents its audit findings to the shareholders as the owners of the business (see pages 202 to 209).

The evaluation of the committee's performance for 2021/22 was facilitated internally by the company secretary and his team, which has provided some useful feedback and points for action (see page 136) and reiteration of the need for the committee to stay abreast of developments, particularly the work of the International Sustainability Standards Board as it develops reporting standards for sustainability topics encompassing many aspects of ESG.

I am pleased to welcome Liam Butterworth, who joined the board on 1 January 2022, as a member of the committee. The membership of the committee will be revised after the forthcoming AGM in July 2022 (details can be found on page 133).

This report was approved by the committee at its meeting held on 17 May 2022.

Doug Webb
Chair of the audit committee

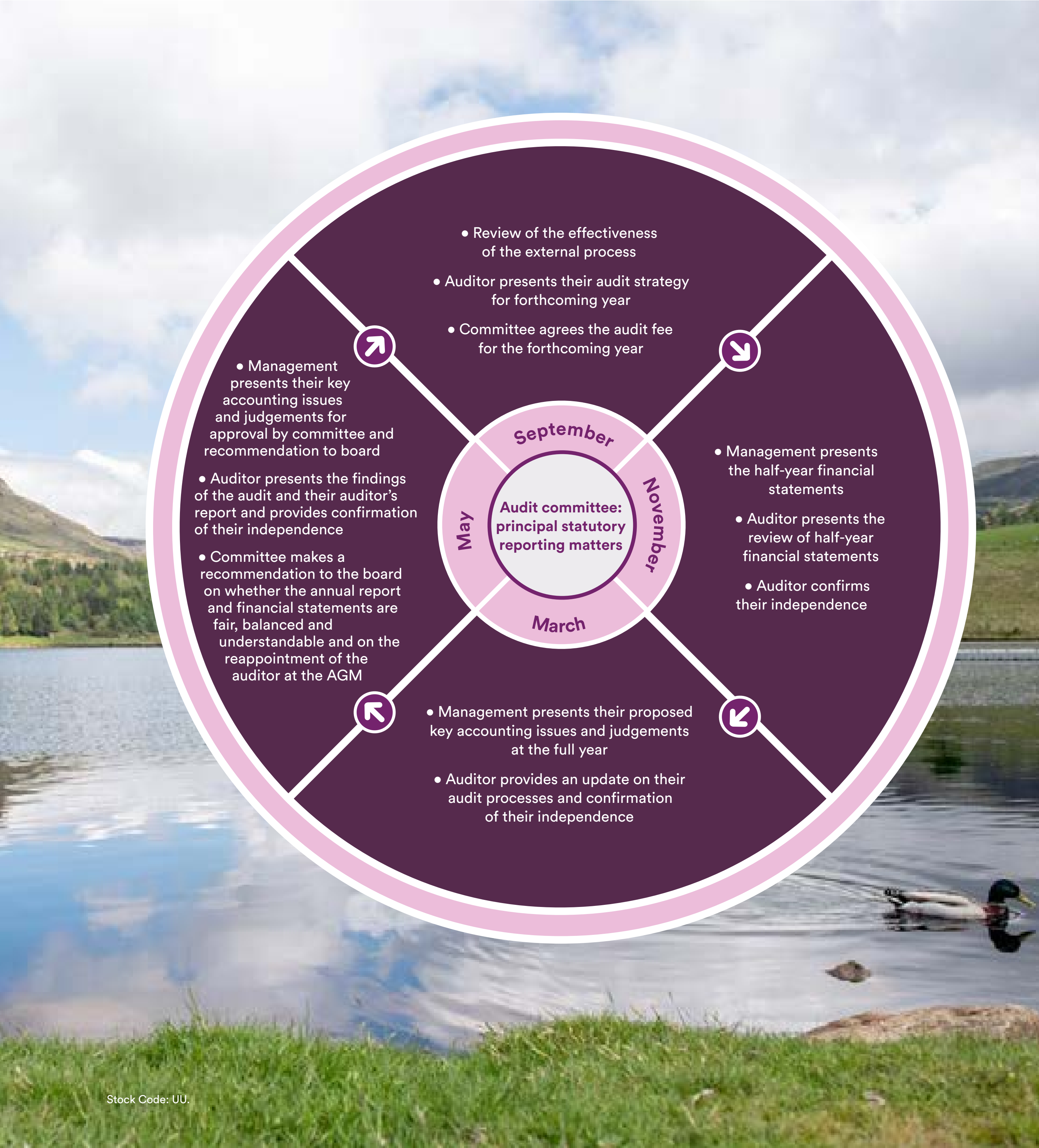
Main responsibilities

- Make a recommendation to the board for the appointment or reappointment of the auditor, and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor.
- Establish policies for the provision of any non-audit services by the auditor.
- Challenge the auditor on the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded.
- Review the half-year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues proposed by management and in particular those challenged by the committee in relation to the financial statements and how these were addressed.
- Approve the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems.
- Review the group's procedures for reporting fraud and other inappropriate behaviour and to receive reports relating thereto.
- Report to the board on how it has discharged its responsibilities.
- Apply the principles of the code and report against the provisions.

Business on the committee's agenda during the year

The committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team. The committee's role is to ensure that management's disclosures reflect the supporting detail provided to the committee or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The committee reports its findings and makes recommendations to the board accordingly. The committee is supported in this role by using the expertise of the statutory auditor, who, in the course of the audit, considers whether the financial statements have been prepared in accordance with IFRS and whether adequate accounting records have been kept. In doing so it ensures that high standards of financial governance, in line with the regulatory framework along with market practice for audit committees going forward, are maintained. Furthermore, the company's own internal audit team contributes to the assurance process by reviewing compliance with internal processes.
The committee's financial reporting cycle, which starts each year in September, is shown below. There were four meetings of the committee held during the year, the committee intends to continue to hold the two meetings in September and March virtually. Items of business considered by the committee are set out on pages 146 to 147.

Audit committee financial reporting cycle



Actions	Outcomes	Cross reference
Annual and half-year reporting		
Reviewed, discussed and challenged the financial reporting team's reports on the financial statements, management's significant accounting judgements, the policies being applied both at the full and half year and how the statutory audit contributed to the integrity of the year-end financial reporting.	The committee challenged management on a number of its judgements and sought detailed explanations of its interpretation. The committee was satisfied with the explanations provided by management. Recommendations were made to the board, supporting the approval of the financial statements.	See pages 151 to 152
Reviewed and challenged the regulatory reporting process relating to the annual performance report (APR) for UUW, including the assurance provided by the technical auditor, as required to be submitted to Ofwat, and noted the differences between the regulatory and statutory accounts.	The committee met with the technical auditor to provide an opportunity for challenge by the committee whose overview contributes to the assurance process of the regulatory reporting prior to the approval of the APR by the UUW board.	–
Assessed management's presentation of APMs to enable comparability with other companies.	Concurred with management's approach that the APMs as defined were satisfactory enabling comparability with other companies.	See page 82
Reviewed and challenged the proposed audit strategy for the 2021/22 statutory audit, including the level of materiality applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the 2021/22 audit.	The committee monitored progress made by the statutory audit team against the agreed plan, and challenged the auditor in the resolution of any issues as they arose.	See page 202
Reviewed and challenged the basis of preparation of the financial statements as a going concern as set out in the accounting policies.	Recommendation made to the board to support the going concern statement.	See page 217
Reviewed and challenged the long-term viability statement proposed by management and reasons why a seven-year assessment period was appropriate.	The committee challenged management that the length of the period was appropriate, particularly in light of assessment timeframes used by peer companies, but were satisfied with management's preference to continue to provide a statement with greater certainty over a shorter period of time.	See page 140
Reviewed the results of the committee's assessment of the effectiveness of the 2020/21 audit.	The committee concluded that the audit was effective and a recommendation was made to the board on the reappointment of KPMG as the auditor for the year ending 31 March 2023 at the forthcoming annual general meeting.	See page 148
Reviewed whether the company's position and prospects as presented in the 31 March 2022 annual report and financial statements were considered to be a fair, balanced and understandable assessment of the company's position and prospects.	Recommendation made to the board that the 31 March 2022 annual report and financial statements was a fair, balanced and understandable assessment of the company's position and prospects.	See pages 139 and 147
Reviewed the non-audit services and related fees provided by the auditor for 2021/22 and the policy on non-audit services provided by the auditor for 2022/23.	Approved the non-audit services and related fees provided by KPMG for 2021/22 and concluded that no changes were required to the policy for non-audit services provided by the auditor.	See page 149
Negotiated and agreed the statutory audit fee for the year ended 31 March 2022.	The committee approved the fee for the 2021/22 audit, including a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.	See pages 149 to 150
Challenged management to enhance the assurance processes supporting certain aspects of the TCFD, SECR and wider ESG sections in the narrative reporting in the 2021/22 annual report.	The committee concluded that the enhanced assurance processes supporting the narrative reporting in the annual report were satisfactory.	See page 148

Actions	Outcomes	Cross reference
Risk management and internal control		
Reviewed the effectiveness of the risk management and internal control systems including an overview of the output from the independent third party review of internal controls around financial reporting.	Recommendation made to the board that the risk management and internal control systems were effective.	See pages 153 to 154
Considered changes to internal control weaknesses brought to the attention of the committee by KPMG.	Challenged management to resolve any issues relating to internal controls and risk management systems.	See page 202
Considered the third party review of the group's fraud risk management framework and challenged management to implement a fraud risk management action plan.	A number of enhancements were recommended and a fraud risk management action plan was implemented and updates provided to monitor progress.	See page 154
Monitored fraud reporting.	Reviewed the company's anti-fraud policies and processes and alleged incidents of fraud and the outcome of their investigation.	See page 154
Biannual oversight and monitoring of compliance with the group's anti-bribery policy.	Reviewed compliance with the company's ongoing anti-bribery programme.	See page 154
Approved the strategic internal audit planning approach on the work of the internal audit function from the head of audit and risk.	Monitored the implementation of the 2021/22 internal audit plan. Reviewed findings of specific internal audit and implementation of any resulting actions by management.	See page 153
Considered the issues and findings brought to the committee's attention by the internal audit team.	The committee was satisfied that management had resolved or was in the process of resolving any outstanding issues or concerns in relation to matters scrutinised by the internal audit team.	See page 153
Reviewed the quality and effectiveness of internal audit and the effectiveness of the current co-source arrangements.	The committee reviewed the process of assessment of internal audit and made recommendations for enhancement, notwithstanding the recommendations it was concluded that the internal audit team, supported by the PwC co-source resource, was effective.	See page 153
Reviewed and challenged the strategic internal audit planning approach and internal audit plan for 2022/23.	Approved the internal audit plan for 2022/23.	See page 153
Governance		
Review of the committee's terms of reference	No changes were made to the committee's terms of reference during the year.	-
As a consequence of the Brydon and Kingman Reviews and the BEIS consultation report 'Restoring trust in audit and corporate governance', management undertook to develop: an audit and assurance policy following a review of the existing approach to audit and assurance, and a review of internal controls that impact the group's financial reporting.	The committee reviewed the existing approach to audit and assurance and the outcome of the review of the maturity of the internal control framework over financial reporting undertaken by PwC. While awaiting the publication of the outcome of the BEIS consultation, key matters under development include the audit and assurance policy, a resilience statement and fraud risk management.	See page 151
Reviewed the conclusions of the committee's annual evaluation. The evaluation was internally facilitated by the company secretary. The review explored the effectiveness of: the committee's composition, meetings and time management; committee processes and support, the areas of work of the committee and priorities for change.	All elements of the self-assessment reviewed indicated the committee was working well. The board considered the results of the review of the committee and concluded that the committee continued to be effective.	See page 136

How we assessed whether "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy"

The following section sets out the company's compliance with part of provision 25. The directors' responsibility for preparing the annual report and financial statements is set out on page 198.

The board delegates to the committee, in the first instance, the review of the annual report and financial statements with the intention of providing advice to the board on whether, as required by the code, "the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy". To make this assessment, the committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned with the company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements. The committee also considered whether the significant issues considered by the committee in relation to the financial statements include those identified by the auditor in their report on pages 202 to 209.

Management has again considered and sought to enhance the review processes to provide support to the board in forming its view on whether the accounts and financial statements were fair, balanced and understandable, as it concluded they were and set out on page 198. In particular, a member of the executive team not involved in the drafting process was appropriately briefed to review and challenge the content to ensure that the activities and issues faced by the business were reported in a fair and balanced manner.

The committee received updates on the calculation of underlying operating profit measures as one of the principal alternative performance measures (APMs) used by management, a full guide to APMs can be found on page 82.

Many of our regulatory performance commitments are used by management as key performance indicators and are monitored by our regulators, who set the methodology against which we report. As part of their role as auditor of UUW's annual performance, KPMG provides assurance on many of these performance commitments along with Jacobs, the technical auditor. During the year, the committee met with representatives from Jacobs, providing an opportunity for the committee to understand the specifics of Jacobs' role as technical auditor of the UUW regulatory annual performance report.

KPMG is required (under ISA(UK) 720) to consider whether there are any material inconsistencies between the 'other information' and 'statutory other information' presented in the annual report (i.e. in the strategic report, the directors' report and the corporate governance statement), and the financial statements, taking into account the auditor's knowledge obtained in the audit, or the auditor's understanding of the legal and regulatory requirements applicable to the 'other information' and 'statutory other information'. The TCFD and Streamlined Energy and Carbon Reporting (SECR) disclosures are deemed to be 'other information' as they are included in the company's strategic report, as they are important to the company. Other assurance of the TCFD and SECR disclosures (see pages 86 to 97) is undertaken both by third parties and our internal audit team. Our disclosures against the code are reviewed by the internal audit team and reported to the committee.

Additionally, the committee was satisfied that all the key events and issues which had been reported to the board in the executive team's monthly board reports during the year, both good and bad, had been adequately referenced or reflected within the annual report.

How we assessed the effectiveness of the statutory audit process

The committee, on behalf of the board, is responsible for the relationship with the auditor, and part of that role is to examine the effectiveness of the statutory audit process. Audit quality is regarded by the committee as the principal requirement of the annual audit process. KPMG presented the strategy and scope of the audit for the forthcoming financial year at the meeting of the committee held in September, highlighting any areas which would be given special consideration (these key audit matters are included in the auditor's report on pages 202 to 209). KPMG reported against their audit scope at subsequent committee meetings, providing an opportunity for the committee to monitor progress and raise questions, and challenge both KPMG and management.

Throughout the year, management presents its up-to-date view of the key accounting issues and its resulting judgements to the committee. In response, KPMG informs the committee whether, in its professional view, the judgements management proposes, or has taken, are appropriate. A number of these issues manifest themselves as the significant issues considered by the committee in relation to the financial statements, which are set on pages 151 to 152 in respect of 2021/22. As required by auditors' professional standards, KPMG exercise their professional scepticism in their audit of these significant issues.

Private meetings are held at committee meetings between the committee and representatives of the auditor without management being present to encourage open and transparent feedback by both parties on any matters they wish to raise, and provide the committee with an opportunity to obtain from the auditor greater insight on the extent to which the auditor has challenged management's analysis and presentation of information.

Prior to the board's approval of the year-end financial statements, the committee provides its view to the board on the outcome of the statutory audit, explaining: management's key accounting issues and judgements; the outcome of the auditor's assessment of key audit matters; other areas of audit focus and control deficiencies (if any), and how the statutory audit contributed to the integrity of the financial reporting process. The independent nature and financial expertise of committee members further contributes to the integrity of the process.

Audit quality

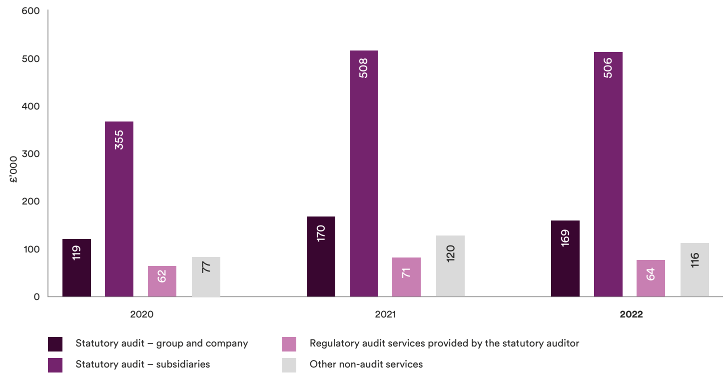
Additional audit quality processes and interactions

KPMG introduced a number of additional elements as part of its action plan to enhance audit quality for the 2020/21 audit. The effectiveness of these enhancements were reviewed and agreed to have had a positive contribution to the audit, and so were retained and further enhanced for the 2021/22 audit. As part of its review of the 2021/22 audit in July 2022, the committee will seek to review the effectiveness of these processes and interactions.

The processes and interactions included:

- providing sight of their interim control findings to the committee early in the audit process and sharing their knowledge and best practice recommendations;
- improving communication and sharing of information and insight between the external and internal audit teams by implementing regular discussion sessions prior to the scheduled committee meetings;
- raising audit points in a more timely manner with the financial reporting team during the audit process by holding regular discussions with the external audit team and financial reporting team;
- using a project manager to assist with the delivery of the year-end audit cycle; and
- enhanced visibility of the key challenges and findings of the second-line of defence review performed by another team independent of the audit team, and of the independent KPMG partner's review of the audit.

Statutory auditor's fees



KPMG updated the committee on its ongoing Audit Quality Transformation Plan (AQTP). KPMG's AQTP includes: a more standardised audit approach; holding companies to account for the quality of the information provided in the audit process; providing more feedback to companies on the findings of their audit and providing additional senior-level support to the KPMG audit teams during the audit; all of which are well embedded in the audit process. In planning for the 2021/22 audit, KPMG provided a report to the committee on the quality interventions that they had implemented during the 2020/21 audit. Each year the committee considers the annual review by the FRC's Audit Quality Review Team and challenges KPMG to ensure continuous improvement.

On completion of the annual audit process the views of those involved in the audit on how well KPMG performed the audit are sought. All members of the committee, key members of the senior management team and those who regularly provide input into the audit committee or have regular contact with the auditor, complete a feedback questionnaire, thereby ensuring a wide range of views are taken into account. The questionnaire reviewing the 2021 audit process was issued in July 2021.

Views of the respondents were sought in terms of:

- the robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- the quality of the delivery of the audit and whether planned quality improvements had been delivered and whether the committee had insight into the auditor's internal quality procedures;
- the expertise of the audit team conducting the audit and their understanding of the company's business risks to assess if there was an impact on the audit;
- whether the auditor made appropriate use of the work of the internal audit team;
- that the degree of professional scepticism applied by the auditor was appropriate;
- the appropriateness of the communication between the committee and the auditor in terms of technical issues;
- the quality of the service provided by the auditor;
- their views on the quality of the interaction between the audit engagement partner, the audit senior manager and the company;
- whether the audit process had been kept on schedule, despite the remote working due to COVID-19 restrictions of both the audit and management teams; and
- whether the statutory audit contributed to the integrity of the group's financial reporting.

The feedback was collated and presented to the committee's meeting in September 2021. The committee noted KPMG's quality interventions as part of its AQTP to improve audit quality, including: the additional oversight provided by senior KPMG personnel during the 2020/21 audit. The committee concluded that the statutory audit process and services provided by KPMG were satisfactory and effective, with additional measures for further enhancement encouraged.

How we assessed the independence of the statutory auditor

The following section sets out the company's compliance with part of provision 26.

There are two aspects to auditor independence that the committee monitors to ensure that the auditor remains independent of the company.

First, in assessing the independence of the auditor from the company, the committee takes into account the information and assurances provided by the auditor confirming that all its partners and staff involved with the audit are independent of any links to United Utilities. KPMG confirmed that all its partners and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard, including that none of its employees working on our audit hold any shares in United Utilities Group PLC. KPMG is required to provide written disclosure at the planning stage of the audit in the form of an independence confirmation letter. Their letter discloses matters relating to their independence and objectivity, including any relationships that may reasonably be thought to have an impact on its independence and the integrity and objectivity of the audit engagement partner and the audit staff. The audit engagement partner must change every five years and other senior audit staff rotate at regular intervals.

Secondly, the committee develops and recommends to the board the company's policy on non-audit services and associated fees that are paid to KPMG. In accordance with the FRC's Revised Ethical Standard (2019), an auditor is only permitted to provide certain non-audit services to public interest entities (i.e. United Utilities Group PLC) that are closely linked to the audit itself or that are required by law or regulation, as such services could impede their independence. Permitted non-audit services fees paid to the statutory auditor are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial periods preceding the financial period in which the cap applies.

The 70 per cent non-audit services fee cap has been applied to the group for the year ended 31 March 2022. The average of audit fees is £447,000 (calculated as the average of the audit fees for the three preceding financial years (2021: £430,000; 2020: £474,000; 2019: £437,000). Non-audit services fees during the year were £130,500, (2021: £119,500; 2020: £77,000; 2019: £66,000) so well below the cap of £313,900 (70 per cent of £447,000). In 2022, fees for non-audit services represent 19.3 per cent of the average audit fees on which the cap is based. Permitted services (which remain subject to the 70 per cent cap, apart from the regulatory audit) can be approved by the CFO subject to a cap of £10,000 applied for individual items. Individual items in excess of £10,000 require the approval of the committee. Auditor-provided permitted services include the non-audit fees paid to the statutory auditor for: the interim review; the regulatory audit; agreed-upon procedures for regulatory reporting; limited assurance work relating to the group's sustainable financing framework; the Euro Medium Term Note Programme and Law Debenture Trust compliance work.

Read more about our **annual performance report** on page 51

Read more about our **treasury committee** on page 155

Fees for non-audit services paid to KPMG include the cost of the UUW regulatory assurance work they undertake, which is separate to the regulatory audit. While this work could be performed by a different firm, the information is in fact more granular breakdowns of data that form part of the statutory audit, and by KPMG undertaking the work it reduces duplication and saves considerable cost.

During the year, the committee agreed a small additional fee in respect of the limited assurance work relating to the group's sustainable financing framework.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee was satisfied that KPMG continues to be independent, and free from any conflicting interest with the group.

Statutory auditor reappointment for the year ending 31 March 2023

The following section sets out the company's compliance with part of provision 26.

The 2021/22 year-end audit has been KPMG's eleventh consecutive year in office as auditor; they were reappointed after the committee conducted a formal tender process in December 2019 and as reported by the committee in the 2020 annual report. Prior to this, a formal tender was last undertaken in 2011, and resulted in the appointment of KPMG who thereafter presented their report to shareholders for the year ended 31 March 2013. An audit tender review was held in September 2015. The diagram shown below shows the historical tendering and rotation of the role of statutory auditor. The company, as a public interest entity, is required to conduct a competitive tender process every ten years, and rotate auditors after 20 years at most. As a matter of good practice, the committee continually keeps the performance of the auditor under review.

The 2021/22 audit has been the second year for Ian Griffiths as audit engagement partner. The audit engagement partner changes at least every five years.

United Utilities has complied fully with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 March 2022.

At its meeting on 17 May 2022, the committee recommended to the board that KPMG be proposed for reappointment for the year ending 31 March 2023 at the forthcoming AGM in July 2022. There are no contractual obligations that restrict the committee's choice of auditor; the recommendation is free from third-party influence and no auditor liability agreement has been entered into.

Rotation of external auditor to the group

Audit and assurance policy

During the year, management took steps, prompted by the BEIS consultation and with a view to providing a more standardised approach, to begin to develop an audit and assurance policy as a means of tailoring proportionate assurance relating to the narrative disclosures in the annual report and referencing the assurance of the regulatory reporting relating to UUW. Feedback from the committee was incorporated into the drafting process.

Going concern and long-term viability

The committee challenged and scrutinised management's detailed assessment of the group's long-term viability and its ability to continue as a going concern. In doing this the committee took into account the risks facing the business, and its ability to withstand a number of severe but reasonable scenarios. Having considered management's assessment, the committee approved the long-term viability statement set out on page 140. Management apprised the committee of its preparedness to provide a resilience statement in future years, which would encompass the going concern and long-term viability statement should this be a recommendation of the BEIS Consultation on 'Restoring trust in audit and corporate governance'.

Significant issues considered by the committee in relation to the financial statements

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Revenue recognition and allowance for doubtful receivables (see pages 218, 220, 229 to 230, 257 and 259) – due to the nature of the group's business, the extent to which revenue is recognised and expected credit losses are recognised in relation to doubtful customer debts is an area of considerable judgement and estimation. This has particularly been the case in the current year as the cost of living has increased and is forecast to increase further into the next year. The future economic situation is highly uncertain, but it is expected that this could impact the ability of some customers to pay their bills as they become due.	• The committee reviewed the approach taken by management in estimating the impact that increases in the cost of living could have on future cash collection under a range of scenarios, recognising that the situation is highly uncertain. Having challenged management's approach, the committee concluded that while cash collection rates during the year have been good, the rate at which expected credit losses are accounted for needs to consider future cash collection risk and that the rates proposed by management are reasonable given the scenario analysis undertaken; and • The committee challenged management's judgement around the appropriate period over which to consider cash collection history in assessing the level of expected future credit losses, and concurred that the judgement around the period chosen was appropriate.
Capitalisation of fixed assets (see pages 203, 218 to 219, 226 to 228 and 258 to 259) – fixed assets represents a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.	• The committee assessed the reasonableness of the group's capitalisation policy and the basis on which expenditure is determined to relate to enhancement or maintenance of assets and, having also considered the work performed by KPMG in this area, deemed both to be appropriate; and • The committee also challenged the controls around ensuring the accuracy of capital accruals making up part of the total amount of fixed assets capitalised during the year, and satisfied itself that controls in this area were adequate.
Retirement benefits (see pages 204, 219, 232 to 244, 250 to 255 and 260) – the group's defined benefit retirement schemes is an area of considerable judgement, the performance and position of which is sensitive to the assumptions made. The group employs the services of an external actuary to determine the calculation of the net retirement benefit surplus and determine the appropriate assumptions to make.	• The committee sought from management an understanding of changes to the assumptions used in calculating the defined benefit scheme surplus and how data from the latest triennial valuation that concluded during the year is incorporated into the final analysis. This included an assessment of the appropriateness of the inclusion of a 'w2021' parameter in the demographic assumptions adopted to take account of the expected impact of the COVID-19 pandemic on life expectancy in the medium term given the indirect impacts of the pandemic on the likes of waiting lists and delays in diagnoses of conditions. • Having challenged the rationale for making these changes and considered how it compares with market practice and the requirements of the relevant accounting standards, the committee concluded that the resulting assumptions were appropriate and balanced in estimating the level of defined benefit obligations and therefore the net retirement benefit surplus. The committee was also satisfied that data from the latest triennial valuation had been appropriately factored into the valuation.
Derivative financial instruments (see pages 219, 242 to 249 and 260) – the group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made. Management performs periodic checks to ensure that the model-derived valuations agree back to third-party valuations and KPMG check a sample against their own valuation models. This process has been complicated slightly during the year by the rebooking of financial instruments that were linked to LIBOR following the cessation of LIBOR as an interest rate benchmark after 31 December 2022.	• The committee noted that the periodic checks performed by management had been completed at the year-end reporting date and, having also noted that KPMG had undertaken their testing in this area, was satisfied that no significant issues were identified. • The committee also considered management's update on the controls in place around the rebooking of financial instruments and was satisfied that these were appropriate and that the impact of the cessation of LIBOR had been appropriately accounted for.

Material and/or judgemental areas of the financial statements

Significant issues considered	How these were addressed by the committee
Provisions and contingent liabilities (see pages 234, 236 and 260) – the group provides for contractual, legal and environmental claims brought against it based on management's best estimate of the value of settlement, the timing of which is dependent on the resolution of the relevant legal claims. Judgement is also required in determining when contingent liabilities exist that require disclosure in the financial statements.	• The committee assessed and challenged the appropriateness of the basis on which provisions are recognised, and management's estimate of the value applied to individual claims, focusing particularly on instances where new provisions were required or where the likelihood of financial outflow was deemed to have diminished such that provisions were no longer needed and were therefore released. The committee concluded that the approach to provisioning was appropriate and that management's best estimates were reasonable; • The committee also considered the reasonableness of disclosures made in respect of contingent liabilities, challenging management as to whether any provision should be recognised in the financial statements and concluding that the recognition criteria had not been met and therefore that disclosure as contingent liabilities was the most appropriate approach.
Taxation (see pages 224 to 225, 233 and 257) – judgement is required in assessing provisions for potential tax liabilities and in considering the recoverability of deferred tax assets.	• The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets, and noted that KPMG have also assessed these provisions. Based on the above, the committee was satisfied with the judgements made by management. • The committee also considered the nature of significant refunds of tax paid in prior years that were recognised in the financial statements in the current year, and concluded that it is appropriate for these to be treated as part of the underlying tax expense in the year in arriving at the group's alternative performance measures.
Other topical areas	
Impact of COVID-19 – the impact of the COVID-19 pandemic resulted in higher levels of estimation uncertainty and considerably more judgement being required in preparing the financial statements for the years ended 31 March 2020 and 31 March 2021. During the year ended 31 March 2022 the committee has considered how the situation has developed in order to revisit these significant estimates and judgements.	• The impacts of the pandemic on the issues considered were considerably lower for the year ended 31 March 2022 compared with previous years, and judgements and estimates were subject to what are now well-established processes. With the passage of time and as more data relating to the key areas impacted by the pandemic has become available, together with an increasing return towards pre-pandemic norms during the year, the committee satisfied itself that the level of estimation uncertainty has fallen compared with previous and that, going forward and subject to any further developments, there may be less of a requirement for the impact of COVID-19 to be considered as a discrete item, having been superseded by other developments such as increases in the cost of living.
Impact of increases in the cost of living – while the level of judgement and estimation uncertainty associated with the COVID-19 pandemic has receded during the year, this has been superseded by economic circumstances that have resulted in increases in the cost of living for much of the group's customer base. As there is a high degree of uncertainty around how the economic situation may develop, this gives rise to a higher level of judgement and estimation uncertainty in this area.	• The committee concurred with management's assessment that the impact of increases in the cost of living on the group's significant accounting judgements and areas of uncertainty is felt most acutely in relation to revenue recognition and allowances for expected credit losses in relation to doubtful receivables. Considerations in this area are therefore set out more fully above.
Impact of the war in Ukraine – Russia's invasion of Ukraine in the early part of 2022 has had profound geopolitical and economic consequences, which the committee has considered in determining whether the group's accounting for the year ended 31 March 2022 is materially affected.	• The committee considered management's assessment of the impact of the war in Ukraine, and was satisfied that neither the operations nor the assets of the group are directly impacted, notwithstanding some exposure to the conflict's broader effects such as cost increases due to supply chain risk relating to certain materials and chemicals sourced from the region.
Accounting for the proposed sale of United Utilities Renewable Energy Limited (UURE) (see pages 236 and 259) – during the year ended 31 March 2022 the board approved the commencement of a process to sell the group's renewable energy business, UURE.	• The committee considered the stage of the sales process as at the year-end reporting date along with management's assessment of the application of the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' in terms of the assets and liabilities of UURE, and challenged management's view that criteria for presenting these as 'Held for sale' had not been met as at the reporting date; and • After due consideration, the committee agreed with management's assessment that as at 31 March 2022 the sale could not be considered "highly probable", and that this hurdle was met subsequently. The committee therefore reviewed the draft disclosure relating to the sale as an event after the reporting period and endorsed the wording included on page 236 of the financial statements.
Accounting for 'Software as a Service' (SaaS) arrangements (see pages 222 and 258) – following the publication of IFRIC agenda decisions relating to SaaS arrangements, management has considered the extent to which these affect the way in which such arrangement are accounted for by the group.	• The committee reviewed the processes undertaken by management to determine the level of SaaS arrangements that may be affected by recent IFRIC agenda decisions and the conclusions reached, focusing on the extent of customisation and configuration costs incurred in implementing SaaS solutions and whether these could be considered to give rise to intangible software assets. Having sought to understand management's thought processes, together with the challenge applied by KPMG as part of their audit procedures, the committee was satisfied that the majority of such costs should be treated as operating expenditure rather than be capitalised; and • Having satisfied itself over the accounting for SaaS arrangements, the committee also reviewed management's assessment of the extent to which costs incurred in prior periods may also be affected, and concluded that prior year costs were not material and therefore that there was no change in accounting policy in relation to these costs that would require any prior year restatement.

Internal controls and risk management systems

The main features of the group's internal controls and risk management systems are summarised below:

Internal audit function

The internal audit function is a key element of the group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the audit committee, the board and to senior management. It supports the organisation's vision and objectives by evaluating and assessing the effectiveness of risk management systems, business policies and processes, systems and key internal controls. In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes and, as such, provides an indication of the behaviours being exhibited by employees in the areas under review. Once any recommendations are agreed with management, the internal audit function monitors their implementation and reports to the committee on progress made at every meeting.

A five-year strategic audit planning approach is applied. This facilitates an efficient deployment of internal audit resource in providing assurance coverage over time across the whole business, as well as greater variation in the nature, depth and breadth of audit activities. This strategic approach supports the annual audit plan, which is then endorsed by management, and which the committee reviews, challenges and approves. The plan focuses the team's work on those areas of greatest risk to the business. Building on the strategic planning approach, the development of the plan considers risk assessments, issues raised by management, areas of business and regulatory change, prior audit findings and the cyclical review programme. The purpose, scope and authority of internal audit is defined within its charter which is approved annually by the audit committee. As set out in the charter, internal audit perform their work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors; and with integrity (honestly, diligently and responsibly) and objectively (without conflicts of interest).

Internal audit, led by the head of audit and risk, covers the group's principal activities and reports to the committee and functionally to the CFO, both of whom approve the head of audit's annual personal objectives. The head of audit and risk attends all scheduled meetings of the audit committee, and has the opportunity to raise any matters with the members of the committee at these meetings without the presence of management. He is also in regular contact with the chair of the committee outside of committee meetings.

The in-house team is expanded as and when required with additional resource and skills co-sourced from external providers ensuring that the internal audit function has sufficient resources and expertise to deliver the annual audit plan. The committee keeps the relationship with co-source providers under review to ensure the independence of the internal audit function is maintained and there is a documented process to manage possible conflicts of interest with the co-sourced resource. Ensuring that any co-source resource remains independent in the course of its work is crucial to the integrity of its work. Following a competitive tender process, PwC was last re-appointed as co-source resource provider during 2020/21.

The internal audit function liaises with the statutory auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the audit committee and board.

Assessing the effectiveness of the internal audit function

The effectiveness of the internal audit function's work is continually monitored using a variety of inputs, including the ongoing audit reports received, the audit committee's interaction with the head of audit and risk, an annual review of the department's internal quality assurance report, a quarterly summary dashboard providing a snapshot of the progress against the internal audit plan tabled at each committee meeting as well as any other periodic quality reporting requested.

An annual stakeholder survey in the form of a feedback questionnaire is circulated to committee members, senior management and other managers who have regular contact with the internal audit function, including representatives from the auditor KPMG and the co-source audit provider PwC. The responses were anonymous to encourage open and honest feedback, and were consistently favourable, as were previous surveys.

Periodically, the quality and effectiveness of the internal audit function is also assessed externally, with the most recent review being undertaken in early 2019.

Taking all these elements into account, the committee concluded that the internal audit function was an effective provider of assurance over the organisation's risks and controls and appropriate resources were available as required.

Risk management systems

The group designs its risk management activities to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The committee receives updates and reports from the head of audit and risk on key activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. A diagram and explanation of the risk management governance and reporting process can be found on page 101. The CFO has executive responsibility for risk management and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

Supplementing the more detailed ongoing risk management activities within each business area, the biannual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a high-level review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their business area, while identifying new and emerging risks and generally to facilitate

Read more about **financial oversight responsibilities of the board** on pages 139 to 140

Read more about **our risk and resilience framework** on pages 100 to 102

improvements in the way risks are managed. The outcome of the BURA process is communicated to the executive team and the board. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board. The group utilises risk management software in order to maintain an up to date view of the assessment of risk. The maturity of the risk management framework and its application across the business is assessed on an annual basis against a defined maturity model. This assessment provides an objective appraisal of the degree of maturity in how the risk management system is being applied against the key elements of ISO 31000:2018 Risk Management Standard. The results of the maturity assessment are reported to the GARB, and actions agreed with business units.

An external assessment of the risk management framework last took place in 2017/18.

Internal controls
The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Internal control systems are the responsibility of the CFO, with the support of the GARB, the financial control team and the internal audit team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year as well as aspects being tested by other internal assurance providers. Compliance with the internal control system is monitored annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited on a sample basis by the internal audit team and reported to the committee.

During the year, the committee asked management to commission an independent review of the maturity of the group's internal control framework over financial reporting in light of the recent BEIS consultation, and the likely evolution of the UK internal control requirements, in general terms but also more specifically in relation to controls over financial reporting. The key findings of the independent review were that: there was a high level of coverage of the financial statement line items in both the consolidated income statement and the balance sheet; risk and control matrices were in operation; and the fundamental building blocks underpinning an internal control framework over financial reporting were in place which would contribute to an audit and assurance policy (see page 151).

Independent review of the fraud risk management structure
During the year, the committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. This was felt to be timely, particularly in light of the need for remote working during the pandemic and the subsequent move to hybrid working in some areas of the business. An action plan to strengthen the approach to fraud risk assessment has been implemented, overseen in the first instance by the security steering group forum and with the final report presented to the committee.

Anti-fraud and anti-bribery
The audit committee is responsible for reviewing the group's procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour. In the first instance of an incident being reported, a summary of the allegations is passed to the fraud and whistleblowing committee (consisting of the company secretary, the customer services and people director, the strategy, policy and regulation director, the commercial, engineering and capital delivery director and the head of internal audit and risk) to decide on the appropriate course of action and investigation and by whom.

During the year, the audit committee was kept fully apprised in regular updates on the progress and findings of investigations of cases of alleged fraud and any remedial actions taken.

In line with the group's anti-fraud culture and zero-tolerance attitude towards fraud, a fraud incident forum has been established to identify and understand potential threats, and optimise the group's response and mitigation and ensure consistency across the business.

The company has an anti-bribery policy to prevent bribery being committed on its behalf, which all employees must follow, and processes in place to monitor compliance with the policy. Employees in certain roles are required to complete anti-bribery training materials. As part of the anti-bribery programme, employees must comply with the group's hospitality policy. The hospitality policy permits employees to accept proportionate and reasonable hospitality for legitimate business purposes only and all hospitality (and gifts) offered and accepted has to be logged, and approved when accepted. Employees and representatives of the group's suppliers must comply with the group's responsible sourcing principles and United Supply Chain approach. The group will not tolerate corruption, bribery and anti-competitive actions and suppliers are expected to comply with applicable laws and regulations, and in particular never to offer or accept any undue payment or other consideration, directly or indirectly, for the purposes of inducing any person or entity to act contrary to their prescribed duties.

As part of the internal control self-assessment checklist (part of the group's internal control processes), senior managers in consultation with their teams are required to confirm, among other things, that they have complied with the group's anti-bribery and hospitality policies. The anti-bribery programme is monitored and reviewed biannually by the committee.

Corporate governance report
Treasury committee

Doug Webb
Chair of the treasury committee

Quick facts

- The committee meets three times a year.
- The committee operates under terms of reference and delegated authorities approved by the board.
- The company secretary attends all meetings of the committee.
- The treasurer is a member of the committee.
- The members of the committee undertook a self evaluation in February 2022 facilitated internally by the company secretary. The review of the responses indicated that the committee was effective and its members had the appropriate skills and experience to fulfil the committee's responsibilities.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Treasury management is fundamental to the group's business model ensuring that sufficient funding is available to meet the group's foreseeable needs, while managing the liquidity market and capital risks.

Dear shareholder

During the year, with the board's delegated authority, the committee oversaw the successful execution of the group's funding programme. Approximately £425 million of new term funding was raised, with financial market conditions being closely monitored as central banks began tightening monetary policy in response to surging inflation, amidst heightened geopolitical tensions.

The continuation of our funding programme, on top of the £900 million of term funding raised in 2020/21, has positioned the group well with regard to its circa £2.7 billion financing requirement across the AMP7 regulatory period. The committee also completed a 'deep dive' review of the group's inflation and interest rate hedging policies.

The committee oversaw the group's successful implementation of the transition of benchmark reference rates used in the group's financial derivatives and loan and credit facilities, from GBP LIBOR to replacement 'risk free rates', with SONIA replacing GBP LIBOR effective from the end of 2021.

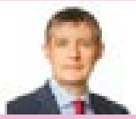
In November 2021, we increased the size, and redenominated the group's multi-issuer, London listed, Euro Medium Term Note Programme from EUR7 billion to £10 billion to facilitate future debt issuance. This programme, in conjunction with our sustainable finance framework launched in November 2020, is expected to continue to be the primary vehicle for the group accessing funding in the debt capital markets. In July 2021, the group published its inaugural sustainable finance framework allocations and impact report. Details of the group's engagement with banks and credit investors can be found on page 128.

Doug Webb
Chair of the treasury committee

Treasury committee members:

Doug Webb
Chair of the treasury committee

Phil Aspin
CFO



Brendan Murphy
Treasurer

Main responsibilities

- Review of the group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and electricity hedging); financial counterparty credit risk; credit ratings and capital structure.
- Execution of the financing plan and evaluation of funding opportunities.
- Liquidity management and review of forecasts.
- Execution of hedging transactions and programmes in relation to the management of market risks in accordance with treasury policy parameters.
- Developments in relation to the credit ratings agencies.
- Credit investor relations.
- Banking relationships.
- Treasury delegated authorities, internal controls and governance.
- Reporting to the board on matters relating to the group's treasury activities, including board approval of the annual treasury update and associated financing plan and board delegated authorities.

Stephen Carter
Chair of the corporate responsibility committee

Quick facts

- The committee comprises four directors appointed by the Board, three of whom are independent non-executive directors.
- The company secretary, corporate affairs director and customer services and people director attend all meetings of the committee.
- Senior operational directors attend the committee to report on the environmental, social and governance aspects of particular topics and initiatives.
- The corporate responsibility committee has existed for over fourteen years.

Quick links

Terms of reference
unitedutilities.com/corporate-governance

Schedule of matters reserved for the board
unitedutilities.com/corporate-governance

A copy of the Financial Reporting Council's 2018 UK Corporate Governance Code can be found at **frc.org.uk**

The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong.

Dear shareholder
I am pleased to introduce the report on the activities of the corporate responsibility committee in 2021/22.

The company's approach to carbon emission mitigation and adaptation to a changing climate was a topic of particular focus, with the CRC encouraged to see it is making good progress in delivering its carbon pledges including the incorporation of carbon into long-term performance incentives. The committee supported steps to strengthen internal carbon governance, recognising the company has a clear plan to 2030. It welcomed the increased regulatory focus on climate change.

The committee commented on the company's third adaptation report ahead of its publication in December 2021 with particular attention on how the company is improving the management of climate change risk and raising its profile within the organisation and with external stakeholders. The committee noted how the report addressed the expected impact of global warming at around 2°C and that a more extreme scenario of up to 4°C is being considered for PR24 and beyond to stress test the plan.

River water quality and storm overflows have been prominent political and societal issues this year, embodied by an amendment to the Environment Act that requires water companies to progressively reduce the impact from overflows. The committee considered how the management team was handling this important reputational matter and supported its approach, in particular the emphasis on developing partnership opportunities alongside actions to be taken by the company. It was clear to committee members that the water sector alone cannot deliver good ecological status in rivers and that collaboration with regional stakeholders is a vital part of any approach.

Over the course of the COVID-19 pandemic, the committee discussed the public's changing attitude to the environment as more people connect to green

Corporate responsibility committee members:

Stephen Carter
Chair of the corporate responsibility committee

Steve Mogford

Alison Goligher

Paulette Rowe

spaces and nature. The growing visitor pressure at the company's recreational sites, coupled with an increase in anti-social behaviour, have led to local stakeholder concerns. The committee was presented with an update on the company's land management approach, appreciating the challenge of balancing the sometimes competing demands of water, wildlife and access.

While the majority of COVID-19 measures eased over the year, the committee considered the company's response to social issues amplified by the pandemic. Support provided to customers as part of the company's affordability and vulnerability response is monitored through regular review of the lower income dashboard. Given the North West's high levels of social and economic deprivation, the committee welcomed the company's support for the Consumer Council for Water's recommendation that a national social tariff is introduced.

It was pleasing to see the results of the Employee Opinion Survey 2021, in particular the high levels of employee engagement. Efforts to bring the employee voice to the boardroom and to provide a two-way flow of communication have played their part alongside the additional support provided during the pandemic.

In recent years, there has been greater investor interest in Environmental, Social and Governance (ESG) matters. The committee discussed investor views of ESG and performance in ESG indices. The long standing commitment to clear and transparent disclosure has ensured the company's performance in ESG has remained strong. The committee endorsed a targeted approach to engage with the most relevant independently assessed indices so that the company can demonstrate to investors that its strong responsible business credentials are externally evaluated.

The committee reviewed performance against the suite of measures and targets adopted by the company to provide evidence to its stakeholders that it is fulfilling its purpose to provide great water and more for the North West. These form part of the performance section of this report on pages 52 to 75. Publishing a set of performance measures and targets in this way enables stakeholders to judge for themselves whether or not the company is delivering on its purpose.

In addition, specific papers on gender pay and community investment expenditure were presented to the committee.

The committee sought insight on how the company's approach to purpose and responsible business is integrated. It received reports on how digital/data and the AMP7 investment programme are embracing a purpose-led approach. The committee supported plans to launch a digital academy and the digital contribution to major transformation activities such as the wastewater Dynamic Network Management programme. It praised progress in implementing sustainability in all aspects of capital delivery activities and the contribution to the company's net zero carbon commitment.

From a committee governance perspective, members agreed to a minor amendment to its terms of reference to refer to 'purpose' and 'values' in a clause under Policy Direction. As part of its annual evaluation of performance the committee sought a discussion to ensure it focuses its efforts on the right topics given the rapidly evolving interest in ESG.

On behalf of the board, it has been a real privilege to oversee the company's responsible business agenda for the past six years. I am confident that the company has built the right foundations so it can deliver on its purpose and to create value for all of its stakeholders. As I prepare to hand over chair of the corporate responsibility committee to Paulette Rowe, I know that she will ensure it continues to champion corporate responsibility on behalf of the board. I wish Paulette, and the company, every success.

As a listed company, United Utilities complies with the UK Corporate Governance Code and continues to drive for the highest standards of board leadership, transparency and governance.

Stephen Carter
Chair of the corporate responsibility committee

Read more about **our approach as a responsible business** on pages 12 to 13

Read more about **Dynamic Network Management** on page 43

Main responsibilities

The committee approved a slightly modified set of terms of reference in February 2022. Its main duties are to:

- consider and recommend to the board the broad corporate responsibility (CR) policy, taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is aligned with the group strategy including the company purpose and values;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review the status of the company's reputation and examine the contribution the group's corporate responsibility activities make towards protecting and enhancing this;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- monitor and review the steps taken by the company to support customers in vulnerable circumstances; and
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually.

Read more about **our approach to climate change** on pages 86 to 97

Read more about **Employee Voice** on page 126

The committee's agenda during the year:

Environmental

Climate change mitigation

The committee discussed progress against the company's carbon pledges and related matters such as the outcomes from COP26 and the impact to the business, strengthening internal governance, incorporating carbon into long-term performance incentives and the potential introduction of performance commitments for operational and embedded emissions.

Climate change adaptation

Ahead of the publication of the company's third adaptation report the committee reviewed progress on climate resilience. The committee welcomed steps to capture key climate change risks in the corporate risk framework and the use of the latest UK Climate Projections (2018) in developing the Water Resources Management Plan (WRMP24). It supported strengthening the Task Force on Climate-related Financial Disclosures in the 2021 Annual Report through the inclusion of an assessment of the financial impact of climate risk.

Land management update

The committee was updated on the strategic review of the group's land management approach, reflecting on the challenge to balance changing expectations of stakeholders and the behaviour of some visitors with the drivers of water quality and quantity. The committee discussed applying strategies such as adopting an asset management approach, exploring opportunities to invest in the estate and connecting customers to the company's land ownership.

Approach to clean air

An overview of the company's approach to clean air was discussed by the committee. It noted plans to undertake further research to understand the scope of the risk posed by poor air quality, to baseline activity to capture the total extent of the company's emissions and the opportunity to engage with government and regulators on the topic.

Social

National social tariff

The committee discussed the recommendation by the Consumer Council for Water to introduce a national social tariff for customers struggling to pay their water bills. It noted plans by Defra to consult on this in 2022 and commented that similarities could be drawn with the implementation of a national social tariff in the electricity sector and how lessons could be learnt. The committee requested an update in September 2022.

Affordability and vulnerability: lower income groups

Two updates were provided to the committee on the company's performance in assisting customers on low incomes. The committee noted the positive performance across many measures.

Next ways of working

As pandemic restrictions eased, the committee discussed the 'next ways of working' project and welcomed the return to office for hybrid roles. The potential disadvantages of hybrid working for those in the early stages of their careers and maintaining engagement for those not in hybrid roles were debated alongside methods for meeting these challenges.

Gender pay report

The committee commented on the draft gender pay report and commended the work undertaken to attract more women to the company to address, in particular, middle and upper senior manager roles. It welcomed the use of leading indicators and the success of the company's aspiring manager programme to nurture a pipeline of talent for senior roles.

Community investment expenditure 2020/21

The annual update on community giving expenditure was presented to the committee. It noted that total expenditure was lower than usual due to restrictions on community activity arising from COVID-19 lockdown measures. Lessons to be learnt from other companies were discussed.

Governance

Employee Voice

Twice a year the committee reviews progress on employee and board engagement. It noted how the Employee Voice panel had met virtually while COVID-19 restrictions were in place, providing a valuable mechanism for employees to give feedback, particularly on how they had been supported throughout the pandemic. Topics presented to the panel included the company's reward strategy, HR support for people managers and progress updates from each sub-group: employee opinion survey; employee networks; and culture. The committee noted that the company was satisfied that activities and progress enabled it to demonstrate compliance with the UK Corporate Governance Code.

Employee opinion survey 2021

The committee welcomed the results of the annual employee opinion survey and the high levels of engagement. It noted that the values of the organisation, the approach to health and safety and reward had a direct correlation to the employment relationship and support for employees during the pandemic. Committee members were updated on plans by the company to ensure high levels of engagement were retained through local action planning.

Stakeholder engagement and reputation

Engagement and reputation remained a standing agenda item allowing time to examine the relationship between responsible business and reputation. Each paper provided an update on national and regional political and regulatory engagement, and interaction with people and organisations representing regulatory, social and environmental interests. In particular, the committee sought to understand the role of environmental NGOs and the media in driving awareness of storm overflows and it welcomed the company's first investor ESG webinar.

Progress against demonstrating purpose

The committee endorsed a set of stakeholder value measures and targets through which the company will demonstrate how it is fulfilling its purpose. Performance updates were provided on two occasions and members asked that consideration be given to how improvements over AMP7 are made evident and to ensure that the measures stay relevant.

CR committee terms of reference
The committee approved a minor amendment to its terms of reference to refer explicitly to 'purpose' and 'values' as part of its duty to ensure alignment with the group's overall approach to corporate responsibility. This reflected the increasing interest from ESG stakeholders that companies demonstrate they are 'purpose-led' and generate public value. The amended terms of reference were recommended for approval to the group board.

CR committee evaluation
The committee reviewed the external evaluation results, in particular points about ensuring papers were succinct and future topics for committee discussion given the rapidly evolving ESG landscape. The committee discussed its membership in this context and it was agreed that it would be reviewed by the nomination committee for approval by the board.

Cross cutting

Responsible business digital and data framework
An update on the company's approach to digital and its alignment with purpose and responsible business was presented to the committee. This included the 'next ways of working' project, shaped by the company's pandemic response, and updates on major transformation projects such as the wastewater Dynamic Network Management programme and the West Cumbria Operating Strategy. The committee discussed issues such as seeking user consent in relation to their data, plans to baseline digital skills and the launch of a digital skills academy.

Investors and ESG
The committee was updated on investors' views of ESG and agreed with the company's approach to demonstrate its responsible business credentials through continued transparency and engagement with selected investor ESG indices and ratings. Members discussed investor interest in diversity and inclusion and nature and endorsed early disclosure on these topics.

Brexit and regulatory convergence – environmental and employment legislation
Following conclusion of the Brexit transition period, an overview of UK environmental and employment legislation was discussed. It focused in particular on the Environment Act and statutory targets on air quality, biodiversity, water and waste; new duties for water companies; the Office for Environmental Protection which will hold public bodies including UUW to account on their environmental obligations; and governance mechanisms such as regional water groups and internal drainage boards. The committee agreed that no further updates in relation to Brexit are required.

Capital programme: delivery of sustainability objectives
How the company's purpose, and ESG in general, is being implemented across its capital programme was presented to the committee. It welcomed progress in implementing sustainability in all aspects of the capital programme, especially on the West Cumbria project, and the contribution to the company's net zero carbon commitment. The committee discussed whether, looking ahead to PR24, there was scope to be more ambitious in realising ESG objectives.

Looking to the next year, the committee will:

- review new or updated responsible business strategies including the company's approach to education, its community strategy and approach to smart metering;
- consider the responsible business themes emerging for PR24;
- return to several issues to review progress including land management, air quality, waste and circular economy including plastics, embedding multi-capital thinking, diversity and inclusion and talent and young people;
- review performance on how the company is fulfilling its purpose, ESG rating performance and the dashboard tracking the company's efforts to support customers on low incomes;
- on behalf of the board, review progress and issues arising from the Employee Voice panel and the company's approach to culture;
- continue to examine the interaction between purpose, ESG and reputation and review the approach to stakeholder engagement and the management of reputational risks;
- oversee matters of general governance such as reviewing the gender pay report; and
- undertake matters of committee governance such as reviewing its rolling calendar of agenda items, the annual committee evaluation and examination of the committee's terms of reference.

Annual statement from the remuneration committee chair

Alison Goligher
Chair of the remuneration committee

Quick facts

- The code requires that "the board should establish a remuneration committee of at least three independent non-executive directors".
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chair.
- By invitation of the committee, meetings are attended by the Chair, the CEO, the company secretary, the customer services and people director, the head of reward and the external adviser to the committee.
- Our current remuneration policy was approved by shareholders at the 2019 AGM.
- Our proposed remuneration policy will be put to shareholders for approval at the 2022 AGM and is intended to apply until the 2025 AGM.

Quick link

Terms of reference:
unitedutilities.com/corporate-governance

Index

Our executive pay arrangements are aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all.

Dear shareholder

I am pleased to introduce the directors' remuneration report for the year ended 31 March 2022, which includes the annual report on remuneration and a revised director's remuneration policy which is intended to take effect from the date of our 2022 AGM (subject to shareholder approval).

Remuneration policy review

Our current remuneration policy was approved by shareholders at our AGM in 2019 following a comprehensive stakeholder consultation process, and sought to make sure that the executives' remuneration arrangements (and the incentive elements in particular) would be well-aligned with the business plan for the regulatory period from 2020–25, and the expectations of investors and Ofwat.

We are required to submit a new policy for shareholder approval at our AGM in 2022, and so in the summer of 2021 we started a review to identify aspects of our overall approach to executive remuneration which should be addressed in the new policy. Being less than two years into the regulatory period, the committee was satisfied that, overall, our current approach remained appropriate for at least the next three years and that there was no need to make material changes to the current policy. A key area of focus however, was how the committee might strengthen the extent to which environmental, social and governance matters are reflected in executive remuneration arrangements, and the incentive plans in particular. Additionally, with only one year remaining before the current mechanism for delivering long-term incentives (our Long Term Plan 2013) would require renewal or replacement, there was an opportunity for us to make sure that the rules of any revised plan reflected contemporary corporate governance best practice and the expectations of shareholders.

Between January and March 2022, we consulted directly with major shareholders and other key stakeholders, including our employees via our employee voice panel, about our proposals on these and a number of other matters. That process was valuable, confirming stakeholder support for the changes and enhancements we proposed, and in particular supporting our intention to introduce carbon measures into our long-term incentive arrangements. Having considered the feedback received through the consultation process we were able to finalise our proposed new policy, and further information about the policy review, along with full details of the proposed policy, are shown on page 163 and pages 169 to 176.

We will also use our AGM to ask shareholders to approve a revised version of our Long Term Plan that will operate on a similar basis to the current plan. Details of the new plan will be included in our Notice of AGM 2022.

Remuneration committee members:

Alison Goligher
Chair of the remuneration committee

Mark Clare

Kath Cates

Doug Webb

Improving transparency and clarity

In February 2022, I received David Black's (Ofwat interim Chief Executive) letter concerning performance related executive pay for 2021/22, a copy of which was sent to the remuneration committee chairs of all regulated water and wastewater and water-only companies and which was published on Ofwat's website.

The committee recognises the scrutiny and concern that has been focussed on the water sector during the year, and agrees that incentive outcomes for executives should be aligned with performance across the range of stakeholder groups – including customers and the environment – to demonstrate legitimacy. We also agree that companies should provide clear and accessible explanations about their executive remuneration arrangements so that customers and other stakeholders can understand how they operate and how incentive outcomes are determined. This is something we have consistently sought to do in our annual remuneration reports, evolving and improving our reporting wherever possible. We aspire to be a leader in the development, application and transparency of our approach to executive remuneration and to help drive strong standards both within the water sector and the FTSE100 more broadly.

In my response to Ofwat's letter I set out the ways in which the committee could demonstrate that it took its responsibilities seriously, including in regard to the concerns raised. Making sure that our incentive arrangements are aligned with the interests of all of our stakeholders is fundamental to our approach, and this is summarised on page 166. Our incentive arrangements are based on measures which are heavily weighted to the delivery of stretching performance outcomes for customers and the environment, and our plan to introduce carbon measures into our long-term incentive from 2022 will enhance this further. Our remuneration policy enables the committee to override formulaic outcomes and to exercise discretion on incentive outcomes if deemed necessary. Indeed, the committee has exercised and disclosed the use of such discretion in recent years by applying downward adjustments to the executive directors' bonuses on two occasions, recognising performance issues that became apparent during the year. Noting that performance or other issues might become known after incentives have already been paid, the remuneration policy includes withholding and recovery provisions (malus and clawback) so that the committee is able to respond appropriately in certain circumstances. These provisions have been reviewed during the year and the circumstances in which they can be used will be extended for future incentive awards, as detailed on page 163, and on page 171. This will provide all stakeholders with greater clarity over such key matters.

Alignment with stakeholder interests

As a committee we continue to be mindful of the extent to which the remuneration of the executives aligns with the experience of our customers, the environment, and other stakeholder groups.

As outlined above and on page 166 the outcomes of our executive incentive arrangements are materially influenced by our performance for customers and the environment.

With regards to employees, my role as the designated non-executive director for workforce engagement enables me to gain direct feedback across a wide range of topics, including pay and conditions. It is also helpful that the committee has a well-established practice of receiving updates on relevant matters affecting the workforce from our customer services and people director and head of reward at each meeting. Insights received from the workforce are of real value to the committee and can certainly influence our decision-making processes. Indeed, when engaging with the employee voice panel as part of our consultation on the new directors' remuneration policy it was clear that, in particular, the workforce was supportive of the proposal to introduce carbon measures to our long-term incentive arrangement.

Implementation of the director's remuneration policy during 2021/22

Salary

Board members did not receive salary increases in September 2020 in recognition of the COVID-19 pandemic but in 2021 the committee judged that the personal performance and contributions of Steve Mogford and Phil Aspin justified each receiving a base salary increase of 2 per cent with effect from 1 September 2021, which was the same as the headline increase applied across the wider workforce.

Annual bonus

The same bonus scorecard applies throughout the company, to ensure a shared focus on the business plan at all levels. As outlined in the strategic report, we have seen another good year of performance, maintaining high levels of customer satisfaction, improving operational performance, and long-term financial resilience.

Our customer performance has been strong across the board, achieving or exceeding over 80 per cent of our performance commitments and earning our highest ever one-year outcome delivery incentives (ODIs). Strong performance on customer service this year has helped drive a 14 per cent reduction in written complaints, achieving our lowest ever volume.

Underlying operating profit was up compared to last year, and the good start to the delivery of our AMP7 programme has continued, with our Time, Cost and Quality index (TCQi) score of 95.6 per cent demonstrating that we are managing our capital programmes effectively.

Overall company results have led to an annual bonus scorecard out-turn of 86 per cent compared to around 82 per cent last year, and has resulted in a company-wide bonus pool totalling around £20 million (it was c£18 million in the prior year). Prior to the committee determining the individual bonus outcomes for the executive directors, Steve Mogford informed us of his wish to unconditionally waive £150,000 of his bonus, and this is reflected in the details shown on page 178. The company has decided to use the funds to support students from the North West to pursue STEM subjects at university.

Long-term incentives

The Long Term Plan (LTP) awards granted in 2019 were the last awards to be based on three equally-weighted measures, namely relative total shareholder return, return on regulated equity (RoRE), and customer service excellence. The outcome will be confirmed in the summer of 2022 and the awards are estimated to vest in full, reflecting performance above the stretch level on each of the three measures.

Relative total shareholder return over the three-year performance period was 48.1 per cent, compared to the stretch target of 39.3 per cent. RoRE performance has been strong, with the company's average RoRE exceeding the average allowed return set by Ofwat by around 1.6 per cent. The customer service excellence measure is based on Ofwat's C-MeX (contacts) measure and written complaints. The final outcome of this element will not be known until the volume of written complaints received by other companies are available later in 2022 and the overall vesting level can be confirmed, but we estimate that we will be ranked 2nd out of the water and wastewater companies, which is one position better than the stretch target of 3rd position. The award for Steve Mogford will vest only after the completion of a holding period taking the overall vesting period to five years from the grant date, during which the shares will remain subject to withholding provisions. Phil Aspin was granted his award prior to his appointment as an executive director and so in line with the policy his award will be treated according to its original terms, with no holding period applying. In line with the shareholding guidelines, Phil will be required to hold the shares upon vesting (net of tax) and they will vest into a nominee account.

Remuneration committee oversight
In addition to reviewing performance against the specific targets set under the annual bonus and LTP, the committee carefully consider the outcomes to be delivered in the context of the wider performance of the business and the experience of our stakeholders. Taking account of performance in areas such as those outlined on pages 52 to 75, the committee was satisfied that the overall results reflected the exceptional efforts and high levels of performance of the company and therefore no discretion was used to adjust the formulaic outcome under the bonus or provisional LTP vesting. As stated above, Steve Mogford's request to waive part of his bonus was actioned.

Chief executive officer succession
In April 2022, the company announced that Steve Mogford had expressed his wish to retire in early 2023, and that following a comprehensive internal and external evaluation process, Louise Beardmore would be appointed as his successor. As a committee, we are delighted at Louise's appointment, and have particularly valued her excellent contributions to the work of the committee in her role as customer services and people director.

To enable a smooth transition Louise was appointed to the board on 1 May 2022 as CEO designate, leading the creation of the company's PR24 business plan covering the next five-year regulatory period. The committee determined that on her appointment to the board her salary should be set at £425,000 and her other remuneration arrangements would be set in line with the current remuneration policy, including pension arrangements in line with those available to the wider workforce. However, in anticipation that the proposed policy will be approved at the forthcoming AGM, Louise agreed that her notice period would be 12 months for each party (rather than the differing periods stipulated under the existing policy).

Later in the year, the committee will consider the salary and remuneration arrangements that should apply on Louise's appointment as CEO in 2023. Full details about her remuneration during 2022/23 and her package as CEO will be provided in next year's report.

Agenda for 2022/23
We are confident that the annual bonus measures used in 2021/22 will continue to support the business strategy in 2022/23, but that it is also the right time to supplement the bonus scorecard with some new performance measures. We have introduced two new measures for the year, one focusing on improving the appearance of drinking water, and the other on delivering our Better Rivers commitments. We have also revised our existing TCQi measure to place renewed emphasis on the efficiency of our capital programme delivery, and also to take account of the carbon impact of enhancement projects. Further information about these measures and the overall bonus scorecard is shown on page 181.

The 2022 LTP awards will operate similarly to those granted in 2021, with four new carbon measures being included in the customer basket. We have accelerated the target-setting process compared to previous years so that the measures and targets that are expected to apply to the awards can be included in this report, with full details being shown on pages 181 to 182. As referred to earlier in this letter, we are seeking approval of the new Long Term Plan 2022 at the AGM, and so we will wait until late July to grant the LTP awards in order that they might be granted under this new plan if it is approved. If it is not approved, the awards will again be granted under the existing LTP 2013.

In March, the company announced that after nearly nine years on the board Mark Clare will not seek reappointment at the 2022 AGM. I would like to thank Mark for all of his contributions to the committee over the years. Having reviewed the membership of board committees we have confirmed that I will succeed Mark in the role of senior independent non-executive director, and so I will step down as chair of the remuneration committee, although I will remain a member of the committee. I am delighted that Kath Cates, who has been a member of the committee since September 2020, will take over as committee chair when these changes take effect from 22 July 2022.

We hope we will continue to receive your support again this year for the remuneration resolutions at the forthcoming AGM.

Alison Goligher
Chair of the remuneration committee

> "Our policy review focused on how we might strengthen the extent to which environmental, social and governance matters are reflected in our executive remuneration arrangements."

Corporate governance report

Review of the directors' remuneration policy

Around seven million people in the North West of England rely on United Utilities to provide reliable and affordable year-round water supplies to their homes, businesses and recreational spaces.

Over the five-year regulatory period from 2020 to 2025, our business plan commits us to delivering affordable bills and excellent service to customers, alongside a programme of careful investment to sustain the region's water quality, reduce leakage and ensure reliability of water supply. At the same time, the company is laying foundations for longer-term resilience and the provision of water in an environmentally sensitive and sustainable way.

When setting the remuneration arrangements for executive directors, the committee has always adopted a prudent and responsible approach, which aligns to company strategy. We received significant shareholder support in 2019 for our current remuneration policy, having carefully considered how we should align our pay arrangements (and the incentive elements in particular) with the agreed business plan for the current five-year regulatory period. At the time, we undertook a comprehensive consultation process to make sure that the policy introduced would reflect the expectations of investors, the regulator and other stakeholders.

We are required to submit a new remuneration policy at our 2022 AGM. Being less than two years into the regulatory period, and having taken account of views that were sought during a consultation exercise between January and March 2022 involving major shareholders and other stakeholders, including our employee voice panel, we are satisfied that, overall, our current approach remains appropriate and that there is no need to make material changes to the current policy. The committee has sought to make sure that our executive pay arrangements remain well-aligned to providing high standards of customer service, and protecting and enhancing the environment, and are in line with best practice corporate governance standards and the expectations of shareholders.

A summary of the key elements of the policy review and its outcome are shown in the table below, with full details of the proposed policy shown on pages 169 to 176. If approved by shareholders, the new policy will take effect from the July 2022 AGM.

Element of policy	Focus/rationale for review	Position following consultation
Updating our mechanism for delivery of long-term incentives	Our current long-term incentive arrangement is the 'Long Term Plan 2013' (the LTP). It was adopted by shareholders on 26 July 2013 so in line with shareholder expectations and in recognition of the Investment Association's Principles of Remuneration, the LTP will expire on 25 July 2023. The committee is mindful that corporate governance best practice and the expectations of shareholders have evolved significantly since 2013. As such, we propose to replace the current LTP with a new plan whose rules better reflect those contemporary practices and expectations, and provide shareholders and participants with further clarity over key matters, including withholding and recovery, and change of control provisions.	We intend to seek shareholder approval of the new Long Term Plan 2022 at our 2022 AGM, and our notice of AGM will provide further details. If approved, the 2022 LTP awards will be issued under this new plan. The committee recognises that providing dividend sustainability to shareholders remains important, and so when granting awards under the new plan we will retain our practice of making delivery of our dividend policy an overall underpin, alongside the existing underpin of the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.
Inclusion of carbon measures in our long-term incentives	The committee proposes to keep the overall structure of the LTP the same, but to evolve the customer basket to include new measures that are based on our relevant, publicly disclosed and measurable climate change related targets. For the 2022 LTP awards we propose to use our carbon pledges to define delivery targets for the end of the three-year performance period, and this approach could be extended and expanded in future years with the ultimate aspiration being an LTP measure that is directly aligned to our Science Based Targets initiative (SBTs) for 2030.	Shareholders and other stakeholders, including employees, were supportive of the inclusion of carbon measures in the LTP and so they will be included in the 2022 LTP awards as part of the customer basket. See page 182 for details. Our intention is to dedicate 10 per cent of the total LTP to these new carbon measures. Stretching targets will be set, and the inclusion of these measures will mean that the whole of the customer basket component of the LTP is focused on areas of performance that are in the interests of customers, and have an environmental or social impact.
Withholding and recovery provisions	Our current incentive plan rules already include provisions that enable the committee to withhold or recover payments from participants in certain circumstances. The withholding provisions can be applied in a wider range of circumstances than the recovery provisions. We have considered the Financial Reporting Council's Guidance on Board Effectiveness and taken note of the Business, Energy and Industrial Strategy's (BEIS) consultation on 'Restoring trust in audit and corporate governance' and propose to extend the circumstances in which our provisions might be applied.	Going forward, the circumstances in which the withholding and recovery provisions can be applied will be aligned and will include: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine. The extended provisions will first apply to Deferred Bonus Plan awards granted in 2022 and annual bonuses paid in 2023. If the new Long Term Plan 2022 is approved by shareholders at the 2022 AGM the extended provisions will first apply to Long Term Plan awards granted in 2022.
Notice periods	Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director.	For executive directors appointed on or after 1 May 2022 the notice period will be one year whether terminated by the company or the director.
Benefits	The current policy provides for executive directors to receive a car or car allowance as part of their benefits package.	The committee supports the use of sustainable methods of travel, such as public transport or the company's new all-employee electric car scheme, so in the new policy this benefit will be replaced by a green travel allowance. There is no change to the underlying value of this benefit.

Remuneration

5

Principle P:
Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

We describe how our remuneration approach aligns with our business strategy on page 166.

Principle Q:
A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

This is detailed in the committee's terms of reference which are available on the company website. The committee consults with shareholders when changes to policy are being considered.

Principle R:
Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The shareholder-approved directors' remuneration policy outlines the ways in which the committee may exercise discretion.

The following table summarises how our shareholder-approved remuneration policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Clarity

The committee is committed to providing transparent disclosures to shareholders and the workforce about executive remuneration arrangements and, to this end, the directors' remuneration report sets out the remuneration arrangements for the executive directors in a clear and transparent way. At least annually the committee chair engages with the employee voice panel about our executive remuneration approach. Our AGM allows shareholders to ask any questions on the remuneration arrangements, and we welcome any queries on remuneration practices from shareholders throughout the year.

Predictability

Payouts under the annual bonus and LTP schemes are dependent on the performance of the company over the short and long-term, and a significant proportion of executive director remuneration is performance-linked. These schemes have strict maximum opportunities, with the potential value at threshold, target and maximum performance scenarios provided in the directors' remuneration report.

Proportionality

Payments from variable incentive schemes require strong performance against challenging conditions over the short and longer term. Performance conditions have been selected to support group strategy and consist of both financial and non-financial metrics.

The committee retains discretion to override formulaic outcomes in both schemes to ensure that they are appropriate and reflective of overall performance.

Simplicity

Our remuneration arrangements for executive directors, as well as those throughout the group, are simple in nature and understood by all participants, having been operated in a similar manner for a number of years. Executive directors receive fixed pay (salary, benefits, pension), and participate in a single short-term incentive (the annual bonus) and a single long-term incentive (the Long Term Plan).

Risk

The committee has designed incentive arrangements that do not encourage inappropriate risk-taking. The committee retains overarching discretion in both the annual bonus and LTP schemes to adjust payouts where the formulaic outcomes are not considered reflective of underlying business performance and individual contributions. Robust withholding and recovery provisions apply to variable incentives.

Alignment to culture

Performance measures used in our variable incentive schemes are selected to be consistent with the company's purpose, values and strategy. The use of annual bonus deferral, LTP holding periods and our shareholding requirements provide a clear link to the ongoing performance of the group and ensure alignment with shareholders, which continues after employment.

Remuneration approach

There are three key principles of our approach to executive remuneration.

1 **Align** to our purpose, vision and strategy

2 **Incentivise** great customer service

3 **Create long-term value** for all of our stakeholders

Aligning our remuneration approach to business strategy

Our remuneration approach is aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.

The following table provides a summary of how our incentive framework in 2021/22 aligned with our business strategy and the results that it delivers for each of our stakeholder groups, including customers and the environment. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2020–25 (see pages 50 to 51). Details about how our approach to executive remuneration is aligned with the approach to remuneration across the wider workforce are shown on pages 183 to 184.

Element	Why it's important to our remuneration approach	Link to strategic themes	Alignment to purpose reflecting views of different stakeholders
Annual bonus			
Underlying operating profit	Underlying operating profit is a key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints	By using Ofwat's measure of customer experience alongside a measure which focuses on reducing the number of complaints made by customers, executive directors are incentivised to deliver the best service to customers. Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Maintaining and enhancing services for customers • Outcome delivery incentive (ODI) composite • Time, cost and quality of the capital programme (TCQi)	The ODI composite measure is calculated by summing the outperformance payments earned and financial penalties incurred by the company based on its delivery of the performance targets embedded in the AMP7 final determination. The performance targets and the financial incentives associated with them are determined by Ofwat in the expectation that achieving them means that stretching outcomes have been delivered for customers and the environment. Bonus awards to executives are only made where the value of these payments exceeds a predetermined level which the committee sets relative to the AMP7 determination. Non-delivery of our performance commitments can result in financial penalties being applied and therefore reduces the likelihood of this target being achieved. The TCQi measure incentivises the executive directors to keep tight control of our capital programmes to ensure we can provide a reliable and environmentally conscious service to our customers at the lowest sustainable cost.		
Compulsory deferral of bonus	Requiring executive directors to defer part of their bonus into shares provides reassurance that the company is being run in the longer-term interests of shareholders and customers, including beyond the annual bonus period. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the deferral period this is deemed necessary.		
Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	RoRE is a key regulatory measure of performance against the final determination. Outperformance will result in an increase to RoRE which should translate into higher returns for shareholders through share price performance. Outperformance also benefits customers through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.		
Customer basket of measures	The customer basket is made up of specific performance commitments embedded in the AMP7 final determination, focusing on areas which customers have identified via our research as being most important to them. Strong delivery of the commitments benefits our customers, communities and the environment, and can result in outperformance payments from Ofwat which is positive for shareholders.		
Additional holding period (at least two years)	Requiring the executive directors to wait a further period after the performance outcome of their award is known ensures continued longer-term alignment with shareholder interests and delivery for stakeholders, including customers and the environment. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the holding period this is deemed necessary.		
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests (during and after employment) and as a demonstration that the company is being run for the long-term benefit of all its stakeholders, including customers and the environment.		

Key:

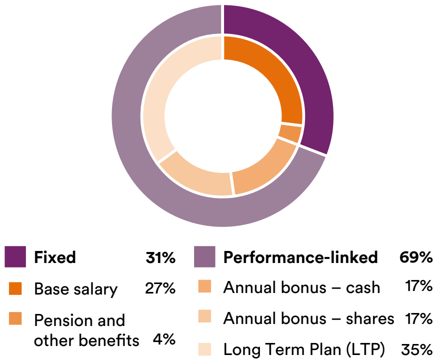
The best service to customers
At the lowest sustainable cost
In a responsible manner
Communities
Customers
Environment
Investors
Suppliers

Executive directors' remuneration policy

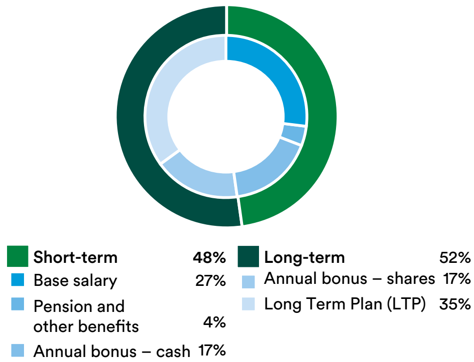
Elements of executive directors' pay

A significant proportion of executive directors' pay is performance-linked, long term and remains 'at risk' (i.e. subject to withholding and recovery provisions for a period over which the committee can withhold vesting or recover sums paid):

Fixed vs performance-linked (%)(1)

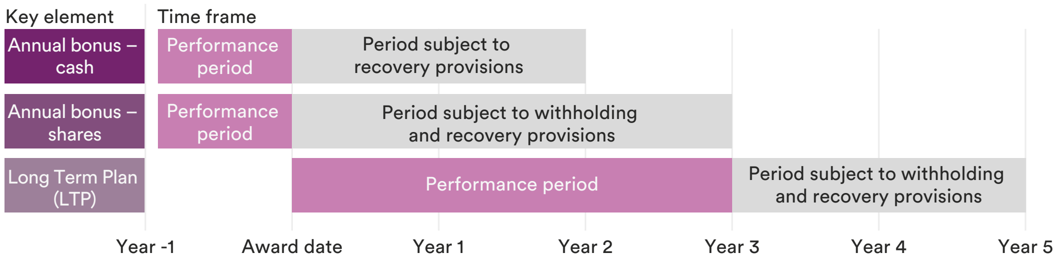


Short-term vs long-term (%)(1)



(1) Based on maximum payout scenario for executive directors in line with the current remuneration policy, assuming the normal maximum award level of 130 per cent of salary for the Long Term Plan (LTP).

Pay at risk



Further details on what triggers the withholding and recovery provisions can be found on page 171.

Implementation of directors' remuneration policy in 2021/22

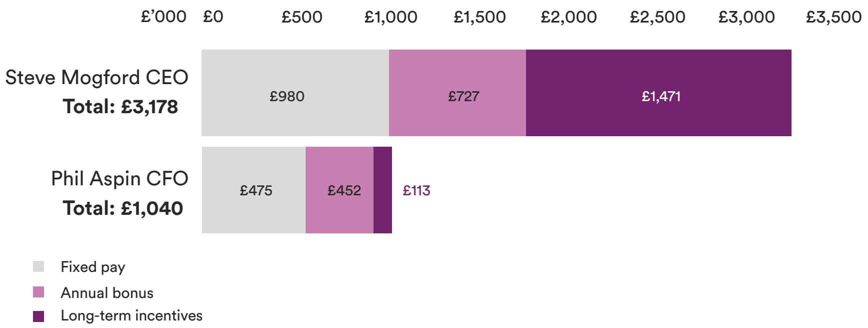
The table below summarises the implementation of the directors' remuneration policy for executive directors in 2021/22. For further details see the annual report on remuneration on pages 177 to 190.

Key element	Implementation of policy in 2021/22
Base salary	• Salary increase of 2.0 per cent from 1 September 2021 in line with the headline increase for the wider workforce.
Benefits and pension	• Market competitive benefits package. • Steve Mogford has a cash pension allowance of 22 per cent of base salary. His pension arrangements will be aligned to those of the wider workforce with effect from 1 January 2023. See page 177 for further details. Phil Aspin has a cash pension allowance of 12 per cent of base salary in line with the arrangement in place for the wider workforce.
Annual bonus	• Maximum opportunity of 130 per cent of base salary. • 2021/22 annual bonus scorecard outcome of 86.0 per cent. • 50 per cent of 2021/22 annual bonus deferred in shares for three years. • Withholding and recovery provisions apply.
Long Term Plan	• Award of 130 per cent of base salary. • Estimated long-term incentive vesting of 100 per cent for the performance period 1 April 2019 to 31 March 2022. These awards will vest after an additional holding period which ends no earlier than five years from the date of grant. • Withholding and recovery provisions apply.
Shareholding guidelines	• Personal shareholding for Steve Mogford remains above the 200 per cent of salary minimum guideline. Phil Aspin is building his shareholding and is expected to reach the minimum guideline within five years of his appointment to the board. Post-employment shareholding requirements apply. See page 186 for further details.

At a glance summary: executive director's remuneration

Single total figure of remuneration for executive directors for 2021/22

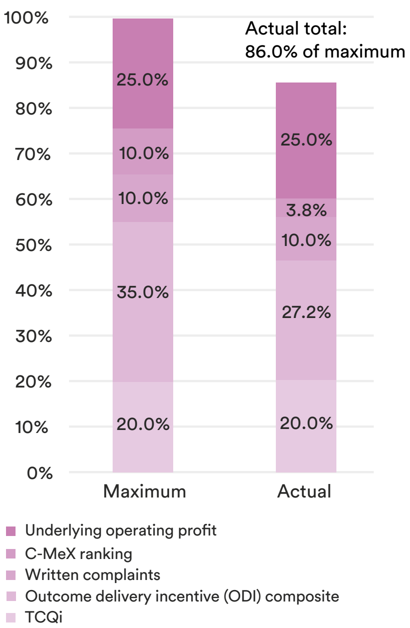
Fixed pay comprises base salary, benefits and pension. Further information on the single figure of remuneration can be seen on page 177.



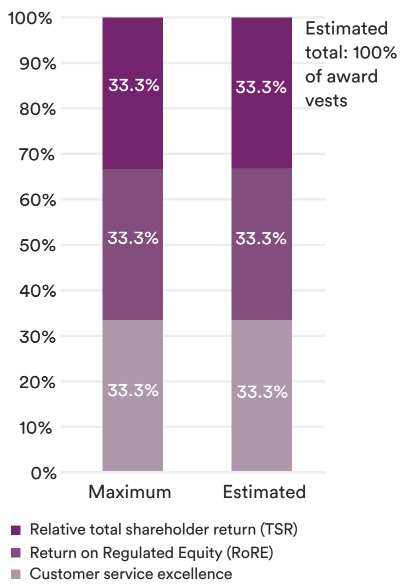
Annual bonus and long term plan (LTP) outcomes

The charts below show the results of the performance against targets for the annual bonus and LTP. Further information about the annual bonus is shown on page 178 and about the LTP on page 179.

2021/22 Annual bonus outcome



Estimated 2019 Long Term Plan (LTP) outcome



Aligning pay with performance. See pages 178 and 179 for details.

Annual bonus – year ended 31 March 2022.

Underlying operating profit(1)

£768.2m

C-MeX ranking versus the other water companies

7th out of 17

Written complaints (per 10,000 customers)

17.65

Outcome delivery incentive (ODI) composite

£23.1m

Time, Cost and Quality index (TCQi)

95.6%

Long term plan – three years ended 31 March 2022

Relative total shareholder return(2)

48.1%

Return on regulated equity (RoRE)(3)

+1.64%

Customer service excellence(4)

2nd out of 11

Key:
- At or above stretch target
- Between threshold and stretch targets
- Below threshold target

(1) For the purpose of annual bonus, underlying operating profit excludes infrastructure renewals expenditure and property trading.

(2) Above stretch versus the comparator group.

(3) Average RoRE compared to average allowed RoRE over 2019/20, 2020/21 and 2021/22.

(4) The estimated ranking versus the other WASCs in a combined customer service measure comprising C-MeX and written complaints.

Directors’ remuneration policy

This part of the directors’ remuneration report sets out the remuneration policy for the company and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy in this report will be put to a binding shareholder vote at the AGM on 22 July 2022 and will take formal effect from that date, subject to shareholder approval. It is intended that the policy will apply for three years beginning on the date of approval.

Overview of remuneration policy

The company’s remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company’s strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee also understands that listening to the views of the company’s key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged. Account is taken of employee views when consulting on the policy, typically via the employee voice panel. Additionally, the company carries out annual employee engagement surveys and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements, all of which can provide insight which is of value to the committee. The general base salary increase and broader remuneration arrangements, including pension provision, for the wider employee population are considered by the committee when determining remuneration policy for the executive directors. As outlined on page 184 processes are in place for the committee to regularly review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the ‘employee voice’.

Future policy for directors

Base salary

Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company’s strategy.

Operation	Maximum opportunity
Normally reviewed annually, typically effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: • the size of the individual’s role; • the size of the company (through mergers and acquisitions); or • the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration, and pay levels for comparable companies, when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase that is generally no greater than the increase awarded to the general workforce, unless one or more of the conditions outlined under ‘Operation’ is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance. **Performance measures** None

Pension

Purpose and link to strategy: To provide a level of benefits that allow for personal retirement planning.

Operation	Maximum opportunity
Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	The maximum opportunity is aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (up to 14 per cent of salary less employer National Insurance contributions at the prevailing rate, i.e. up to 12 per cent of base salary for 2022/23); or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to role before 26 July 2019 a cash allowance of 22 per cent of salary is payable until 31 December 2022. From 1 January 2023 arrangements for such executive directors will be aligned to the approach available to the wider workforce. **Performance measures** None

Benefits

Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high-calibre executives.

Operation	Maximum opportunity
Provision of benefits such as: • health benefits; • green travel allowance; • relocation assistance; • life assurance; • group income protection; • all employee share schemes (e.g. opportunity to join the ShareBuy scheme); • travel; and • communication costs. Any reasonable business-related expenses can be reimbursed (and any tax thereon met if determined to be a taxable benefit). Executives will be eligible for any other benefits that are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not predetermined. **Performance measures** None

Annual bonus

Purpose and link to strategy: To incentivise performance against selected financial and operational KPIs that are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.

Operation	Maximum opportunity
A maximum of 50 per cent of bonus awarded paid as cash. A minimum of 50 per cent of bonus awarded deferred into company shares under the Deferred Bonus Plan (DBP) for a period of at least three years. Dividends or dividend equivalents accrue during the DBP deferral period and are paid upon vesting. Not pensionable. Bonuses and DBP shares are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	Maximum award level of up to 130 per cent of salary, for the achievement of stretching performance objectives. **Performance measures** Payments predominantly based on financial and operational performance, with the possibility of a minority to be based on achievement of personal objectives if determined by the committee. Targets and weightings set by reference to the company's financial and operating plans. Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions. The committee will exercise discretion on bonus outcomes if it deems necessary. 100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance.

Long Term Plan (LTP)

Purpose and link to strategy: To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.

Operation	Maximum opportunity
Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions. Each award is measured over at least a three-year performance period. An additional holding period applies after the end of the three-year performance period so that the total vesting and holding period is at least five years. Dividends or dividend equivalents accrue until awards are released to participants, to the extent that such awards vest for performance. Shares under the LTP are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	The normal maximum award level will be up to 130 per cent of salary per annum. The overall policy limit is 200 per cent of salary. It is not currently anticipated that awards above the normal level will be made to executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders. **Performance measures** The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent. Any vesting is subject to the delivery of the dividend policy applicable to each year of the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary. The committee has discretion to set alternative performance measures and/or weightings for future awards but will consult with major shareholders before making any material changes to the currently applied measures and/or weightings. 100 per cent of awards vest for stretch performance; and up to 25 per cent of awards vest for threshold performance. No awards vest for below-threshold performance.

Shareholding requirements

Purpose and link to strategy: The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests during and after employment.

Operation	Maximum opportunity
Executive directors are expected to reach a shareholding requirement of 200 per cent of salary, normally within five years of appointment. The following post-employment shareholding requirements apply in the event of an executive director leaving the company: • Executive directors must continue to hold the lower of 200 percent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. • Executive directors appointed on or after 19 May 2020 must retain shares vesting (net of tax) from all share awards (including in-flight awards) if not doing so would take their shareholding below the requirement. • As the only current executive director in role before 19 May 2020, Steve Mogford must retain shares vesting (net of tax) from share awards relating to performance periods beginning on or after 1 April 2020 if not doing so would take his shareholding below the requirement. Nominee accounts are used to enable the post-employment shareholding requirements to be robustly enforced.	None **Performance measures** None

Non-executive directors' fees and benefits

Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.

Operation	Maximum opportunity
The remuneration policy for the non-executive directors (with the exception of the Chair) is set by a separate committee of the board. The policy for the Chair is determined by the remuneration committee (of which the Chair is not a member). Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board sub-committees, and to the senior independent non-executive director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes. The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate.	Current fee levels are shown in the annual report on remuneration. The value of benefits may vary from year to year according to the cost to the company. **Performance measures** Non-executive directors are not eligible to participate in any performance-related arrangements.

Notes to the policy table

Selection of performance measures and targets

Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to stretch targets are then typically set based on a sliding scale on the basis of relevant commercial factors.

Only modest rewards are available for delivering threshold performance levels, with rewards at stretch normally requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus are given in the annual report on remuneration.

The current Long Term Plan (LTP) measures were selected by the committee following an extensive review and shareholder consultation in 2018/19, to align with the company's key strategic goals for the five-year regulatory period which began in 2020, and be closely linked to the creation of long-term shareholder value as follows:

Measure	What is it?	Key reasons for selection
Return on Regulated Equity (RoRE)	RoRE is the return that the company is expected to earn relative to the equity portion of its Regulatory Capital Value. The return is comprehensive in that it is composed of the company's performance on expenditure, investment and financing decisions, and operational and customer initiatives undertaken over the regulatory period. Outperformance (or underperformance) in these areas will result in an increase (or reduction) to RoRE which should translate into higher (or lower) returns for shareholders through share price performance.	• Increasingly used by investors and analysts as it is a good proxy for value (i.e. premium to Regulatory Capital Value) in the sector. • Directly linked to the allowable return set by the regulator, and is comparable across the sector. • Captures financial, operational and customer performance. • Motivates management as they have strong line of sight to the outcome, for which stretching but achievable targets can be set. • Outperformance will result in an increase to RoRE which should translate into higher returns for investors through share price performance. • Outperformance also benefits customers through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.
Customer basket	A basket of customer measures comprising operational, service, resilience and carbon measures to capture the delivery of performance for customers and the environment. Customer priorities are reflected in the measures selected.	• Investors will be impacted by financial rewards resulting from delivery on service commitments, and through investments made to ensure the long-term health and sustainability of our assets. • Customers will benefit from improvements in key performance areas of importance to them, and from long-term reliability in the quality of their water supplies, and ways of working that protect and improve the environment.

The policy provides for committee discretion to alter the LTP measures and weightings to ensure they continue to facilitate an appropriate measurement of performance over the life of the policy (taking into account any evolution of the strategic goals of the company). LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long-term incentives – flexibility, discretion and judgement

The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards.

These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The committee retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus and long-term incentive plans, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the annual bonus and long-term incentive plans to adjust performance conditions to ensure that the awards fulfil their original purposes (for example, if an external benchmark or measure is no longer available). All assessments of performance are ultimately subject to the committee's judgement. Any discretion exercised, and the rationale, will be disclosed in the annual remuneration report.

All historic awards that were granted under any current or previous bonus or share schemes operated by the company and remain outstanding remain eligible to vest based on their original award terms.

Alignment of executive director remuneration with the wider workforce

The remuneration approach is consistently applied at levels below the executive directors. Key features include:

- market competitive levels of remuneration, incentives and benefits to attract and retain employees;
- employees at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- all employees have the opportunity to participate in the HMRC-approved share incentive plan, ShareBuy.

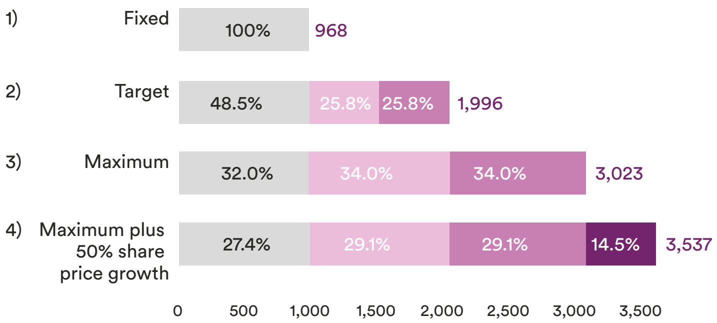
At senior levels, remuneration is increasingly long term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration.

Scenarios for total remuneration

The charts below show the payout under the remuneration policy for each executive director under four different scenarios.

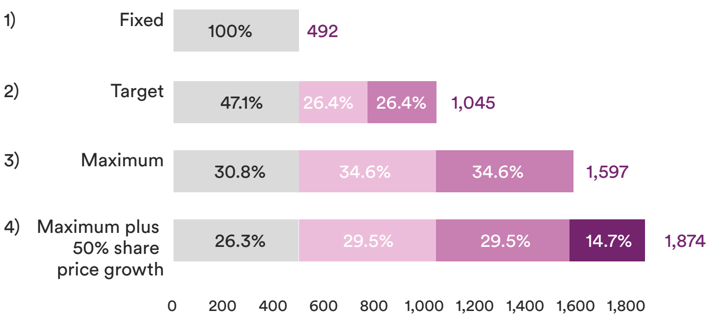
Steve Mogford CEO

£'000s



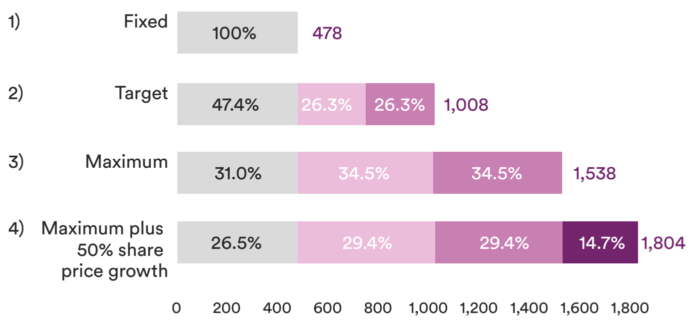
Louise Beardmore CEO designate

£'000s



Phil Aspin CFO

£'000s



Notes on the scenario methodology:

- 'Fixed' is base salary effective 31 March 2022 plus the applicable cash allowance in lieu of pension and the value of benefits as shown in the single total figure of remuneration table for 2021/22;
- 'Target' performance is the level of performance required for the annual bonus and Long Term Plan to pay out at 50 per cent of maximum;
- 'Maximum' performance would result in 100 per cent vesting of the annual bonus and Long Term Plan (i.e. 260 per cent of salary in total);
- 'Maximum performance plus 50 per cent share price growth' shows maximum performance plus the impact on the Long Term Plan of a hypothetical 50 per cent increase in the share price;
- Annual bonus includes amounts compulsorily deferred into shares;
- Long Term Plan is measured at face value, i.e. no assumption for dividends or changes in share price (except in the fourth scenario); and
- Amounts relating to all-employee share schemes have, for simplicity, been excluded from the charts.

Fixed
Annual bonus
Long Term Plan
Additional Long Term Plan value if share price grows by 50 per cent

External directorships

The company recognises that its executive directors may be invited to become non-executive directors of other companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Directors will be allowed to retain any fees received in respect of such appointments.

Service contracts and letters of appointment

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can also be viewed on the company's website.

The notice period in the service contracts for executive directors' appointed on or after 1 May 2022 is one year. For executive directors appointed prior to 1 May 2022 the notice period is up to one year when terminated by the company and at least six months' notice when terminated by the director. The policy on payments for loss of office is set out in the next section.

The Chair and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at each AGM.

Date of service contracts

Executive directors	Date of service contract
Steve Mogford	5.1.11
Phil Aspin	24.7.20

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved remuneration policy in force at the time of appointment.

Buy-out awards

The committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

Maximum level of variable pay

The maximum level of long-term incentives that may be awarded to a new executive director will be limited to the maximum Long Term Plan limit of 200 per cent of salary per annum. Therefore, the maximum level of overall variable pay that may be offered will be 330 per cent of salary (i.e. 130 per cent annual bonus plus 200 per cent Long Term Plan). These limits are in addition to the value of any buyout arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

Base salary and relocation expenses

Base salary levels for new executive directors will be set in accordance with the policy, taking into account the experience of the individual recruited and the market rate for the role. The committee has the flexibility to set the salary of a new appointee at a discount to the market level initially, with a series of planned increases implemented over the following years to bring the salary to the appropriate market position, subject to individual performance in the role.

The committee may agree that the company will meet certain relocation and/or incidental expenses as appropriate.

Annual bonus performance conditions

Where a new executive director is appointed part way through a financial year, the committee may set different annual bonus measures and targets for the new executive director from those used for other executive directors (for the initial part-year only).

Appointment of non-executive directors

For the appointment of a new Chair or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive directors' fees are set by a separate committee of the board; the Chair's fees are set by the remuneration committee.

Payment for loss of office

The circumstances of the termination, including the individual's performance and an individual's duty and opportunity to mitigate losses, are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased to mitigate loss. Our policy is shown in the table below:

Provision	Summary terms
Compensation for loss of office	• An executive director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain contractually specified events such as gross misconduct. • No termination payment if full notice is worked. • Otherwise, a payment in respect of the period of notice not worked of basic salary, plus pension and green travel allowance for that period. • Half of the termination payment will be paid within 14 days of date of termination. • The other half will be paid in monthly instalments over what would have been the second half of the notice period. This will be reduced by the value of any salary, pension contribution and green travel allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	• Normally, eligibility for any bonus payment will be forfeited where the annual performance period has not yet been completed. However, in certain circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, a time prorated bonus may be payable for the period of active service. There is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the committee and is subject to withholding and recovery provisions as detailed in the policy table. • Performance targets would apply in all circumstances. • If it is not possible for legal reasons to grant a deferred share award (for example, if the director is no longer employed by the company at the point of payment), the committee will seek to effect the normal deferred element in the form of a deferred cash award, but may ultimately use its discretion to pay the bonus wholly in cash.
Treatment of deferred bonus on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • The default treatment is that any outstanding awards will vest in full on the originally intended vesting date with no time prorating applying. • Deferred bonuses are subject to withholding and recovery provisions as detailed in the policy table.
Treatment of unvested long-term incentives on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • Normally, any outstanding awards where the performance period has not yet been completed will lapse on date of cessation of employment (awards which are in a holding period following the completion of the performance period will not lapse). • However, under the rules of the plans, in certain prescribed circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, 'good leaver' status can be applied. In these circumstances, a participant's awards vest on a time prorated basis subject to the satisfaction of relevant performance criteria, with the balance of awards lapsing. • The committee retains the discretion not to time prorate if it is inappropriate to do so in particular circumstances. The committee will take into account the individual's performance and the reasons for their departure when determining whether 'good leaver' status can be applied.
Treatment of pensions on termination	• On redundancy, an augmentation may apply in relation to benefits accrued under a United Utilities defined benefit pension scheme, in line with the trust deed and rules of the appropriate section.

Outplacement services, reimbursement of legal costs and any other incidental expenses may be provided where appropriate. Any statutory entitlements or compromise claims in connection with a termination of employment would be paid as necessary. Outstanding savings/ shares under all-employee share plans would be transferred in accordance with the terms of the plans as approved by HMRC.

Change of control

On a change of control, executive directors' incentive awards will be treated in accordance with the rules of the applicable plans. In summary:

- Bonus payments will take into account the extent to which the performance measures have been satisfied between the start of the performance period and the date of the change of control, and the value will typically be prorated to reflect the same period. Any such payments would normally be paid entirely in cash.
- Deferred bonuses will generally vest on the date of a change of control. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.
- Long Term Plan awards will generally vest on the date of a change of control taking into account the extent to which the committee assesses that any performance condition has been satisfied at that point. Time prorating will normally apply unless the committee determines otherwise. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.

Corporate governance report

Annual report on remuneration

Single total figure of remuneration for executive directors (audited information)

Year ended 31 March	Fixed pay: Base salary £'000 2022	Base salary £'000 2021	Pension £'000 2022	Pension £'000 2021	Benefits £'000 2022	Benefits £'000 2021	Subtotal £'000 2022	Subtotal £'000 2021	Variable pay: Annual bonus £'000 2022	Annual bonus £'000 2021	Long-term incentives £'000 2022[1]	Long-term incentives £'000 2021[2]	Subtotal £'000 2022	Subtotal £'000 2021	Total £'000 2022	Total £'000 2021
Steve Mogford	**784**	736[3]	**173**	171	**23**	30	**980**	937	**727[4]**	824	**1,471**	1,562	**2,198**	2,386	**3,178**	3,323
Phil Aspin[5]	**405**	275	**49**	33	**21**	13	**475**	321	**452**	293	**113**	108	**565**	401	**1,040**	722

(1) The long-term incentive is in respect of the Long Term Plan (LTP) award which was granted in June 2019 for which the outcome is based on performance over the three-year period from 1 April 2019 to 31 March 2022. The LTP amount is estimated as the vesting percentage for the one-third relating to customer service excellence will not be known until later in 2022, and the award for Steve Mogford will not vest until the end of an additional holding period. Phil Aspin's award was granted prior to his appointment to the board and so no holding period applies. For the purpose of this table the value of LTP awards has been calculated using an average share price over the three-month period from 1 January 2022 to 31 March 2022 of 1,064.4 pence per share. This is greater than the share price at the time these awards were made to participants and accordingly some of the value shown is attributable to share price appreciation. See page 179 for further details.

(2) The long-term incentive amount for the year ended 31 March 2021 is in respect of the LTP award that was granted in June 2018 and whose performance period ended on 31 March 2021. The figure stated in last year's report was based on a latest best estimate (LBE) for the customer service excellence measure which indicated an overall vesting outcome of 89.6 per cent. The final confirmed outcome for the measure was better than the LBE which meant the actual overall vesting outcome was 97.9 per cent. The figures for 2021 have been updated to reflect this. The award for Steve Mogford is not due to vest until the end of an additional holding period, and for the purpose of this table dividend equivalents accrued to 31 March 2022 have been added, and the value of the award has been calculated using an average share price over the three-month period from 1 January 2022 to 31 March 2022 of 1,064.4 pence per share. Phil Aspin's award was granted prior to his appointment to the board so no holding period applied, and for the purpose of this table the value of the award has been calculated using the share price on the vesting date of 1,037.0 pence per share.

(3) In the context of the COVID-19 pandemic, in the year ended 31 March 2021 Steve Mogford took a salary reduction of 20 per cent of salary for three months, which was donated to charity.

(4) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

(5) Salary, benefits, pension and annual bonus figures in 2021 for Phil Aspin reflect part-year earnings and are for the period from 24 July 2020 when he was first appointed to the board. A bonus of around £53,000 was earned by Phil Aspin in respect of the period 1 April 2020 to 23 July 2020 prior to him joining the board. This is not included in the table.

Base salary

Executive director salaries were increased by 2.0 per cent with effect from 1 September 2021, in line with the headline increase applied across the wider workforce. The committee judged that the increase was supported by very good individual and business performance.

Executive director	Base salary £'000 1 September 2021	Base salary £'000 1 September 2020
Steve Mogford	**790.7**	775.2
Phil Aspin	**408.0**	400.0

Pensions

Steve Mogford has a contractual entitlement to receive a cash allowance of 22 per cent of base salary in lieu of pension. In accordance with Code provision 38, his pension arrangements will be aligned to those of the wider workforce with effect from 1 January 2023 and will reduce to 12 percent of base salary from that date. Phil Aspin receives a cash allowance of 12 per cent of base salary in lieu of pension which aligns with the workforce rate, and again illustrates the committee's intention to reposition the overall executive remuneration package. For employees, the company doubles any contributions that employees make up to a maximum of 14 per cent of salary.

Benefits

For executive directors, benefits included: a car allowance of £14,000; health, life cover and income protection insurance; travel costs; and communication costs. Aside from the transition from a car allowance to a green travel allowance under the proposed policy no material changes are expected to benefits during the year commencing 1 April 2022.

External appointments

Phil Aspin was a member of the UK Endorsement Board during the year ended 31 March 2022 for which he received and retained an annual fee of £14,000.

Annual bonus

Deferred Bonus Plan awards made in the year ended 31 March 2022 (audited information)

Bonuses are earned by reference to performance in the financial year and paid in June following the end of the financial year. Fifty per cent of any bonus is deferred into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions. There are no service or additional performance conditions attached.

The table below provides details of share awards made on 16 June 2021 to the executive directors as at that date in respect of deferred share bonus payments for the 2020/21 financial year.

Executive director	Type of award	Basis of award	Number of shares	Face value of award(1) (£'000)	End of deferral period
Steve Mogford	Conditional shares	50% of bonus	39,987	£412	17.6.2023
Phil Aspin	Conditional shares	50% of bonus(2)	16,246	£167	17.6.2023

(1) The face value has been calculated using the closing share price on 15 June 2021 (the dealing day prior to the date of grant), which was 1,030.8 pence per share.

(2) As stated in last year's report, a bonus of around £293,000 was earned by Phil Aspin in respect of the period 24 July 2020 to 31 March 2021 (following his appointment to the board), along with a bonus of around £53,000 in respect of the period 1 April 2020 to 23 July 2020 (prior to his appointment to the board). He received one overall Deferred Bonus Plan award in respect of both bonus payments, where the overall award value was based on 50 per cent of the bonus earned since his appointment to the board plus 40 per cent of the bonus earned prior to his appointment.

Annual bonus in respect of financial year ended 31 March 2022 (audited information)

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2022 are set out below. The table on page 166 summarises how the performance measures are linked to our business strategy, including delivery for customers and the environment. As disclosed in last year's report, the annual bonus for 2021/22 was wholly aligned to the group bonus scorecard with no specific personal performance element, although when determining the overall outcomes and whether any discretion should be exercised the committee takes into account the personal contributions of each individual. The committee was satisfied that the bonus scorecard outcome was reflective of overall company performance during the year and was aligned with the delivery of outcomes for our stakeholders (including those detailed on pages 52 to 75) and, as such, it would not seek to exercise its discretion over the bonuses for the executive directors. As outlined on page 161, prior to the committee determining the individual bonus outcomes for the executive directors, Steve Mogford expressed his wish to unconditionally waive £150,000 of any bonus that would otherwise have been due, and so this is reflected in the details shown in the table below.

Measure	% weighting of measure	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Underlying operating profit(1)	25.0%	£708.8m	£738.8m	£758.8m	100%	**25.0.%**
		Actual: £768.2m				
Customer service in year						
C-MeX ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	37.5%	**3.8%**
		Actual: 7th position				
Written complaints (per 10,000 customers)	10.0%	20.50	20.25	20.00	100%	**10.0%**
		Actual: 17.65				
Maintaining and enhancing services for customers						
Outcome delivery incentive (ODI) composite(2)	35.0%	£10.0m	£18.4m	£26.9m	77.6%	**27.2%**
		Actual: £23.1m				
Time, cost and quality of capital programme (TCQi)(3)	20.0%	85.0%	90.0%	95.0%	100%	**20.0%**
		Actual: 95.6%				
Total scorecard outcome						**86.0.%**

	Steve Mogford(4)	Phil Aspin
Actual award (% of maximum)	**71.3%**	**86.0%**
Maximum award (% of salary)	130%	130%
Actual award (% of salary)	**92.7%**	**111.7%**
Actual award (£'000 – shown in single figure table)(5)	727	452

(1) The underlying operating profit figure for bonus purposes is based on the underlying operating profit on page 83 and excludes infrastructure renewals expenditure and property trading.

(2) The outcome of the ODI composite measure has been subject to independent external assurance.

(3) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

(4) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

(5) Under the Deferred Bonus Plan, 50 per cent of the annual bonus will be deferred in shares for three years.

Long-term incentives

2019 Long Term Plan (LTP) awards with a performance period ended 31 March 2022 (audited information)

The 2019 LTP awards were granted in June 2019 and performance was measured over the three-year period from 1 April 2019 to 31 March 2022. As Steve Mogford was an executive director when his award was granted in 2019 it will normally vest following an additional holding period so that the overall vesting period is at least five years from the grant date, and the unvested shares will remain subject to withholding provisions during this holding period. Phil Aspin was not an executive director when his award was granted and so in line with the remuneration policy this historic award will vest once the final outcome is confirmed. Under the shareholding guidelines he will be required to hold the vesting shares (on a net of tax basis).

Performance against each of the three measures applicable to the 2019 LTP has been very strong as shown in the table below. Note that the final outcome for the customer service excellence measure (which forms one-third of the award) will not be known until the customer service scores for the other water and wastewater companies are published in late summer 2022. The values of the 2019 LTP awards in the single total figure of remuneration table are therefore estimated and will be restated if necessary in next year's report.

Once the final outcome of the customer service excellence measure is known, before approving the final vesting outcome for the awards the committee will determine whether the underpins have been met and will also consider whether there should be any discretion applied.

Measure	% weighting of measure	Achieved: Threshold (25% vesting)	Achieved: Intermediate	Achieved: Stretch (100% vesting)	Vesting as a % of maximum	Outcome
Relative total shareholder return (TSR)						
TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies)(1)	33.3%	Median TSR	Straight-line between threshold and stretch	Median TSR × 1.15	100%	33.3%
		Actual: TSR above stretch Company TSR of 48.1% was above stretch TSR of 39.3%				
Return on Regulated Equity (RoRE)			(50% vesting)			
Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	33.3%	Average RoRE of -0.50% below the average allowed return	Average RoRE equal to the average allowed return set by the regulator	Average RoRE of 1.00% above the average allowed return	100%	33.3%
		Actual: Average RoRE of 6.10% was 1.64% above the average allowed return				
Customer service excellence						
Ranking for the year ended 31 March 2022 out of the 11 water and wastewater companies using a combined customer service measure comprising C-MeX performance and customer complaints	33.3%	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	100%	33.3%
		Estimate: 2nd position(2)				
Overall underpin Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period		✓ Assumed met. The committee will make a final assessment of the company's performance once the outcome of the customer service excellence measure is known.				
Estimated vesting (% of award)						**100%**

	Steve Mogford	Phil Aspin
Number of shares granted	125,126	9,595
Number of dividend equivalent shares	13,096	1,002
Number of shares before performance conditions applied	138,222	10,597
Estimated number of shares after performance conditions applied	138,222	10,597
Three-month average share price at end of performance period (pence)(3)	1,064.4	1,064.4
Estimated value at end of performance period (£'000 – shown in single figure table)(4)	1,471	113

(1) For the purposes of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period. TSR is independently calculated by the committee's advisers.

(2) This is an estimate as the final outcome will not be known until the volume of written complaints received by other companies are available later in 2022.

(3) Average share price over the three-month period from 1 January 2022 to 31 March 2022.

(4) 25.8 per cent of the value vesting is attributable to share price appreciation which equates to £380,000 for Steve Mogford and £29,000 for Phil Aspin.

2021 LTP awards with a performance period ending 31 March 2024 (audited information)

The table below provides details of share awards made to executive directors on 30 June 2021 in respect of the 2021 LTP:

Executive director	Type of award	Basis of award	Face value of award (£'000)(1)	Number of shares under award	% vesting at threshold	End of performance period(2)
Steve Mogford	Conditional shares	130% of salary	£1,008	102,539	25%	31.3.2024
Phil Aspin	Conditional shares	130% of salary	£520	52,910	25%	31.3.2024

(1) The face value has been calculated using the closing share price on 29 June 2021 (the dealing day prior to the date of grant) which was 982.8 pence per share.

(2) An additional holding period applies after the end of the performance period such that the overall vesting period is five years from the grant date.

LTP awards made during the year were based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures.

Stretching targets were set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance. When determining the measures that should form the customer basket component of the awards the committee took into account feedback received from customer research and focus groups (as to which areas of service and performance they considered the highest priority) and the performance commitments agreed with Ofwat in the final determination for the regulatory period, thereby ensuring that the measures selected reflected the views and priorities of key stakeholders. The committee is pleased that alongside focusing on areas of performance that will have meaningful and tangible outcomes for customers, the measures chosen reflect its commitment to recognising evolving expectations in regard to environmental, social and governance matters.

Details about the 2021 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2021 to 31 March 2024. The table on page 166 summarises how these performance measures are linked to our business strategy, including delivery for customers and the environment.

	Targets(1)		
Measure	**Threshold (25% vesting)**	**Stretch (100% vesting)**	**Weighting**
Return on Regulated Equity (RoRE)			
Company RoRE	Equal to the average of Ofwat's allowed RoRE over the three financial years of the performance period	1.5% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	50.0%
Customer basket of measures(2)			
C-MeX ranking out of all the other water and wastewater companies(3)	Ranked 8th	Ranked 4th (or better)	5.0%
Water poverty(3)	64,300 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%
Priority services(3)	No threshold target. Stretch target must be achieved for any vesting on this measure	6.3% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents(3)	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 19.89 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents(4)	22.40 pollution incidents per 10,000km of our wastewater network	12.21 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance(4)	97.9% compliance	99.0% (or greater) compliance	5.0%
Water quality contacts(4)	13.5 customer contacts per 10,000 customers	12.0 (or fewer) customer contacts per 10,000 customers	5.0%
Leakage(3)	A three-year average of 97.7 megalitres of leakage per 10,000km of our water network per day	A three-year average of 94.3 megalitres (or less) of leakage per 10,000km of our water network per day	5.0%
Compliance risk index (CRI)(4)	CRI score of 3.27	CRI score of 2.00 (or less)	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating(5)	3 star rating	4 star rating	5.0%
Total			100%
Overall underpin			
Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.			

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance

(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination

(3) Outcome based on performance in respect of the financial year ending 31 March 2024 as published in our own and/or the other water companies' Annual Performance Reports for 2023/24

(4) Outcome based on performance in respect of the calendar year ending 31 December 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2023/24

(5) Outcome based on performance in respect of the calendar year ending 31 December 2023 as published in the Environment Agency's published report in 2024

Incentives in 2022/23

Ensuring alignment with our business plan

The performance measures used in our incentive schemes during 2022/23 will remain aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers and the environment.

Annual bonus in respect of the financial year commencing 1 April 2022

The maximum bonus opportunity for the year commencing 1 April 2022 will remain unchanged at 130 per cent of base salary.

As is outlined on page 166, the measures used in our annual bonus arrangements for executive directors demonstrate significant alignment to stakeholder interests, including customers and the environment. In 2022/23 we will retain many of those measures but have also decided to introduce a number of new measures which further demonstrate our intention to incentivise stretching performance delivery for customers, including on our environmental commitments and obligations.

New annual bonus measures for 2022/23

Measure	Why it's being introduced
Water quality contacts (appearance)	Customers expect the water that comes out of their tap to be clear, and when it is discoloured it can affect public confidence in the water supply. This new measure will drive improvements in our performance in this aspect of our service, as we know it is a priority for our customers.
Better Rivers commitments	Improving river health and recreation in the North West is a priority for the company. We have published a four-part plan setting out how we will achieve this for the benefit of customers, the environment and other stakeholders, and details are shown on page 67. This new measure will focus on the delivery of our programme milestones.
Capital programme delivery incentive (CPDi)	The new CPDi measure is an evolution of the Time, Cost and Quality (TCQi) measure we have used in recent years, in which the time, cost and quality of our capital programme delivery remains important, but with an increased emphasis on efficiency. CPDi also takes account of the carbon impact of our enhancement projects, providing a further environmental element to the annual bonus arrangements.

The table below summarises the measures, weightings and targets for the 2022/23 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in the 2022/23 annual report on remuneration.

	Targets			
Measure	**Threshold (25% vesting)**	**Target (50% vesting)**	**Stretch (100% vesting)**	**Weighting (% of award)**
Underlying operating profit(1)		Commercially sensitive		25.0%
Customer service in year				
C-MeX ranking out of the 17 water companies	8th position	7th position	5th position	10.0%
Written complaints (per 10,000 customers)	17.50	17.10	16.80	5.0%
Water quality contacts (appearance)	7,604	6,974	6,344	10.0%
Maintaining and improving services for customers and the environment				
Better Rivers commitments (% of 2022/23 programme milestones delivered)	90.0%	95.0%	100%	10.0%
Outcome delivery incentive (ODI) composite		Commercially sensitive		25.0%
Capital programme delivery incentive (CPDi)	80.0%	85.0%	95.0%	15.0%
Total				100%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

In line with policy the executive directors will be required to defer at least 50 per cent of any bonus received into shares and these only become available after a period of three years. This provides the committee with time to consider and respond appropriately to any matters that were not known at the end of the relevant performance period but become apparent during the deferral period. This could include the use of the withholding and recovery provisions.

2022 LTP awards with a performance period ending 31 March 2025

The 2022 LTP award level for executive directors will remain unchanged at 130 per cent of base salary. As outlined on page 163 the committee is seeking approval of the new Long Term Plan 2022 at the 2022 AGM, and so we will wait until late July to grant the LTP awards in order that they might be granted under this new plan if it is approved. If it is not approved, the awards will again be granted under the existing LTP 2013.

While awards will not be granted until after the AGM, the committee has accelerated the target-setting process compared to previous years so that the measures and targets that are expected to apply to the awards are available to shareholders in this directors' remuneration report.

Consistent with the approach in 2020 and 2021 the awards will be based on Return on Regulated Equity and a customer basket of measures, with each component being equally weighted at 50 per cent.

Stretching targets have been set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

In respect of the customer basket, the approach used to date means that award outcomes are directly attributable to clearly identified customer, environmental and social measures, including those which are within scope of our key regulators.

As outlined on page 163 the committee has decided to introduce carbon measures in the LTP from 2022, linked to the company's efforts to continually strengthen the way we govern the resilience and sustainability of our business and public services. This runs to the heart of living our purpose to provide great water and more for the North West.

Climate change is a priority risk to the company and its stakeholders because the affordability and resilience of our operations and services fundamentally rely on a stable climate and a healthy natural environment. You can find out more about our long-standing approach to both carbon reduction (mitigation) and climate resilience (adaptation) as detailed in our TCFD on pages 86 to 99.

We have recently enhanced our carbon commitments and governance after achieving previous goals to further grow our renewable energy generation capabilities and purchase only certified green electricity. We made six new carbon pledges in 2020, and in 2021 we became the first UK water company to independently verify that we have international best practice Science-Based Targets (SBTs). This means that our targets have been assessed to ensure they follow a reduction trajectory sufficient to help prevent the most damaging effects of climate change by limiting average global warming to no more than 1.5°C.

In our 2022 LTP we will introduce four measures covering four priority areas of our carbon agenda, each with an equal weighting of 2.5 per cent, so that 10 per cent of the overall LTP outcome is directly related to carbon-related performance. In the longer term, as we further mature our carbon plan, we aspire to introducing one or two holistic carbon measures that are directly aligned to our SBTs for 2030.

To create space for the new carbon measures we have removed the C-MeX and water quality contacts measures used in previous LTP awards on the basis that they are both covered under the 2022/23 annual bonus. With these new carbon measures, the whole of the customer basket now focuses executives on areas of performance that are in the interests of customers and have an environmental or social impact.

	Targets[1]		
Measure	**Threshold (25% vesting)**	**Stretch (100% vesting)**	**Weighting**
Return on Regulated Equity (RoRE)			
Company RoRE	0.25% above the average of Ofwat's allowed RoRE over the three financial years of the performance period	2.00% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	50.0%
Customer basket of measures[2]			
Carbon – green fleet	170 electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	200 (or more) electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	2.5%
Carbon – peatland restoration	527 hectares of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	644 hectares (or more) of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	2.5%
Carbon – woodland creation	77 hectares of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard) by 31 March 2025	94 hectares (or more) of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard) by 31 March 2025.	2.5%
Carbon – supply chain engagement	No threshold target. Stretch target must be achieved for any vesting on this measure	66% (or more) of suppliers, by emissions within scope 3 capital goods, will have science-based targets by 31 March 2025	2.5%
Water poverty[3]	66,500 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%
Priority services[3]	No threshold target. Stretch target must be achieved for any vesting on this measure	7.0% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 18.85 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents[4]	19.50 pollution incidents per 10,000km of our wastewater network	11.80 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	99.0% (or greater) compliance	5.0%
Compliance risk index (CRI)[4]	CRI score of 2.75	CRI score of 2.00 (or less)	5.0%
Leakage[3]	A three-year average of 93.1 megalitres of leakage per 10,000km of our water network per day	A three-year average of 90.5 megalitres (or less) of leakage per 10,000km of our water network per day	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3 star rating	4 star rating	5.0%
Total			**100%**

Overall underpin

Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.

(1) Unless indicated otherwise, straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance
(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination
(3) Outcome based on performance in respect of the financial year ending 31 March 2025 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(4) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(5) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in the Environment Agency's published report in 2025

In line with policy, any LTP outcome for executive directors will only become available following the end of a holding period such that the total vesting period is at least five years from the date of grant. This provides the committee with time to consider and respond appropriately to any matters that were not known at the end of the relevant performance period but become apparent during the holding period.

Cascade of remuneration through the organisation

Consistent with best practice, the remuneration committee spends considerable time on matters relating to remuneration arrangements in the wider organisation. Details of pay trends for the wider employee base provide important context when making decisions regarding remuneration for the executive directors as well as ensuring that consistent approaches are being adopted across the organisation.

The table below summarises how remuneration compares across the different groups of employees throughout the company.

Employee group (number of employees covered)	Element of pay	Policy	Implementation
Employees at all levels (around 6,000)	Salary	We want to attract and retain employees of the experience and quality required to deliver the company's strategy. Salaries are reviewed annually, with executive directors normally receiving a salary increase generally no greater than the increase awarded to the general workforce.	In 2021 the base salary increase for employees was 2.0 per cent. As a Living Wage accredited employer all our employees (except those on a training scheme such as apprentices) receive at least the voluntary living wage rate.
	Health and wellbeing benefits	We want to create an environment that promotes healthy behaviours and ensure that employees have access to early and effective treatment, advice and information to improve their health and wellbeing.	All employees are eligible for company-funded healthcare and an enhanced company sick pay scheme. Employees have access to a medical advice and information service (Best Doctors) service for them and their families. All employees have free 24/7 access to our employee assistance programme which provides counselling and support to employees and their households. We have around 250 trained mental health first aiders who can listen to and signpost employees to relevant support services, and a similar number of wellbeing champions who help promote our wellbeing campaigns. Financial wellbeing is a key focus, with financial education tools and awareness courses available for all employees covering a broad range of money management topics such as financial planning, managing debt and pensions.
	Flexible benefits	All employees have access to a variety of additional voluntary benefits to suit their lifestyle, and can choose from a range of deals and discounts all year round. Employees can donate to their chosen charities directly from their pay if they want to.	Around 50 per cent of employees take up at least one of these flexible options.
	Pension	Employees at all levels can participate in our award-winning pension arrangements and almost all of our employees choose to do so.	The company doubles any contributions that employees make up to a maximum of 14 per cent of salary. As part of the pension scheme employees receive company-funded life assurance and income protection.
	ShareBuy	Any employee can become a shareholder in our company and share in our success by participating in our ShareBuy scheme. For every five shares an employee buys the company gives another one free.	Around half of the workforce participate in our ShareBuy scheme.
	Annual bonus – cash	This provides a strong alignment to strategy throughout the organisation, with the same scorecard applying at all levels.	Employees at all levels participate in the annual bonus scheme, receiving financial rewards based on the performance of the company and their personal contribution. Specific weightings and award levels vary by grade.
CEO, CFO and executives (10)	Annual bonus – deferred shares	Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.	Each of the executive directors and executives is required to defer a proportion of their bonus into shares for three years.
CEO, CFO, executives and other senior leaders (around 55)	Long Term Plan (LTP)	To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Executives and other senior leaders may be invited to participate in the LTP. Performance conditions are the same for all participants but award sizes vary.
CEO, CFO and executives (10)	Shareholding guidelines	The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests.	All executives are subject to shareholding guidelines, aligning their interests with those of shareholders.

Alignment of executive pay approach with that of the wider workforce and listening to the employee voice

The committee is always mindful of the alignment of executive pay arrangements with those of the wider workforce, and as is demonstrated in the table on page 183 there is a high level of alignment and consistency of approach.

When reviewing salaries and assessing incentive outcomes for the executives, the committee takes account of how those elements of remuneration have been (or will be) applied across the wider workforce in respect of the same periods. At each of its meetings the committee receives an update on notable matters affecting pay and benefits among the wider workforce since its previous meeting, and at least annually the committee formally reviews and discusses a report detailing all elements of the workforce's pay and benefits.

The committee has mechanisms through which it hears from and engages with the workforce on executive pay. As chair of the committee, insights related to remuneration that arise via Alison Goligher in her role as designated non-executive director for workforce engagement can be quickly and appropriately considered, and a formal report is presented to the committee at least annually in this respect. Alison hosts sessions with the Employee Voice panel which cover topics including the alignment of our executive pay approach with that of the wider workforce, providing valuable opportunities for open discussions and feedback. See page 126 for further details. During the year, the committee sought views from the Employee Voice panel as part of the consultation on the proposed directors' remuneration policy.

The figures below show how the percentage change in the CEO's salary, benefits and bonus earned in 2020/21 and 2021/22 compares with the percentage change in the average of each of those components for a group of employees. The table below that shows the same information in respect of each board member.

Change in CEO remuneration

Base salary(1)	Bonus(2)	Benefits(3)
+6.5%	-11.8%	-23.9%

Change in employee remuneration(4)

Base salary(5)	Bonus	Benefits
+3.7	+11.6%	+5.0%

Change in other board member remuneration

	Salary/Total Fees(1)		Benefits(6)		Bonus	
Year ended 31 March	2022 versus 2021	2021 versus 2020	2022 versus 2021	2021 versus 2020	2022 versus 2021	2021 versus 2020
Executive directors						
Steve Mogford	**6.5%**	-4.2%	**-23.9%**	-14.1%	**-11.8%**	16.7%
Phil Aspin(7)	**1.2%**	n/a	**61.6%**	n/a	**7.6%**	n/a
Non-executive directors(8)						
Sir David Higgins	**6.5%**	111.1%	**1,555.9%**	-96.6%	**n/a**	n/a
Liam Butterworth(9)	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Stephen Carter	**6.3%**	-4.4%	**1,556.3%**	-93.0%	**n/a**	n/a
Kath Cates(9)	**6.5%**	n/a	**1,555.9%**	n/a	**n/a**	n/a
Mark Clare	**6.3%**	-4.4%	**1,555.9%**	-96.6%	**n/a**	n/a
Alison Goligher(10)	**11.5%**	9.4%	**708.6%**	-81.0%	**n/a**	n/a
Brian May(7)	**6.5%**	-4.4%	**5,076.4%**	-96.6%	**n/a**	n/a
Paulette Rowe	**6.5%**	-4.2%	**782.1%**	-95.2%	**n/a**	n/a
Doug Webb(9) (11)	**23.6%**	n/a	**1,418.0%**	n/a	**n/a**	n/a

(1) In 2020/21 Steve Mogford and the non-executive directors in role at that time received no salary/fee increases and the salary/fees they received reflected a voluntary reduction of 20 per cent for three months which was donated to charity. The actual salary/fee increase in 2021/22 was 2 per cent in line with the headline increase for employees. The annual percentage changes shown are therefore greater than they would have been had their 2020/21 salary/fees not been reduced.
(2) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This has resulted in a material reduction in bonus value compared to 2020/21.
(3) During the year Steve Mogford ceased to be eligible for group income protection and so the value of his benefits reduced compared to 2020/21.
(4) To aid comparison, the group of employees selected by the committee are all those members of the workforce who were employed over the complete two-year period.
(5) Includes promotional increases. The headline salary increase for employees was 2.0 per cent.
(6) For non-executive directors, taxable benefits relate primarily to certain travel expenses and accommodation which, given the relatively small numbers involved, can produce sizeable percentage changes from year to year. The significant change for 2021/22 versus 2020/21 primarily reflects the fact that as a result of the COVID-19 pandemic, in 2020/21 the value of benefits received (typically less than £100) were materially less than normal. Face-to-face meetings resumed during 2021/22, with travel related expenses increasing towards their normal levels.
(7) Phil Aspin was appointed to the board on 24 July 2020. Brian May stepped down from the board on 23 July 2021. To enable a meaningful year-on-year comparison their salary/fees and bonus (for Phil Aspin) reflect hypothetical full-year earnings in 2020/21 and 2021/22 respectively.
(8) Calculated using the fees and taxable benefits shown in the table on page 188.
(9) Kath Cates and Doug Webb were appointed to the board on 1 September 2020. To enable a meaningful year-on-year comparison their salary/fees for 2020/21 reflect hypothetical full-year earnings. Liam Butterworth was appointed to the board on 1 January 2022 so no year-on-year comparison is possible.
(10) The fee increases for Alison Goligher reflects her appointment as remuneration committee chair with the associated fee effective from 24 July 2020.
(11) The fee increase for Doug Webb reflects his appointment as audit and treasury committee chair with the associated fee effective from 23 July 2021.

CEO pay ratios

The table below sets out the ratio of the CEO's pay to that of the 25th percentile (P25), median (P50) and 75th percentile (P75) full-time equivalent employees. The ratios have been calculated in accordance with the regulations which provide for three different approaches to determine the pay ratio (Options A, B and C).

The data in the tables below has been calculated using Option A which is considered to be the most accurate methodology and uses the same calculation basis as required for the CEO's total remuneration as shown in the single figure table on page 177.

- We identified all employees who received base salary during the year ended 31 March 2022 and who were still employed on that date.
- The calculations were carried out using their total pay and benefits received in respect of the year ended 31 March 2022, including bonuses earned by reference to performance in the financial year and paid in June following the end of the financial year.
- For employees who were employed on a part-time basis, or who were not employed for the full year, their remuneration has been annualised to reflect the full-time equivalent.
- No other estimates or adjustments have been used in the calculations and no other remuneration items have been omitted.

	Financial year		
	2021/22	2020/21	2019/20
Methodology used	**A**	A	A
Average number of employees	**5,866**	5,570	5,461
Ratio of CEO single figure total remuneration:[(1)]			
– To employee at the 25th percentile	**92:1**	97:1	87:1
– To employee at the 50th percentile	**69:1**	72:1	66:1
– To employee at the 75th percentile	**54:1**	57:1	53:1
Ratio of CEO base salary plus annual bonus:			
– To employee at the 25th percentile	**44:1**	52:1	47:1
– To employee at the 50th percentile	**37:1**	38:1	37:1
– To employee at the 75th percentile	**30:1**	30:1	31:1
Ratio of CEO base salary:			
– To employee at the 25th percentile	**24:1**	26:1	26:1
– To employee at the 50th percentile	**20:1**	19:1	20:1
– To employee at the 75th percentile	**17:1**	15:1	17:1
Additional details			
CEO total single figure (£'000)	**3,178**	3,323	2,925
CEO base salary plus annual bonus (£'000)	**1,511**	1,560	1,476
CEO base salary (£'000)	**784**	736	769
Employees total pay and benefits (£'000)			
– at the 25th percentile	**35**	34	33
– at the 50th percentile	**46**	46	44
– at the 75th percentile	**59**	58	56
Employees base salary plus annual bonus (£'000)			
– at the 25th percentile	**34**	30	32
– at the 50th percentile	**41**	42	40
– at the 75th percentile	**51**	52	48
Employees base salary (£'000)			
– at the 25th percentile	**32**	29	30
– at the 50th percentile	**39**	39	38
– at the 75th percentile	**47**	50	44

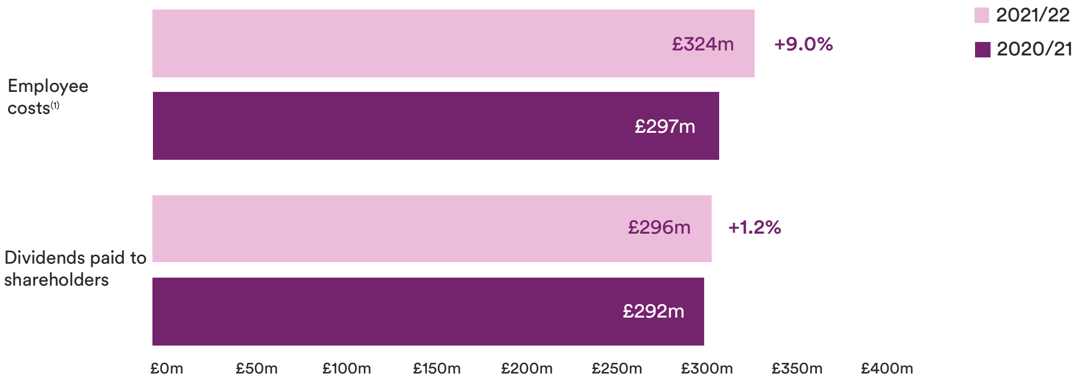
(1) The figures for 2020/21 have been restated to reflect the final vesting outcome, additional dividend equivalents and updated share price for Steve Mogford's 2018 LTP as shown in the single figure table on page 177. The figures for 2019/20 have also been restated to reflect additional dividend equivalents and closing share price on the date of vesting for Steve Mogford's 2017 LTP.

Along with the ratios comparing total remuneration, the committee keeps under review the ratios for salary and salary plus annual bonus, and tracks how these change over time. With a significant proportion of the remuneration of the CEO linked to company performance and share price movements over the longer term, it is expected that the headline ratios will depend primarily on the Long Term Plan (LTP) outcome, and, accordingly, may fluctuate from year to year. Participation in the LTP is currently limited to around 55 executives and senior leaders, with none of the individuals identified as P25, P50 and P75 in this group. On the other hand, employees at all levels participate in the annual bonus scheme, and so the committee considers this ratio as well as the ratio comparing only salary, to provide helpful additional context.

This year the pay ratio of CEO single figure total remuneration to the median employee (P50) has reduced slightly compared to last year at 69:1, with a reduction also being noticeable at P25 and P75. The committee observes a similar picture across the other reported ratios, which is to be expected given our approach to cascading the annual bonus and having aligned executive director salary increases with the broader workforce. The committee will continue to consider the pay ratios in the context of other important metrics such as the gender pay gap and employee engagement levels.

Relative importance of spend on pay

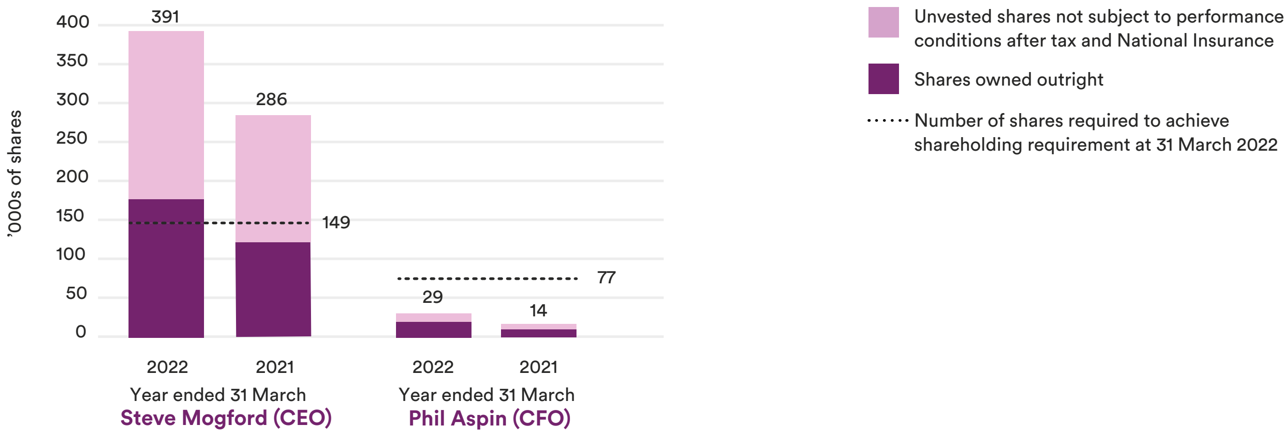
The table below shows the relative importance of spend on pay compared to distributions to shareholders.



(1) Employee costs includes wages and salaries, social security costs, and post-employment benefits.

Executive directors' shareholding (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2022 held by each of the executive directors and their connected persons are set out in the charts below along with progress against the target shareholding requirement level. Steve Mogford continues to exceed the target shareholding requirement level of 200 per cent of salary. Phil Aspin is expected to reach the minimum guideline by 24 July 2025 (within five years of his appointment to the board).



Further details of the executive directors' shareholdings and share plan interests are given in the table below and in the appendix on page 191.

Director	Shareholding requirement (% of salary)	Number of shares required to meet shareholding requirement[1]	Number of shares owned outright (including connected persons) 2022	Number of shares owned outright (including connected persons) 2021	Unvested shares not subject to performance conditions[2] 2022	Unvested shares not subject to performance conditions[2] 2021	Total shares counting towards shareholding requirements[3] 2022	Total shares counting towards shareholding requirements[3] 2021	Shareholding as % of base salary at 31 March 2022[1]	Shareholding requirement met at 31 March 2022	Unvested shares subject to performance conditions[4] 2022	Unvested shares subject to performance conditions[4] 2021
Steve Mogford[5][6]	200%	148,572	**181,144**	110,630	**395,160**	331,476	**390,595**	286,331	**526%**	**Yes**	**363,303**	390,702
Phil Aspin[5]	200%	76,663	**17,440**	11,439	**21,367**	4,299	**28,781**	13,736	**75%**	**No**	**126,738**	79,794

(1) Share price used is the average share price over the three months from 1 January 2022 to 31 March 2022 (1,064.4 pence per share).

(2) Unvested shares subject to no further performance conditions such as matching shares under the ShareBuy scheme. Includes shares subject only to withholding provisions such as Deferred Bonus Plan shares in the three-year deferral period and Long Term Plan shares in the applicable holding period.

(3) Includes unvested shares not subject to performance conditions (on a notional net of tax and National Insurance basis), plus the number of shares owned outright.

(4) Includes unvested shares under the Long Term Plan.

(5) In the period 1 April 2022 to 22 May 2022, additional shares were acquired by Steve Mogford (27 ordinary shares) and Phil Aspin (27 ordinary shares) in respect of their regular monthly contributions to the all-employee ShareBuy scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest one year after grant provided the employee remains employed by the company.

(6) On 1 April 2022, shares granted on 27 June 2017 under the Long Term Plan vested for Steve Mogford following an additional two-year holding period. Steve Mogford had 110,948 shares vesting, of which 52,277 shares were sold to cover tax and National Insurance. Steve retained the remaining balance of 58,671 shares.

Other information

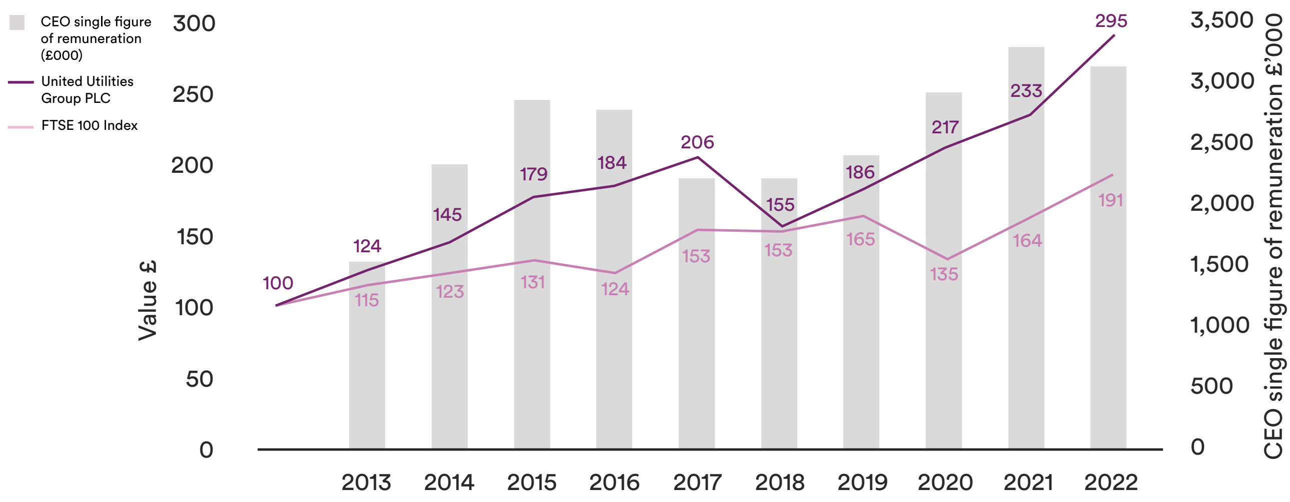
Dilution limits

Awards granted under the company's share plans are satisfied by market purchased shares bought on behalf of the company by United Utilities Employee Share Trust immediately prior to the vesting of a share plan. The company does not make regular purchases of shares into the Trust nor employ a share purchase hedging strategy, and shares are bought to satisfy the vesting of share plans. The rules of the Deferred Bonus Plan do not permit awards to be satisfied by newly issued shares and must be satisfied by market purchased shares. The rules of the Long Term Plan permit the awards to be satisfied by newly issued shares but the company has decided to satisfy awards by market purchased shares.

Should the company's method of satisfying share plan vestings change (i.e. issuing new shares) then the company would monitor the number of shares issued and their impact on dilution limits set by the Investment Association in respect of all share plans (10 per cent in any rolling ten-year period) and executive share plans (5 per cent in any rolling ten-year period). No treasury shares were held or utilised in the year ended 31 March 2022.

Company performance and CEO remuneration comparison

The total shareholder return (TSR) chart below illustrates the company's performance against the FTSE 100 over the past ten years. The FTSE 100 is an appropriate comparator as the company is a member of the FTSE 100 and it is a widely published benchmark for this purpose. The chart shows the growth in the value of a hypothetical £100 holding invested in the company over the ten-year period. The chart also shows the CEO's single total figure remuneration over the ten years ended 31 March 2022 for comparison. The table below the TSR chart shows the remuneration data for the CEO over the same period. Steve Mogford was the CEO over the whole period.



Year ended 31 March	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Steve Mogford										
CEO single figure of remuneration (£'000)	1,549	2,378	2,884	2,760(1)	2,233	2,221	2,448	2,925(2)	3,323(3)	**3,178**
Annual bonus payment (% of maximum)	84.4	78.2	77.4	54.5	83.7	74.9	79.0	70.7	81.8	**71.3(4)**
LTP vesting (% of maximum)(5)	n/a(6)	93.5	97.5	33.6	54.5	55.4	64.4	87.3	97.9(3)	**100(7)**

(1) This includes the payout from the 2013 Long Term Plan (LTP) as well as £1.028 million in respect of Steve Mogford's one-off Matched Share Investment Scheme that ended on 5 January 2016 (vested at 100 per cent).

(2) The payout from the 2017 LTP, which vested on 1 April 2022 after the end of a two-year holding period, has been updated to reflect the additional dividends accruing on this award and the closing share price on the date of vesting of 1,122.2 pence per share.

(3) The payout and vesting percentage for the 2018 LTP have been restated to reflect the additional dividend equivalents accruing on the award, the final vesting outcome and updated share price. See page 177 for further details.

(4) Steve Mogford unconditionally waived part of his 2021/22 bonus. The actual bonus scorecard outcome was 86.0 per cent.

(5) For performance periods ended on 31 March, unless otherwise stated.

(6) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 35.3 per cent for those vesting in 2013.

(7) The 2019 Long Term Plan amount vesting percentage is estimated. See page 179 for further details.

Exit payments and payments to former directors made in the year

There have been no exit payments or payments to former directors in respect of their roles as directors during the year ended 31 March 2022 other than the vesting of legacy share awards. See page 191.

Non-executive directors

Single total figure of remuneration for non-executive directors (audited information)

	Salary/fees £'000		Taxable benefits £'000		Total £'000	
Year ended 31 March	**2022**	2021[1]	**2022**	2021	**2022**	2021
Sir David Higgins	**304**	285	**2**	0	**306**	285
Liam Butterworth[2]	**17**	n/a	**0**	n/a	**17**	n/a
Stephen Carter	**81**	76	**2**	0	**83**	76
Kath Cates[3]	**69**	40	**2**	0	**71**	40
Mark Clare	**83**	78	**2**	0	**85**	78
Alison Goligher	**83**	74	**1**	0	**84**	74
Brian May[4]	**26**	80	**5**	0	**31**	80
Paulette Rowe	**69**	65	**1**	0	**70**	65
Doug Webb[3] [5]	**80**	40	**1**	0	**81**	40

(1) In the context of the COVID-19 pandemic it was determined that fees should not increase in the year ended 31 March 2021. The fees received by the non-executive directors reflect a voluntary reduction of 20 per cent for three months, the total value of which was donated to charity.

(2) Liam Butterworth joined the board on 1 January 2022.

(3) The fees for Kath Cates and Doug Webb in respect of year ending 31 March 2021 reflect part-year earnings as they both joined the board on 1 September 2020.

(4) Brian May stepped down from the board on 23 July 2021. The benefits value shown for 2022 includes the cost of a retirement gift he received, alongside other expenses.

(5) Doug Webb was appointed as chair of the audit and treasury committees with effect from 23 July 2021 and received the applicable additional fees from that date.

Fees

Non-executive director base fees were reviewed and increased with effect from 1 September 2021 as shown below. Base fees were increased by 2.0 per cent which is the same as the increase applying to the general workforce in 2021. Additional fees for the senior independent non-executive director and the chairs of committees were not increased.

	Fees £'000	
Role	**1 Sept 2021**	1 Sept 2020
Base fee: Chair[1]	**306.0**	300.0
Base fee: other non-executive directors[2]	**69.6**	68.2
Senior independent non-executive director[2]	**13.5**	13.5
Chair of audit and treasury committees[2]	**16.0**	16.0
Chair of remuneration committee[2]	**13.5**	13.5
Chair of corporate responsibility committee[2]	**12.0**	12.0

(1) Approved by the remuneration committee.

(2) Approved by a separate committee of the board.

Non-executive directors' shareholdings (audited information)

Details of beneficial interests in the company's ordinary shares as at 31 March 2022 held by each of the non-executive directors and their connected persons are set out in the table below.

Non-executive directors	Date first appointed to the board	Number of shares owned outright (including connected persons) at 31 March 2022[1]
Sir David Higgins	13.5.19	3,000
Liam Butterworth	1.1.22	3,000
Stephen Carter	1.9.14	3,075
Kath Cates	1.9.20	2,135
Mark Clare	1.11.13	7,628
Alison Goligher	1.8.16	3,000
Brian May[2]	1.9.12	3,000
Paulette Rowe	1.7.17	3,000
Doug Webb	1.9.20	5,700

(1) From 1 April 2022 to 24 May 2022 there have been no movements in the shareholdings of the non-executive directors.

(2) Brian May had 3,000 shares when he stepped down from the board with effect from 23 July 2021.

The remuneration committee

Summary terms of reference

The committee's terms of reference were last reviewed in November 2021 and are available on our website at: corporate.unitedutilities.com/corporate-governance

The committee's main responsibilities include:

- Determining and recommending to the board the policy for executive director remuneration, having reviewed and taken into account workforce remuneration and related policies and the alignment of incentives and reward with culture;
- Setting the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets;
- Approving the general employment and remuneration terms for selected senior employees;
- Setting the remuneration of the Chair of the company;
- Proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- Assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional shareholders on aspects of executive remuneration.

Composition of the remuneration committee as at 31 March 2022

Member	Member since
Alison Goligher (chair since 24.7.20)	1.8.16
Kath Cates	1.9.20
Mark Clare	1.9.14
Doug Webb	23.7.21

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Activities of the remuneration committee over the past year

The committee met five times in the year ended 31 March 2022 and carried out a number of key activities:

- Approved the 2020/21 directors' remuneration report;
- Reviewed the pay comparator group;
- Reviewed the base salaries of executive directors and other members of the executive team;
- Reviewed the base fee for the Chair;
- Assessed the achievement of targets for the 2020/21 annual bonus scheme, reviewed progress against the targets for the 2021/22 annual bonus scheme, and considered the targets for the 2022/23 annual bonus;
- Assessed the achievement of targets for the Long Term Plan (LTP) awards made in 2018, reviewed progress against the targets for the 2019 and 2020 LTP awards, and set the measures and targets for the 2021 LTP awards;
- Reviewed and approved awards made under the annual bonus, Deferred Bonus Plan (DBP) and LTP;
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team;
- Reviewed the committee's performance during the period;
- Considered the remuneration arrangements of the wider workforce and their alignment with those of the executives, alongside feedback received from the workforce via Alison Goligher in her role as the non-executive director for workforce engagement;
- Considered governance developments and market trends in executive remuneration, including in the wider utilities sector;
- Noted progress on the company's gender pay gap reporting;
- Reviewed the executive pay arrangements and consulted with shareholders and other stakeholders on the proposed remuneration policy; and
- Reviewed the rules of the executive incentive plans.

Support to the remuneration committee

By invitation of the committee, meetings are attended by the Chair, the Chief Executive Officer, the company secretary (who acts as secretary to the committee), the customer services and people director and the head of reward, who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the committee feels that such additional contributions will assist the decision-making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers.

During the year, the committee was assisted in its work by the following external advisers:

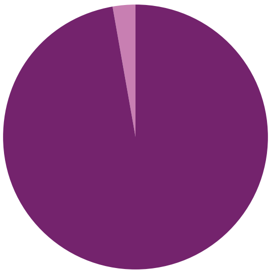
Adviser	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2022	Additional services provided in year ended 31 March 2022	Fees paid by company for these services in respect of year and basis of charge
Ellason LLP	Committee	Appointed January 2021; services retained during the financial year	General advice on remuneration matters including analysis of the remuneration policy and regular market and best practice updates	Advice and benchmarking on non-executive director and senior leader remuneration	£54,000 on a time/cost basis as set out in terms and conditions in the relevant engagement letter

Ellason are signatories to the Remuneration Consultant Group's Code of Conduct which sets out guidelines to ensure that any advice is independent and free of undue influence (which can be found at www.remunerationconsultantsgroup.com). None of the individual directors have a personal connection with Ellason. The committee is satisfied that the advice it receives is objective and independent and confirms that Ellason do not have any connection with the company that may impair their independence.

In addition, during the year, the law firm Eversheds Sutherland provided advice to the company in relation to the company's share schemes.

2021 AGM: statement of voting

At the last annual general meeting on 23 July 2021, votes on the 2021/22 directors' remuneration report (other than the part containing the directors' remuneration policy) were cast as follows:



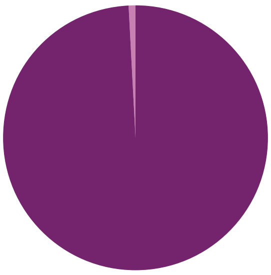
Votes for **466,214,257**
(97.32% of votes cast)

Votes against **12,828,512**
(2.68% of votes cast)

479,042,769
Total votes cast

2,205,642
Votes withheld (abstentions)

At the annual general meeting on 26 July 2019, votes on the directors' remuneration policy were cast as follows:



Votes for **458,175,960**
(99.41% of votes cast)

Votes against **2,709,122**
(0.59% of votes cast)

460,885,082
Total votes cast

667,337
Votes withheld (abstentions)

The directors' remuneration report was approved by the board of directors on 24 May 2022 and signed on its behalf by:

Alison Goligher
Chair of the remuneration committee

Appendix 1: Executive directors' share plan interests 1 April 2021 to 31 March 2022

	Award date	Awards held at 1 April 2021	Granted in year	Vested in year	Lapsed/ forfeited in year	Notional dividends accrued in year[1]	**Awards held at 31 March 2022[1]**
Steve Mogford							
Shares not subject to performance conditions at 31 March 2022							
DBP	18.6.18	54,457	–	54,457	–	–	**–**
DBP	17.6.19	51,576	–	–	–	2,083	**53,659**
DBP	17.6.20	40,561	–	–	–	1,638	**42,199**
DBP[2]	16.6.21	–	39,987	–	–	1,614	**41,601**
LTP	28.6.16	78,203	–	78,203	–	–	**–**
LTP	27.6.17	106,640	–	–	–	4,308	**110,948**
LTP	25.6.18	144,046	–	–	3,106	5,778	**146,718**
ShareBuy matching shares[3]	1.4.21 to 31.3.22	39	35	39	–	–	**35**
Subtotal		475,522	40,022	132,699	3,106	15,421	**395,160**
Shares subject to performance conditions at 31 March 2022							
LTP	28.6.19	132,854	–	–	–	5,368	**138,222**
LTP	30.11.20	113,802	–	–	–	4,597	**118,399**
LTP[4]	30.6.21	–	102,539	–	–	4,143	**106,682**
Subtotal		246,656	102,539	–	–	14,108	**363,303**
TOTAL		722,178	142,561	132,699	3,106	29,529	**758,463**
Phil Aspin							
Shares not subject to performance conditions at 31 March 2022							
DBP	17.6.20	4,259	–	–	–	171	**4,430**
DBP[2]	16.6.21	–	16,246	–	–	656	**16,902**
LTP	25.6.18	10,886	–	10,408	768	290	**–**
ShareBuy matching shares[3]	1.4.21 to 31.3.22	40	35	40	–	–	**35**
Subtotal		15,185	16,281	10,448	768	1,117	**21,367**
Shares subject to performance conditions at 31 March 2022							
LTP	28.6.19	10,186	–	–	–	411	**10,597**
LTP	30.11.20	58,722	–	–	–	2,372	**61,094**
LTP[4]	30.6.21	–	52,910	–	–	2,137	**55,047**
Subtotal		68,908	52,910	–	–	4,920	**126,738**
TOTAL		84,093	69,191	10,448	768	6,037	**148,105**

(1) Note that these are subject to performance conditions where applicable.

(2) See page 178 for further details.

(3) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant. During the year, Steve Mogford purchased 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,038.5 pence per share). Phil Aspin purchased 173 partnership shares and was awarded 35 matching shares (at an average share price of 1,038.8 pence per share).

(4) See page 180 for further details

Vesting of legacy share awards for former directors

Russ Houlden retired from the board and left the company in July 2020. In line with policy he retained a number of awards under the DBP and, as a 'good leaver', the LTP. On 1 April 2021, 49,356 shares arising from his 2016 LTP vested. On 18 June 2021, 34,157 shares arising from his 2018 DBP vested.

Steve Fraser left the board and company in August 2019. In line with policy he retained a number of awards under the DBP, and his outstanding LTP awards lapsed. On 18 June 2021, 25,509 shares arising from his 2018 DBP vested.

Corporate governance report

UK tax policies and objectives

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes including not taking advantage of any related secrecy rules which can apply to tax havens;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

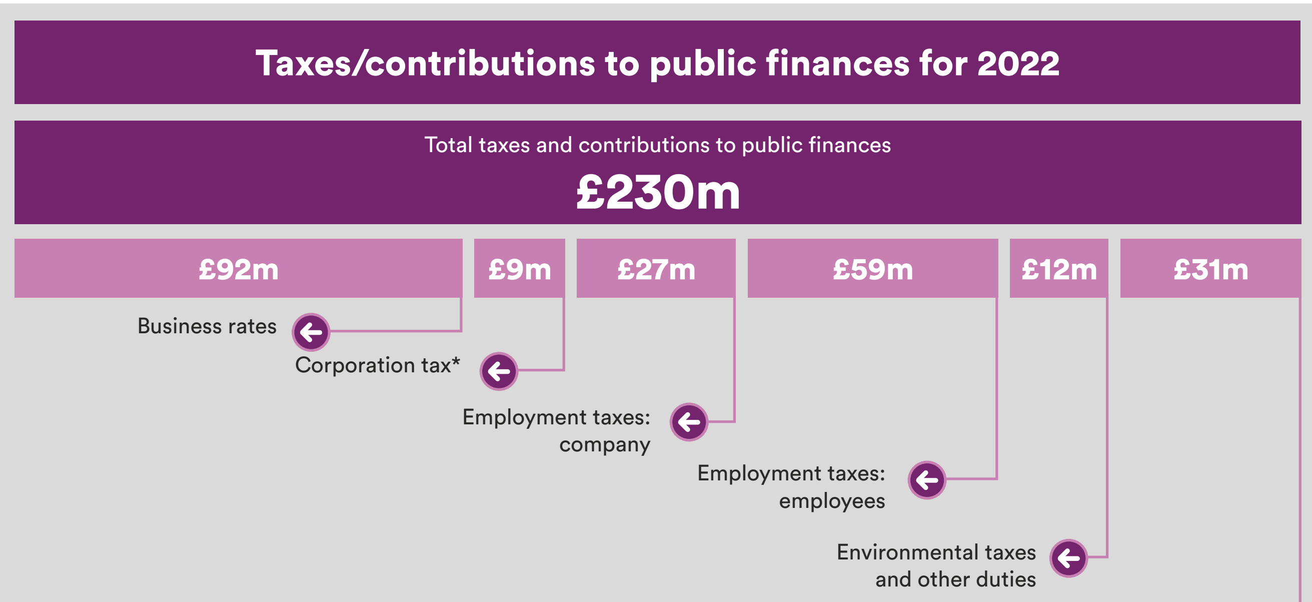
We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer (CFO) has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the head of tax.

The head of tax has day-to-day responsibility for managing the group's tax affairs and engages regularly with key stakeholders from around the group in ensuring that tax risk is proactively managed. Where appropriate, he will engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the group's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the group and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The group is committed to actively engaging with relevant authorities to manage any such risk.

In any given year, the group's effective cash tax rate on underlying profits may fluctuate from the standard UK rate mainly due to the available tax deductions on capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.



* The corporation tax paid for 2022 and 2023 will be lower due to benefits accruing from the temporary capital allowances super deductions rules introduced in 2021.

Under the regulatory framework the group operates within, the majority of any benefit from reduced tax payments will typically not be retained by the group but will pass to customers; reducing their bills. For 2021/22, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

The group's principal subsidiary, United Utilities Water Limited (UUW), operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK and the group's one remaining overseas subsidiary, a non-trading former holding company in the Netherlands, is currently in liquidation.

Every year, the group pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2022 of around £230 million are set out opposite.

The above tax policy disclosure meets the group's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2022.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders.

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

Fair Tax

Directors' report

Statutory and other information

Our directors present their management report, including the strategic report, on pages 16 to 109 and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2022.

Business model	A description of the company's business model can be found within the strategic report on pages 20 to 51.
Dividends	Our directors are recommending a final dividend of 29.0 pence per ordinary share for the year ended 31 March 2022, which, together with the interim dividend of 14.50 pence, gives a total dividend for the year of 43.50 pence per ordinary share (the interim and final dividends paid in respect of the 2020/21 financial year were 14.41 pence and 28.83 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, the final dividend will be paid on 1 August 2022 to shareholders on the register at the close of business on 24 June 2022.
Directors	The names of our directors who served during the financial year ended 31 March 2022 can be found on pages 112 to 115 and on page 124.
Reappointment	Our articles of association provide that our directors must retire at every annual general meeting following their last election or reappointment by our shareholders which is consistent with the recommendation contained within the 2018 UK Corporate Governance Code (the code) that all directors should be subject to annual election by shareholders. This has been the case at all the AGMs since 2011. Information regarding the appointment of our directors is included in our corporate governance report on pages 130 to 137.
Interests	Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 160 to 191 which is hereby incorporated by reference into this directors' report.
Corporate governance statement	The corporate governance report on pages 112 to 191 is hereby incorporated by reference into this directors' report and includes details of our application of the principles and reporting against the provisions of the code. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the 2018 version of the code, as applicable to the company for the year ended 31 March 2022, can be found at the Financial Reporting Council's website frc.org.uk. Copies of the matters reserved for the board and the terms of reference for each of the main board committees can be found on our website.
Share capital	At 31 March 2022, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of 5 pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 23 to the financial statements on page 235. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2022. All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets which are distributed in the event of a winding-up. Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2022 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company held on 21 July 2021, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non-pre-emptive basis to an aggregate nominal amount of £1,704,721.
Voting	Electronic and paper proxy appointment and voting instructions must be received by our registrars (EQ) no less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.
Transfers	There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save: (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers. There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.

Major shareholdings	At 25 May 2022, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:

	Per cent of issued share capital	Direct or indirect nature of holding
Lazard Asset Management LLC	9.93	Indirect
BlackRock Inc.	10.03	Indirect
Norges Bank	2.95	Direct

Purchase of own shares	At our AGM held on 21 July 2021, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of 5 pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2022 AGM, we will again seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of 5 pence each with such authority expiring at the end of our AGM held in 2023.
Change of control	As at 31 March 2022, Ocorian Corporate Services (UK) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust. In the event of a change of control, the participants in our all-employee share incentive plan (ShareBuy) would be able to direct the trustee of ShareBuy, Equiniti Share Plan Trustees Limited, how to act on their behalf.
Information required by UK Listing Rule 9.8.4	Details of the amount of interest capitalised by the group during the financial year can be found in note 6 to the financial statements on page 223. In line with current UK tax legislation, the amount is fully deductible against the group's corporation tax liability, resulting in tax relief of £5.8 million. There are no other disclosures to be made under Listing Rule 9.8.4.
Directors' indemnities and insurance	We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company maintains an appropriate level of directors' and officers' liability insurance.

Political donations	It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities 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, as well as occasional stakeholder engagement in Westminster. The group incurred expenditure of £15,834 (2021: £5,801; 2020: £23,627) as part of this process. At the 2021 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2022 AGM to authorise the company and its subsidiaries to make such expenditure. As the provider of services to seven 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 2021/22, we received 378 such MP contacts covering a wide variety of topics, including flooding, water supply and land management. 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 work events to discuss such issues in detail. Throughout the year, when COVID-19 guidelines allowed, we held face-to-face meetings with key MPs to discuss a number of topics, including river water quality, storm overflows and recreational land management. We engage regularly with the two devolved administrations in the North West – the Greater Manchester Combined Authority (GMCA) and the Liverpool City Region (LCR) – as well as the region's local authorities, on a range of topics of shared interest, such as tackling flooding risk and enhancing the North West's natural capital. Our sponsorship of the All Party Political Groups for GMCA and LCR helps bring MPs and peers of all parties together with key leaders to help maximise future investment in these area for the benefit of local communities. In addition, the company's activities to engage with political stakeholders on matters relevant to the water industry and its operating footprint of North West England extend to its membership of trade associations. This is described in the section below.
Trade associations	We are members of a small number of trade associations. Some have a national focus, such as Water UK, the representative body of the UK water industry, and the Confederation of British Industry. Others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the 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. Our total contribution to these associations in 2021/22 was £408,441 (2020/21:£420,403; 2019/20: £400,916). Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as Select Committees and Chairs of specific committees, to provide information on topics such as the performance of storm overflows in relation to river water quality. The company supported Water UK in its effort to engage the Government as the Environment Bill passed through its parliamentary stages, including preparation of the 21st century rivers report. 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 MPs and political stakeholders, such as local authorities and metro mayors, to explore how the business community can work more effectively with the public sector to drive economic growth in the region and tackle some of the North West's pressing social issues. For example, we have participated in discussions as part of the unlocking regional growth/levelling up agenda, and employee resilience and wellbeing.
Employees	Our policies on employee consultation and on equal opportunities for all employees can be found on pages 22 and 24. 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 page 30). The effect of our regard towards employees in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 40 to 41. Employees are encouraged to own shares in the company through the operation of an all employee share incentive plan (ShareBuy). Information on our average number of employees during the year can be found in note 3 on page 221.

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 16 to 17 and 22. Further information is available on our website at unitedutilities.com/corporate/responsibility Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on pages 29 to 35. The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 40 to 41.
Customers and suppliers and key stakeholders	Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on pages 29 to 35. 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 40 to 41. 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-supply-chain We are a signatory to the Prompt Payment Code. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis. For the six months to 31 March 2022, our average time taken to pay invoices was 13 days; in the previous six months it was 13 days.
Energy and carbon report	Our TCFD reporting includes our energy and carbon report on pages 86 to 97 and is hereby incorporated by reference into this directors' report.
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.
Financial instruments	Our risk management objectives and policies in relation to the use of financial instruments can be found in note A4 on page 242.
Events occurring after the reporting period	Details of events after the reporting period are included in note 25 on page 236.
Slavery and human trafficking statement	Our statement can be found on our website at unitedutilities.com/human-rights

Annual General Meeting
Our 2022 annual general meeting (AGM) will be held on 22 July. Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website.

At our 2022 AGM, resolutions will be proposed, among other matters:

- to receive the annual report and financial statements; to approve the directors' remuneration report; to approve the directors' remuneration policy; to declare a final dividend; and
- to approve the company's climate-related financial disclosures; to approve the directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; to approve a new directors' long-term plan; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

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

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

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

Approved by the board on 25 May 2022 and signed on its behalf by:

Simon Gardiner
Company Secretary

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of 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 UK-adopted international accounting standards;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

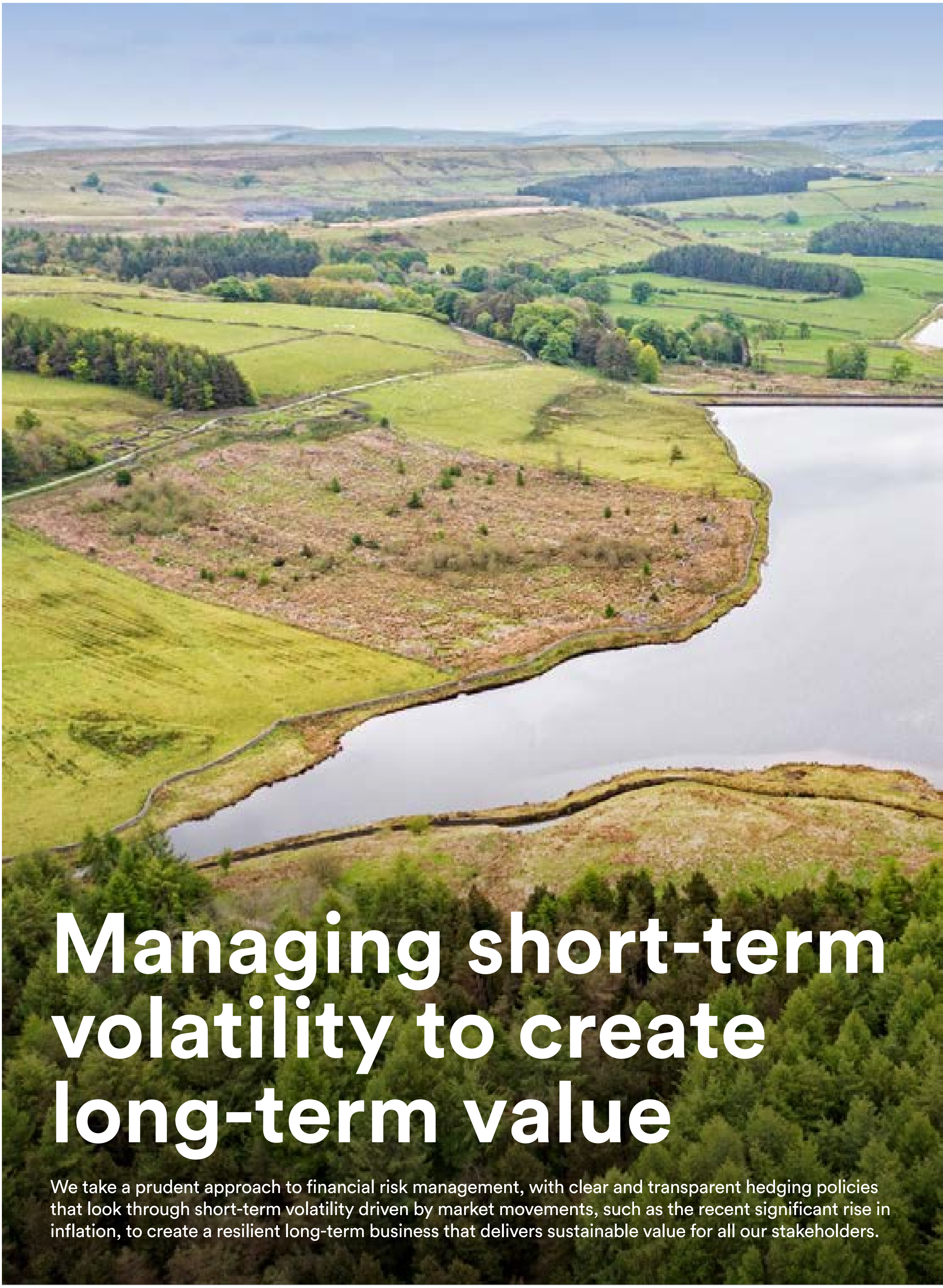
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes 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.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Approved by the board on 25 May 2022 and signed on its behalf by:

Sir David Higgins
Chair

Phil Aspin
Chief Financial Officer



Managing short-term volatility to create long-term value

We take a prudent approach to financial risk management, with clear and transparent hedging policies that look through short-term volatility driven by market movements, such as the recent significant rise in inflation, to create a resilient long-term business that delivers sustainable value for all our stakeholders.

Financial statements

Independent auditor's report to the members of United Utilities Group PLC only

1. Our opinion is unmodified

We have audited the financial statements of United Utilities Group PLC ('the company') for the year ended 31 March 2022 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 217 to 219 and 257 to 261.

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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 22 July 2011. The period of total uninterrupted engagement is for the 11 financial years ended 31 March 2022.

We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£16.5m (2021: £19.0m) 5.6% (2021: 4.1%) of normalised group profit before tax	
Coverage	100% (2021: 100%) of group profit before tax	
Key audit matters		**Change in risk vs 2021**
Recurring	Revenue recognition and allowance for customer debts	◀▶
	Capitalisation of costs relating to the capital programme	◀▶
	Valuation of retirement benefit obligations	◀▶
	Recoverability of parent company's investment in United Utilities PLC	◀▶

2. Key audit matters: our assessment of risks of material misstatements

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.

	The risk	Our response
Revenue recognition and provisions for household customer debt Revenue not recognised: £26.6 million (2021: £27.1 million) Provision for customer debts: £78.3 million (2021: £74.9 million) *Refer to page 151 (Audit committee report), pages 218 and 257 (accounting policy) and pages 220 and 229 to 230 (financial disclosures)*	**Subjective estimate:** At each balance sheet date: • 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 • assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables. 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, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (see accounting policies on page 218) disclose the sensitivity estimated by the group.	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. **Our procedures included:** • **Accounting analysis:** 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; • **Methodology choice:** 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; • **Sensitivity analysis:** considered the sensitivity of the key assumptions; and • **Assessing transparency:** 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. **Our results:** • We found the amount of the revenue recognised to be acceptable (2021: acceptable); and • We considered the level of doubtful debt provisioning to be acceptable (2021: acceptable).
Capitalisation of costs relating to the capital programme Property, plant and equipment additions: £728.5 million (2021: £677.5 million) *Refer to page 151 (Audit committee report), pages 218 to 219 and 258 (accounting policy) and pages 226 to 227 (financial disclosures)*	**Subjective classification:** 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. The determination of in-year project costs as capital or operating expenditure is inherently judgemental. 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 (see accounting policies on pages 218 to 219) disclose the sensitivity estimated by the group.	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. **Our procedures included:** • **Accounting analysis:** assessed the group's capitalisation policy for compliance with relevant accounting standards; • **Tests of details:** critically assessed the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspend, forecast cost to complete; and • **Assessing transparency:** assessed the adequacy of the group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital. **Our results:** • We found the group's classification of expenditure as capital or operating to be acceptable (2021: acceptable).

Independent auditor's report to the members of United Utilities Group PLC only

	The risk	Our response
Valuation of retirement benefit obligations £3,018.9 million (2021: £3,295.7 million) *Refer to page 151 (Audit committee report), pages 219 and 260 (accounting policy) and pages 232 to 233 and 250 to 255 (financial disclosures)*	**Subjective valuation:** 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. 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. 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 (see page 253) disclose the sensitivity estimated by the group.	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. **Our procedures included:** • **Our actuarial expertise:** 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; • **Methodology assessment:** used our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions; • **Assessing external actuary's credentials:** assessed competence and independence of the external actuary engaged by the group; and • **Assessing transparency:** 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 notes 18 and A5 to the financial statements. **Our results:** • We found the resulting estimate of the retirement benefit obligations to be acceptable (2021: acceptable).
Recoverability of parent company's investment in United Utilities PLC Investment in United Utilities PLC – £6,326.8 million (2021: £6,326.8 million) *Refer to page 257 (accounting policy), and page 229 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent company's investment in United Utilities PLC represents 100 per cent (2021: 99 per cent) 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 area that had the greatest effect on our overall parent company audit.	We performed the tests below rather than seeking to rely on any of the company's controls because testing for recoverability through detailed testing is inherently the most effective means of obtaining audit evidence. **Our procedures included:** • **Tests of detail:** compared the carrying amount of the investment with the draft balance sheet of United Utilities PLC to identify 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. **Our results:** • We found the group's assessment of the recoverability of the investment in United Utilities PLC to be acceptable (2021: acceptable).

In the previous year the capitalisation of overheads was included in the capitalisation of costs relating to the capital programme key audit matter. We continue to perform procedures over the capitalisation of overheads but we've excluded it from the key audit matter as the size of the balance is less significant than the judgement around the capitalisation of project costs.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £16.5 million (2021: £19.0 million), determined with reference to a benchmark of group profit before tax of £297.0 million, normalised to exclude this year's net fair value gains or losses on debt and derivative instruments as disclosed in note 6, of which it represents 5.6 per cent (2021: 4.1 per cent).

Materiality for the parent company financial statements as a whole was set at £8.5 million (2021: £9.0 million), determined with reference to a benchmark of company total assets, of which it represents 0.1 per cent (2021: 0.0 per cent).

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 per cent (2021: 75 per cent) of materiality for the financial statements as a whole, which equates to £12.3 million (2021: £14.2 million) for the group and £6.4 (2021: £6.7 million) 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 (2021: £0.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 34 (2021: 34) reporting components, we subjected five (2021: five) to full scope audits for group purposes and none (2021: one) to specified risk-focused audit procedures.

The components within the scope of our work accounted for the percentages illustrated opposite.

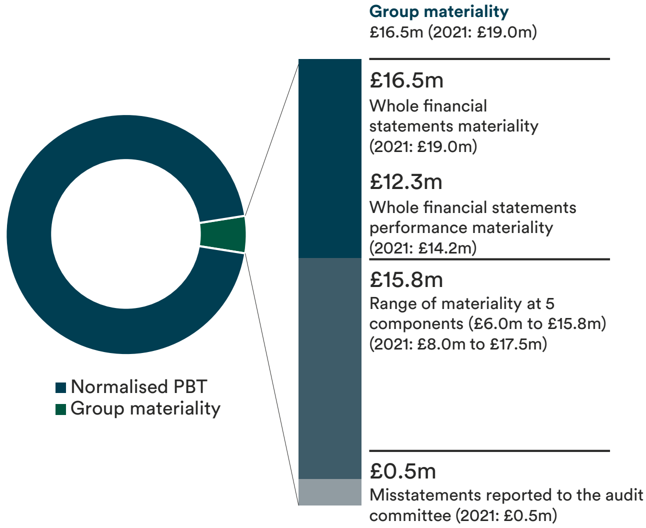
For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The group team approved the component materialities, which ranged from £6.0 million to £15.8 million (2021: £8.0 million to £17.5 million), having regard to the mix of size and risk profile of the group across the components. The work on all components, including the audit of the parent company, was performed by the group team.

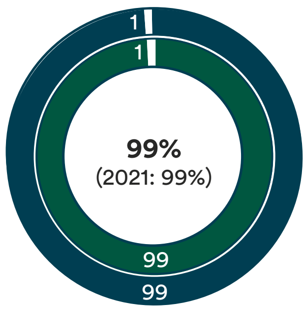
The scope of the audit work performed was predominately substantive as we placed limited reliance upon the group's internal control over financial reporting.

Normalised group profit before tax

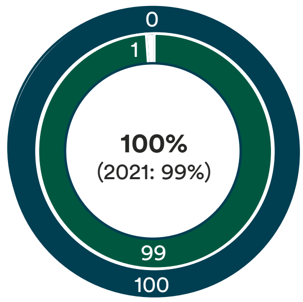
£297.0m (2021: £476.5m)



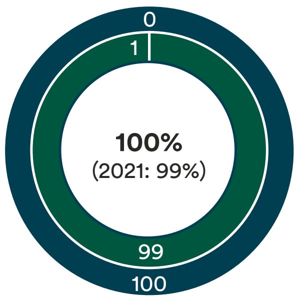
Group revenue



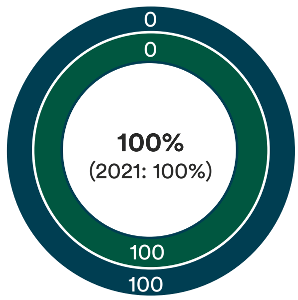
Group profit before tax



Group total assets



Group normalised profit before tax



- Full scope for group audit purposes 2022
- Specified risk-focused audit procedures 2022
- Full scope for group audit purposes 2021
- Specified risk-focused audit procedures 2021
- Residual components

Independent auditor's report to the members of United Utilities Group PLC only

4. The impact of climate change on our audit

We have considered the potential impacts of climate change on the financial statements as part of planning our audit.

The group has set out its climate targets in line with limiting global warming to 1.5°C by 2030, and to be climate net zero by 2050. The majority of the group's carbon emissions are from the burning of fossil fuels, fuels used for transport and the grid electricity purchased. The group continues to develop its assessment of climate change. Climate change initiatives impact the group in a variety of ways including opportunities and risks relating to renewable energy sources and extreme weather events. Further information is provided on pages 86 to 97. While the group has set out its targets, it is continually developing its assessment of the impact of climate change on capital expenditure, the cost base and impacts on cash flows. The group considered the impact of climate change and the group's targets in the preparation of the financial statements, including an evaluation of critical accounting estimates and judgements. The group concluded that this did not have a material effect on the consolidated financial statements, as described on page 219.

As part of our audit, we have made enquiries of directors and operational managers to understand the extent of the potential impact of climate change risks on the group's financial statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets.

We held discussions with our own climate change professionals to challenge our risk assessment. Taking into account the expected remaining useful lives of property, plant and equipment, and the nature of unquoted pension assets, we assessed that there is not a significant impact on our audit for this financial year. There was no significant impact of climate on our key audit matters.

We have read the group's disclosure of climate-related information in the front half of the annual report as set out on pages 86 to 97 and considered consistency with the financial statements and our audit knowledge.

5. 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 a one-off total expenditure 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; and
- **Assessing the completeness and accuracy of the matters covered in the going concern disclosure:** considering whether the going concern disclosure in the accounting policies to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- 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;
- we have nothing material to add or draw attention to in relation to the directors' statement in the accounting policies to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and company's use of that basis for the going concern period, and we found the going concern disclosure in the accounting policies to be acceptable; and
- the related statement under the Listing Rules set out on page 140 is materially consistent with the financial statements and our audit knowledge.

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.

6. Fraud and breaches of laws and regulations – 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/audit committee minutes; and
- 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 and capitalisation of costs relating to the capital programme. Further detail in respect of the above accounting estimates and judgements is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue, capitalised costs and treasury posted to unexpected or unrelated accounts; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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.

7. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent auditor's report to the members of United Utilities Group PLC only

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the long-term viability statement on pages 140 to 141 that they have carried out a robust assessment of the emerging and principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the long-term viability statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities, including any related disclosures drawing liabilities, as they fall due over the period of their assessment drawing attention to any necessary qualifications or assumptions.

We are also required to review the long-term viability statement, set out on pages 140 to 141, under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. 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 absence of anything to report on these statements is not a guarantee as to the group's and company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit committee, including the significant issues that the Audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. 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 and the part of the Directors' remuneration report to be audited 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.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 198, 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.

The company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Griffiths
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square, Manchester, M2 3AE
25 May 2022

Consolidated income statement for the year ended 31 March

	Note	2022 £m	2021 £m
Revenue	2	**1,862.7**	1,808.0
Staff costs	3	**(184.3)**	(173.4)
Other operating costs	4	**(461.7)**	(420.3)
Allowance for expected credit losses – trade and other receivables	4	**(23.4)**	(28.7)
Other income	4	**4.4**	3.6
Depreciation and amortisation expense	4	**(418.2)**	(422.3)
Infrastructure renewals expenditure		**(169.5)**	(164.8)
Total operating expenses		**(1,252.7)**	(1,205.9)
Operating profit		**610.0**	602.1
Investment income	5	**19.4**	25.0
Finance expense	6	**(187.8)**	(107.2)
Allowance for expected credit losses – loans to joint ventures	A6	**0.1**	3.7
Investment income and finance expense		**(168.3)**	(78.5)
Share of losses of joint ventures	12	**(1.8)**	(9.3)
Profit on disposal of joint venture	12	**–**	36.7
Profit before tax		**439.9**	551.0
Current tax credit/(charge)	7	**65.8**	(79.2)
Deferred tax charge	7	**(562.5)**	(18.4)
Tax	7	**(496.7)**	(97.6)
(Loss)/profit after tax		**(56.8)**	453.4
Earnings per share			
Basic	8	**(8.3)p**	66.5p
Diluted	8	**(8.3)p**	66.3p
Dividend per ordinary share	9	**43.50p**	43.24p

All of the results shown above relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 March

	2022 £m	2021 £m
(Loss)/profit after tax	**(56.8)**	453.4
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges – effective portion of fair value movements	**106.7**	9.3
Tax on items recorded within other comprehensive income	**(26.8)**	(1.8)
Foreign exchange adjustments	**–**	(1.6)
Foreign exchange adjustments reclassified to profit on disposal of joint ventures	**–**	4.0
Other comprehensive income that may be reclassified to profit or loss	**79.9**	9.9
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains/(losses) on defined benefit pension schemes	**313.6**	(82.7)
Change in credit assumptions for debt reported at fair value through profit or loss	**(4.1)**	(43.3)
Cost of hedging – cross-currency basis spread adjustment	**–**	(12.7)
Deferred tax adjustments in respect of prior years on net fair value gains	**–**	–
Tax on items recorded within other comprehensive income	**(109.4)**	36.6
Other comprehensive income that will not be reclassified to profit or loss	**200.1**	(102.1)
Total comprehensive income	**223.2**	361.2

Consolidated and company statements of financial position at 31 March

	Note	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	**12,147.5**	11,799.0	**–**	–
Intangible assets	11	**160.8**	181.1	**–**	–
Interests in joint ventures and other investments	12	**16.6**	0.1	**6,326.8**	6,326.8
Inventories	13	**0.4**	–	**–**	–
Trade and other receivables	14	**81.7**	86.7	**75.0**	–
Retirement benefit surplus	18	**1,016.8**	689.0	**–**	–
Derivative financial instruments	A4	**399.4**	410.3	**–**	–
		13,823.2	13,166.2	**6,401.8**	6,326.8
Current assets					
Inventories	13	**17.8**	18.3	**–**	–
Trade and other receivables	14	**222.7**	229.2	**20.2**	91.9
Current tax asset		**74.4**	6.9	**–**	–
Cash and short-term deposits	15	**240.9**	744.1	**–**	–
Derivative financial instruments	A4	**58.0**	14.4	**–**	–
		613.8	1,012.9	**20.2**	91.9
Total assets		**14,437.0**	14,179.1	**6,422.0**	6,418.7
LIABILITIES					
Non-current liabilities					
Trade and other payables	21	**(835.2)**	(798.3)	**–**	–
Borrowings	16	**(7,671.0)**	(7,797.0)	**(1,799.9)**	(1,780.6)
Deferred tax liabilities	19	**(2,148.1)**	(1,449.5)	**–**	–
Derivative financial instruments	A4	**(136.7)**	(107.8)	**–**	–
		(10,791.0)	(10,152.6)	**(1,799.9)**	(1,780.6)
Current liabilities					
Trade and other payables	21	**(365.8)**	(322.7)	**(13.1)**	(10.8)
Borrowings	16	**(308.8)**	(654.8)	**–**	–
Provisions	20	**(13.5)**	(11.1)	**–**	–
Derivative financial instruments	A4	**(0.5)**	(6.9)	**–**	–
		(688.6)	(995.5)	**(13.1)**	(10.8)
Total liabilities		**(11,479.6)**	(11,148.1)	**(1,813.0)**	(1,791.4)
Total net assets		**2,957.4**	3,031.0	**4,609.0**	4,627.3
EQUITY					
Share capital	23	**499.8**	499.8	**499.8**	499.8
Share premium account		**2.9**	2.9	**2.9**	2.9
Other reserves	22	**416.2**	336.3	**1,033.3**	1,033.3
Retained earnings		**2,038.5**	2,192.0	**3,073.0**	3,091.3
Shareholders' equity		**2,957.4**	3,031.0	**4,609.0**	4,627.3

These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 25 May 2022 and signed on its behalf by:

Steve Mogford
Chief Executive Officer

Phil Aspin
Chief Financial Officer

Consolidated statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
At 1 April 2021	**499.8**	**2.9**	**336.3**	**2,192.0**	**3,031.0**
Loss after tax	**–**	**–**	**–**	**(56.8)**	**(56.8)**
Other comprehensive income					
Remeasurement gains on defined benefit pension schemes (see note 18)	**–**	**–**	**–**	**313.6**	**313.6**
Change in credit assumption for debt reported at fair value through profit or loss	**–**	**–**	**–**	**(4.1)**	**(4.1)**
Cash flow hedges – effective portion of fair value movements	**–**	**–**	**106.7**	**–**	**106.7**
Tax on items recorded within other comprehensive income (see note 7)	**–**	**–**	**(26.8)**	**(109.4)**	**(136.2)**
Total comprehensive income	**–**	**–**	**79.9**	**143.3**	**223.2**
Dividends (see note 9)	**–**	**–**	**–**	**(295.5)**	**(295.5)**
Equity-settled share-based payments (see note 3)	**–**	**–**	**–**	**4.8**	**4.8**
Purchase of shares to satisfy exercise of share options	**–**	**–**	**–**	**(6.1)**	**(6.1)**
At 31 March 2022	**499.8**	**2.9**	**416.2**	**2,038.5**	**2,957.4**

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
At 1 April 2020	499.8	2.9	336.7	2,122.7	2,962.1
Profit after tax	–	–	–	453.4	453.4
Other comprehensive income					
Remeasurement gains 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 hedges – effective portion of fair value movements	–	–	9.3	–	9.3
Cost of hedging – cross-currency basis spread adjustment	–	–	(12.7)	–	(12.7)
Tax on items recorded within other comprehensive income (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
Total comprehensive income	–	–	(0.4)	361.6	361.2
Dividends (see note 9)	–	–	–	(291.9)	(291.9)
Equity-settled share-based payments (see note 3)	–	–	–	3.6	3.6
Purchase of shares to satisfy exercise of share options	–	–	–	(4.0)	(4.0)
At 31 March 2021	499.8	2.9	336.3	2,192.0	3,031.0

* Other reserves comprise the group's cumulative exchange reserve, capital redemption reserve, merger reserve, cost of hedging reserve and cash flow hedging reserve. Further detail of movements in these reserves is included in note 22.

Company statement of changes in equity for the year ended 31 March

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021	**499.8**	**2.9**	**1,033.3**	**3,091.3**	**4,627.3**
Profit after tax	**–**	**–**	**–**	**278.5**	**278.5**
Total comprehensive income	**–**	**–**	**–**	**278.5**	**278.5**
Dividends (see note 9)	**–**	**–**	**–**	**(295.5)**	**(295.5)**
Equity-settled share-based payments (see note 3)	**–**	**–**	**–**	**4.8**	**4.8**
Purchase of shares to satisfy exercise of share options	**–**	**–**	**–**	**(6.1)**	**(6.1)**
At 31 March 2022	**499.8**	**2.9**	**1,033.3**	**3,073.0**	**4,609.0**

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020	499.8	2.9	1,033.3	3,105.1	4,641.1
Profit after tax	–	–	–	278.5	278.5
Total comprehensive income	–	–	–	278.5	278.5
Dividends (see note 9)	–	–	–	(291.9)	(291.9)
Equity-settled share-based payments (see note 3)	–	–	–	3.6	3.6
Purchase of shares to satisfy exercise of share options	–	–	–	(4.0)	(4.0)
At 31 March 2021	499.8	2.9	1,033.3	3,091.3	4,627.3

At 31 March 2022, 31 March 2021 and 31 March 2020, the company's entire retained earnings balance was distributable to shareholders.

The company's other reserves comprise a capital redemption reserve that arose as a result of a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009.

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The result of the company for the financial year was a profit after tax of £278.5 million (2021: £278.5 million).

Consolidated and company statements of cash flows for the year ended 31 March

		Group		Company	
	Note	2022 £m	2021 £m	2022 £m	2021 £m
Operating activities					
Cash generated from operations	A1	**1,061.6**	1,037.2	**301.2**	296.0
Interest paid		**(121.9)**	(136.7)	**(19.7)**	(28.9)
Interest received and similar income		**3.6**	7.4	**–**	–
Tax paid		**(8.9)**	(75.4)	**–**	–
Tax received		**–**	26.9	**–**	6.2
Net cash generated from operating activities		**934.4**	859.4	**281.5**	273.3
Investing activities					
Purchase of property, plant and equipment	A1	**(609.0)**	(610.4)	**–**	–
Purchase of intangible assets	A1	**(19.5)**	(33.6)	**–**	–
Grants and contributions received	21	**1.8**	5.0	**–**	–
Extension of loans to joint ventures	A6	**(13.0)**	(2.0)	**–**	–
Dividends received from joint ventures	12	**–**	6.4	**–**	–
Proceeds from disposal of investments	12	**–**	85.3	**–**	–
Net cash used in investing activities		**(639.7)**	(549.3)	**–**	–
Financing activities					
Proceeds from borrowings net of issuance costs		**173.7**	909.7	**20.1**	23.4
Repayment of borrowings		**(681.8)**	(703.5)	**–**	–
Dividends paid to equity holders of the company	9	**(295.5)**	(291.9)	**(295.5)**	(291.9)
Purchase of shares to satisfy exercise of share options		**(6.1)**	(4.0)	**(6.1)**	(4.0)
Net cash used in financing activities		**(809.7)**	(89.7)	**(281.5)**	(272.5)
Effects of exchange rate changes		**1.5**	–	**–**	–
Net (decrease)/increase in cash and cash equivalents		**(513.5)**	220.4	**–**	0.8
Cash and cash equivalents at beginning of the year		**733.6**	513.2	**–**	(0.8)
Cash and cash equivalents at end of the year	15	**220.1**	733.6	**–**	–

Guide to detailed financial statements disclosures

In the interest of providing clear and relevant information to the users of our financial statements we have included summary information within the notes to the financial statements, with additional detailed information included in appendices where required. These notes and appendices can be grouped as follows:

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 the requirements of the Companies Act 2006, and with UK-adopted international accounting standards. They have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers, and the revaluation of infrastructure assets to fair value on transition to IFRS.

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results, ultimately, may differ from these estimates.

The financial statements have been prepared on the going concern basis as the directors have a reasonable expectation that the group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting the directors have reviewed the resources available to the group in the form of cash and committed facilities as well as consideration of the group's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate, including high levels of inflation in the near term. 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 amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact 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 indicate that the group will be able to operate within the amounts and terms (including relevant covenants) of existing facilities. The financial statements have therefore been prepared on a going concern basis.

Adoption of new and revised standards

There were no new standards, interpretations and amendments, effective for the year ended 31 March 2022, that were relevant to the group or would have a material impact on the group's financial statements, or that were not early adopted in previous years.

'Phase II' – 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 II' IBOR Reform). The group chose to early-adopt the Phase II reforms for the year ended 31 March 2021, though this has had no impact on the financial statements for the year then ended.

The group also subscribed to the ISDA 2020 IBOR fallbacks protocol in the previous financial year, with these protocols embedding fallback provisions into the group's interest rate derivative contracts enabling a contractual replacement of LIBOR as a benchmark with SONIA. All of the group's derivative counterparties subscribed to the protocol and from 1 January 2022 the group's derivative portfolio transitioned from referencing LIBOR to referencing SONIA as the underlying floating interest rate.

As part of the transition, where applicable, the group has applied 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.

On 31 December 2021, the group had a balance of £501.6 million loan instruments, along with an additional £800.0 million of undrawn committed facilities that transitioned away from referencing LIBOR as the floating benchmark rate.

Derivatives with a notional value of £5,166.0 million also transitioned on this date, with this figure being inclusive of £2,117.8 million notional value of derivatives designated within fair value hedge relationships. Immaterial hedge effectiveness was recorded in the group's income statement through the transition as a result of maintaining economic equivalence within the fair value hedge relationships.

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.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies set out in note A7, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the carrying amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented. Changes to these estimates, judgements and assumptions could have a material effect on the financial statements.

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. As estimates carry with them an inherent level of uncertainty, the group performs sensitivity analysis where this is practicable and where, in management's opinion, it provides useful and meaningful information. This sensitivity analysis is performed to understand a range of outcomes that could be considered reasonably possible based on experience and the facts and circumstances associated with individual areas of the financial statements that are subject to estimates. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

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 as reported in accordance with IFRS, including specific considerations in light of current economic circumstances such as the cost of living experienced by customers.

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, but has previously had bills de-recognised and has more than their current year debt outstanding.

This two-criteria approach resulted in a £26.6 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 disapplied), the required adjustment to revenue would have been £12.4 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, among other things, a consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At 31 March 2022, an allowance for expected credit losses relating to household customer debt of £78.3 million was supported by a six-year cash collection projection. Based on a five-year or seven-year cash collection projection the allowance for doubtful receivables would have increased by £1.1 million or reduced by £0.5 million respectively.

Since early 2020, the group's expected credit loss assessment in respect of trade receivables has been significantly impacted by the economic uncertainty brought about as a result of the COVID-19 pandemic. Whilst economic uncertainty linked to the COVID-19 pandemic has receded somewhat during the year ended 31 March 2022, with households and businesses adjusting to a new post-pandemic norm, a high level of economic uncertainty remains due largely to increases in the cost of living during the year and that are forecast to continue in the near future. This could have a significant impact on many of the group's customers that could in turn affect the ability of some customers to pay their bills.

In recognition of this ongoing future uncertainty, the basis on which the allowance for expected credit losses covering the group's household customer base is assessed has been updated during the year. Whereas in the prior year the allowance for expected credit losses was determined based on the assumption that cash collection experienced over the last two years continues into the future, this would no longer be expected to give a reasonable view of cash collection risk. This is because cash collection for the year has performed strongly and therefore may overstate future cash collection forecasts when considering the current economic climate, while cash collection for the year ended 31 March 2021 was impacted by the COVID-19 pandemic and resulted in much lower levels of cash collection than might be expected on an ongoing basis.

In light of this, a longer run four-year average of cash collection has been modelled and is deemed to give a more realistic forecast for future collection taking into account all of the above factors, including expected increases in the cost of living. This assumption supports the reported household bad debt charge of 1.8 per cent of household revenue. Had future cash collection been assessed based on the average cash collection during the current year only, the bad debt charge would have been 1.6 per cent of household revenue resulting in a reduction in the charge of £2.7 million, with similar results based on using average cash collection from the last two or last three years. If average cash collection from the prior year only was used the bad debt charge would have been 2.0 per cent of household revenue resulting in an increase in the charge of £3.4 million. Consideration of this range of reasonably possible scenarios indicates that, based on current levels of economic uncertainty, the allowance for expected credit losses is within a reasonable range, and that a longer run four year average results in a balanced position in light of current levels of uncertainty.

Accounting estimate – United Utilities Water Limited raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For household water and wastewater customers with water meters, the receivable billed is dependent on the volume supplied, including the sales value of an estimate of the units supplied between the dates of the last water meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined.

Revenue recognised for unbilled amounts for these customers at 31 March 2022 was £145.8 million. Had actual consumption been 5 per cent higher or lower than the estimate of units supplied, this would have resulted in revenue recognised for unbilled amounts being £5.0 million higher or lower respectively. For customers who do not have a meter, the receivable billed and revenue recognised is dependent on the rateable value of the property as assessed by an independent rating officer.

Property, plant and equipment

Accounting judgement – The group recognises property, plant and equipment (PP&E) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period as incurred. Determining enhancement from maintenance expenditure requires an accounting judgement, particularly when projects have both elements within them. Enhancement spend was 57 per cent of total spend in relation to infrastructure assets during the year. A change of +/- 1 per cent would have resulted in £3.9 million less/more expenditure being charged to the income statement during the period. In addition, management capitalises time and resources incurred by the group's support functions on capital programmes, which requires accounting judgements to be made in relation to the appropriate capitalisation rates. Support costs allocated to PP&E represent 40 per cent of total support costs. A change in allocation of +/- 5 per cent would have resulted in £2.3 million less/more expenditure being charged to the income statement during the period.

Accounting estimate – The estimated useful economic lives of PP&E and intangible assets is based on management's experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PP&E and intangibles investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively. As such, this is a key source of estimation uncertainty. The depreciation and amortisation expense for the year was £418.2 million. A 10 per cent increase in average asset lives would have resulted in a £38.2 million reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £41.6 million increase in this figure.

Retirement benefits

Accounting estimate – The group operates two defined benefit pension schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note A5.

Accounting estimate – Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £271.7 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 2022. 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 that 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.

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. This can result in the acceleration of depreciation of assets that are deemed to be commercially obsolete or for which no further use is planned, in part as a result of the group's decarbonisation strategy. In recent years this has resulted in material accelerations in respect of bioresources facilities impacted by changes in environmental legislative requirements. No further material accelerations were required in the current financial year, however this is subject to continuous assessment.

The group is exposed to potential asset write-downs following flooding resulting from extreme weather events, the frequency of which are expected to increase as the effects of climate change become more apparent. Following large-scale flooding, items are identified that have been damaged beyond repair and require immediate accounting write-downs. No such charges were required in the current financial year.

In addition to the risks posed by an increased likelihood of large-scale flooding events in future years, climate change also presents challenges relating to prolonged periods of hot and dry weather, the frequency of which is expected to increase. This could potentially impact the viability of certain types of assets in future years such as those associated with the intake of water from the natural environment, or require a strategic reconfiguration of assets to respond to such challenges. It is expected that if any such impact were to materialise this would be over a longer period of time rather than within a single financial year, and no financial impact has been identified in the current year.

In recent years the group has sought to further enhance the accuracy of its useful life assessments through the introduction of more forward-looking information in asset life reviews. This includes the use of disposal data to identify trends that may inform the group's view of useful lives into the future. This information is used alongside other decommissioning data and data from strategic asset planning systems to inform useful asset lives.

The group mitigates the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios, climate change mitigation pledges, and long-term climate projections. The group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets.

Notes to the financial statements

1 Segmental reporting

The board of directors of United Utilities Group PLC (the board) is provided with information on a single-segment basis for the purposes of assessing performance and allocating resources. The group's performance is measured against financial and operational key performance indicators which align with its three strategic themes to deliver the best service to customers, at the lowest sustainable cost, in a responsible manner. The board reviews revenue, operating profit and gearing, along with operational drivers at a consolidated level (see pages 50 to 83). In light of this, the group has a single segment for financial reporting purposes.

2 Revenue

The group's revenue arises from the provision of services within the United Kingdom.

	2022 £m	2021 £m
Wholesale water charges	**776.5**	751.0
Wholesale wastewater charges	**946.3**	941.5
Household retail charges	**68.9**	64.1
Other	**71.0**	51.4
	1,862.7	1,808.0

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

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

Other revenues comprise a number of smaller non-core income streams, including those relating to energy generation and export, property sales, 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

	2022 £m	2021 £m
Fees to non-executive directors	**0.8**	0.8
Salaries	**1.2**	1.2
Benefits	**0.3**	0.2
Bonus	**0.7**	0.7
Share-based payment charge	**1.8**	1.7
	4.8	4.6

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the Directors' remuneration report on pages 166 to 182.

Remuneration of key management personnel

	2022 £m	2021 £m
Salaries and short-term employee benefits	**6.2**	6.3
Share-based payment charge	**2.6**	3.0
	8.8	9.3

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

3 Directors and employees continued

Staff costs (including directors)

Group	2022 £m	2021 £m
Wages and salaries[1][2]	**302.9**	275.0
Employee-related taxes and levies	**28.2**	25.2
Severance	**0.4**	1.3
Post-employment benefits:		
Defined benefit pension expense (see note 18)	**9.6**	8.5
Defined contribution pension expense (see note 18)	**26.1**	23.4
	367.2	333.4
Charged to other areas including regulatory capital schemes[2]	**(182.9)**	(160.0)
Staff costs	**184.3**	173.4

Notes:
(1) Wages and salaries excluding non-permanent staff was £260.3 million (2021: £240.4 million).
(2) In order to give a clearer view of the group's total staff costs, wages and salaries and amounts charged to other areas including regulatory capital schemes now include the costs of non-permanent staff who have worked for the group, whose costs were previously included within hired and contracted services presented within other operating costs. Accordingly, these amounts for the year ended 31 March 2021 have been re-presented to show information on a consistent basis, which has resulted in an increase in staff costs and a reduction in the costs of hired and contracted services of £11.6 million compared with what was presented in the financial statements published for that year.

Included within staff costs were £0.4 million (2021: £1.9 million) of restructuring costs.

The total expense included within staff costs in respect of equity-settled share-based payments was £4.8 million (2021: £3.6 million). The company operates several share option schemes, details of which are given on pages 166 to 182 in the Directors' remuneration report.

Average number of staff employed by the group during the year (full-time equivalent including directors):

	2022 number	2021 number
Average number of staff employed by the group during the year	**5,728**	5,354

Company

The company has no staff.

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:

	2022 £m	2021 £m
Other operating costs		
Power	**99.6**	83.6
Hired and contracted services[1]	**95.4**	84.7
Materials	**90.8**	82.2
Property rates	**90.5**	89.4
Regulatory fees	**28.4**	28.0
Insurance	**16.9**	13.1
Accrued innovation costs	**5.9**	6.2
Loss on disposal of property, plant and equipment	**3.9**	10.7
Cost of properties disposed	**3.0**	2.6
Other expenses	**27.3**	19.8
	461.7	420.3
Allowance for expected credit losses – trade and other receivables		
Allowance for expected credit losses – trade and other receivables (see note 14)	**23.4**	28.7
	23.4	28.7
Other income		
Other income	**(4.4)**	(3.6)
	(4.4)	(3.6)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment (see note 10)	**377.0**	379.8
Amortisation of other intangible assets (see note 11)	**41.2**	42.5
	418.2	422.3

Note:

(1) As explained in note 3, costs associated with non-permanent staff that were previously included within hired and contracted services are now included within staff costs. Accordingly, the prior year non-permanent staff costs included within hired and contracted services presented within other operating costs in the prior year have also been re-presented. This resulted in an increase in staff costs and a reduction in the costs of hired and contracted services of £11.6 million compared with what was presented in the financial statements published for that year.

During the year ended 31 March 2022, the group experienced inflationary pressures across much of its operating cost base. This was most notable in relation to power costs, which increased by £16.0 million compared with the prior year, largely due to price increases. Through its progressive hedging policy the group was able to lock in the commodity price on the majority of its consumption for the year ended 31 March 2022 before the most recent energy price rises, and therefore secured an average rate over the year of £78 per MWh. This compares favourably with the market rate of over £200 per MWh as at the year end reporting date and has been fundamental to the group's ability to minimise the impact of price rises on its cost base.

Incremental costs totalling £5.8 million have been incurred during the year in relation to the implementation of Software as a Service (SaaS) arrangements, which are increasingly expected to be recognised within operating costs in accordance with clarifications on the appropriate accounting treatment issued by the IFRS Interpretations Committee (IFRIC) during the year. The majority of SaaS implementation costs in previous years have been accounted for as intangible asset additions. These prior year amounts have not been restated to reflect the group's updated approach as they are not material.

Research and development expenditure for the year ended 31 March 2022 was £1.2 million (2021: £1.0 million). In addition, £5.9 million (2021: £6.2 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses directly offset amounts recognised in revenue during each year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

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

	2022 £'000	2021 £'000
Audit services		
Statutory audit – group and company	**169**	170
Statutory audit – subsidiaries	**506**	508
	675	678
Non-audit services		
Regulatory audit services provided by the statutory auditor	**64**	71
Other non-audit services	**116**	120
Total audit and non-audit services	**855**	869

5 Investment income

	2022 £m	2021 £m
Interest receivable on short-term bank deposits held at amortised cost	**1.3**	2.7
Interest receivable on loans to joint ventures held at amortised cost (see note A6)	**2.8**	3.7
Net pension interest income (see note 18)	**14.3**	17.5
Other interest receivable	**1.0**	1.1
	19.4	25.0

6 Finance expense

	2022 £m	2021 £m
Interest payable		
Interest payable on borrowings held at amortised cost(1)	**330.7**	181.7
	330.7	181.7
Fair value (gains)/losses on debt and derivative instruments		
Fair value hedge relationships:		
Borrowings(2)	**(199.4)**	(155.1)
Designated swaps(2)(3)	**194.0**	132.8
	(5.4)	(22.3)
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss(4)	**(7.9)**	(67.3)
Associated swaps	**9.7**	67.8
	1.8	0.5
Fixed interest rate swaps(5)	**(139.7)**	(36.0)
Net receipts on derivatives and debt under fair value option	**(31.5)**	(17.6)
Inflation swaps(5)	**29.7**	3.4
Other	**2.2**	(2.5)
	(139.3)	(52.7)
Net fair value gains on debt and derivative instruments(6)	**(142.9)**	(74.5)
	187.8	107.2

Notes:
(1) Includes a £227.9 million (2021: £52.6 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.6 million (2021: £1.8 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
(2) Includes foreign exchange losses of £4.3 million (2021: £43.9 million gains). These gains/losses are largely offset by fair value losses/gains on derivatives.
(3) Under the provisions of IFRS 9 'Financial Instruments', a £1.8 million gain (2021: £12.7 million loss) 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 nil gain or loss (2021: £43.3 million loss) due to changes in the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.
(5) These swap contracts are not designated within an IFRS 9 hedge relationship and are classed as 'held for trading' under the accounting standard. These derivatives form economic hedges and, as such, management intends to hold these through to maturity.
(6) Includes £33.2 million income (2021: £21.5 million) due to net interest on derivatives and debt under fair value option and £28.3 million expense (2021: £1.3 million expense) due to non-cash inflation uplift on index-linked derivatives. Fair value movements excluding this net income are deducted to reach underlying finance expense, which forms part of the group's alternative performance measures (APMs) as set out on pages 82 to 83.

Interest payable is stated net of £52.7 million (2021: £30.4 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and intangible assets during the year. This has been calculated by applying an average capitalisation rate of 4.2 per cent (2021: 2.3 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

Underlying finance expense, which forms part of the group's APMs set out on pages 82 to 83, is calculated by adjusting net finance expense and investment income of £168.3 million (2021: £78.5 million) reported in the income statement to exclude the £138.0 million of fair value gains (2021: £54.3 million fair value gains) on debt and derivative instruments in the above table.

7 Tax

	2022 £m	2021 £m
Current tax		
UK corporation tax	**6.7**	79.8
Adjustments in respect of prior years	**(72.5)**	(0.6)
Total current tax (credit)/charge for the year	**(65.8)**	79.2
Deferred tax		
Current year	**92.9**	20.2
Adjustments in respect of prior years	**66.9**	(1.8)
	159.8	18.4
Change in tax rate	**402.7**	–
Total deferred tax charge for the year	**562.5**	18.4
Total tax charge for the year	**496.7**	97.6

The deferred tax charge of £402.7 million (2021: nil) reflects the Government's planned increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023.

The adjustments in respect of prior years mainly relate to optimising the available research and development UK tax allowances on our innovation related expenditure, for multiple prior years.

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:

	2022 £m	2022 %	2021 £m	2021 %
Profit before tax	**439.9**		551.0	
Tax at the UK corporation tax rate	**83.6**	**19.0**	104.7	19.0
Deferred tax rate adjustment	**22.3**	**5.1**	–	–
Adjustments in respect of prior years	**(5.6)**	**(1.3)**	(2.4)	(0.4)
Change in tax rate	**402.7**	**91.5**	–	–
Net income not taxable	**(6.3)**	**(1.4)**	(4.7)	(0.9)
Total tax charge and effective tax rate for the year	**496.7**	**112.9**	97.6	17.7

The deferred tax rate adjustment reflects the fact that the current year deferred tax charge is at the future tax rate of 25 per cent, rather than the 19 per cent current year rate.

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

	2022 £m	2021 £m
Profit before tax	**439.9**	551.0
Profit before tax multiplied by the standard rate of UK corporation tax of 19%	**83.6**	104.7
Relief for capital allowances in place of depreciation	**(108.0)**	(78.6)
Disallowance of depreciation charged in the accounts	**68.8**	70.0
Adjustments to tax charge in respect of prior years	**(72.5)**	(0.6)
Financial transactions timing differences	**(26.9)**	(7.8)
Pension timing differences	**(3.9)**	–
Relief for capitalised interest	**(10.0)**	(5.8)
Other timing differences	**2.0**	2.0
Joint ventures net losses	**0.3**	1.8
Profit on disposal of joint venture	**–**	(7.0)
Income not taxable	**(9.1)**	(1.8)
Depreciation charged on non-qualifying assets	**2.5**	2.3
Current year tax losses carry forward	**7.4**	–
Current tax (credit)/charge for the year	**(65.8)**	79.2

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

7 Tax continued

The current year net timing differences in relation to capital spend, i.e. capital allowances less depreciation, was higher than the prior year mainly due to the temporary super-deductions introduced in 2021.

The adjustments to tax charge in respect of prior years of £72.5 million mainly relates to optimising the available research and development UK tax allowances on our innovation-related expenditure, for multiple prior years.

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

The current year pension timing differences was higher than the prior year mainly due to the required accounting reallocation to equity of £3.3 million in the prior year, due to there being a prior year actuarial loss.

The relief for capitalised interest relates to amounts which are immediately deductible under the UK tax rules notwithstanding the amounts being capitalised for accounting purposes. The year-on-year amount will depend on the amount capitalised.

Other timing differences includes a range of small value items where there is a timing difference between the accounting and tax recognition.

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

The increase in income not taxable is mainly due to the additional 30 per cent element of the temporary capital allowances super-deductions introduced in 2021.

Depreciation charged on non-qualifying assets relates to accounting depreciation where there is no corresponding tax deduction.

Where permitted under HMRC rules, any available UK tax losses will be carried forward and utilised in future periods, when the tax rate is at 25 per cent.

Tax on items recorded within other comprehensive income	2022 £m	2021 £m
Current tax		
Relating to other pension movements	–	(3.3)
Deferred tax (see note 19)		
On remeasurement gains/(losses) on defined benefit pension schemes	111.1	(26.0)
Relating to other pension movements	–	3.3
On net fair value gains/(losses) on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	26.1	(8.8)
Share-based payments	(1.0)	–
Total tax charge on items recorded within other comprehensive income	136.2	(34.8)

The prior year current tax amount of £3.3 million relating to other pension movements is the contributions in excess of the amounts in the profit and loss account which has to be allocated against the actuarial loss. No adjustment is required in the current year due to the actuarial gain.

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's defined benefit pension schemes. Management considers that the most likely method of realisation would be through a refund, which would be taxed at the rate applicable to refunds from a trust (currently 35 per cent).

8 Earnings per share

	2022 £m	2021 £m
(Loss)/profit after tax attributable to equity holders of the company – continuing operations	(56.8)	453.4

	2022 pence	2021 pence
Earnings per share		
Basic	(8.3)	66.5
Diluted	(8.3)	66.3

Basic earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 681.9 million being the weighted average number of shares in issue during the year (2021: 681.9 million). Diluted earnings per share is calculated by dividing profit after tax for the financial year attributable to equity holders of the company by 683.8 million, being the weighted average number of shares in issue during the year, including dilutive shares (2021: 683.5 million).

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

Notes to the financial statements

8 Earnings per share continued

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

	2022 million	2021 million
Average number of ordinary shares – basic	**681.9**	681.9
Effect of potential dilutive ordinary share options	**1.9**	1.6
Average number of ordinary shares – diluted	**683.8**	683.5

9 Dividends

	2022 £m	2021 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2021 at 28.83 pence per share (2020: 28.40 pence)	**196.6**	193.6
Interim dividend for the year ended 31 March 2022 at 14.50 pence per share (2021: 14.41 pence)	**98.9**	98.3
	295.5	291.9
Proposed final dividend for the year ended 31 March 2022 at 29.00 pence per share (2021: 28.83 pence)	**197.8**	196.6

The proposed final dividends for the years ended 31 March 2022 and 31 March 2021 were subject to approval by equity holders of United Utilities Group PLC as at the reporting dates, and hence have not been included as liabilities in the consolidated financial statements at 31 March 2022 and 31 March 2021.

10 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2022 £m	2021 £m
Property, plant and equipment – owned	**12,087.7**	11,739.7
Right of use assets – leased	**59.8**	59.3
Net book value	**12,147.5**	11,799.0

Property, plant and equipment – owned

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 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	9.7	66.5	418.3	(3.9)	(492.6)	(2.0)
Disposals	(1.6)	–	(167.1)	(47.6)	–	(216.3)
At 31 March 2021	**363.7**	**5,897.8**	**8,074.7**	**515.9**	**1,488.5**	**16,340.6**
Additions	**2.5**	**84.8**	**181.2**	**7.6**	**452.4**	**728.5**
Transfers	**6.4**	**48.8**	**241.9**	**4.7**	**(300.9)**	**0.9**
Disposals	**(0.3)**	**(0.1)**	**(136.1)**	**(14.5)**	**(0.1)**	**(151.1)**
At 31 March 2022	**372.3**	**6,031.3**	**8,361.7**	**513.7**	**1,639.9**	**16,918.9**
Accumulated depreciation						
At 1 April 2020	122.2	434.5	3,450.2	420.5	–	4,427.4
Charge for the year	8.2	42.6	299.1	28.8	–	378.7
Transfers	–	–	–	(1.0)	–	(1.0)
Disposals	(1.5)	–	(155.7)	(47.0)	–	(204.2)
At 31 March 2021	**128.9**	**477.1**	**3,593.6**	**401.3**	**–**	**4,600.9**
Charge for the year	**8.4**	**45.0**	**294.7**	**26.5**	**–**	**374.6**
Transfers	**–**	**0.2**	**(0.1)**	**–**	**–**	**0.1**
Disposals	**(0.2)**	**–**	**(130.1)**	**(14.1)**	**–**	**(144.4)**
At 31 March 2022	**137.1**	**522.3**	**3,758.1**	**413.7**	**–**	**4,831.2**
Net book value at 31 March 2021	234.8	5,420.7	4,481.1	114.6	1,488.5	11,739.7
Net book value at 31 March 2022	**235.2**	**5,509.0**	**4,603.6**	**100.0**	**1,639.9**	**12,087.7**

10 Property, plant and equipment continued

During the year, there was a net transfer of £0.9 million cost from intangible assets to property, plant and equipment relating to the reclassification of assets following a data cleanse in respect of the fixed assets register. The overall impact of these reclassifications on the purchase of property, plant and equipment and intangible assets in the statement of cash flows (note A1) is nil.

Right of use assets – leased

Group	Land and buildings £m	Operational assets £m	Fixtures, fittings tools and equipment £m	Total £m
Cost				
At 1 April 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**
Additions	**2.1**	**0.7**	**–**	**2.8**
Disposals	**(0.3)**	**(1.4)**	**–**	**(1.7)**
At 31 March 2022	**56.9**	**7.1**	**0.2**	**64.2**
Accumulated depreciation				
At 1 April 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**
Charge for the year	**1.5**	**0.9**	**–**	**2.4**
Disposals	**(0.4)**	**(1.4)**	**–**	**(1.8)**
At 31 March 2022	**3.2**	**1.2**	**–**	**4.4**
Net book value at 31 March 2021	53.0	6.1	0.2	59.3
Net book value at 31 March 2022	**53.7**	**5.9**	**0.2**	**59.8**

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

At 31 March 2022, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £280.8 million (2021: £355.8 million). In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by regulators and to provide for future growth.

Company

The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2022 or 31 March 2021.

11 Intangible assets

Group	Total £m
Cost	
At 1 April 2020	441.4
Additions	32.7
Transfers	2.0
Disposals	(51.0)
At 31 March 2021	**425.1**
Additions	**20.1**
Transfers	**0.9**
Disposals	**(13.2)**
At 31 March 2022	**432.9**
Accumulated amortisation	
At 1 April 2020	252.4
Charge for the year	41.5
Transfers	1.0
Disposals	(50.9)
At 31 March 2021	**244.0**
Charge for the year	**41.2**
Transfers	**–**
Disposals	**(13.1)**
At 31 March 2022	**272.1**
Net book value at 31 March 2021	**181.1**
Net book value at 31 March 2022	**160.8**

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

At 31 March 2022, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £1.8 million (2021: £0.9 million).

Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2022 or 31 March 2021.

12 Joint ventures and other investments

	2022 £m	2021 £m
Joint ventures at the start of the period	**–**	46.8
Additions[1]	**18.3**	–
Share of losses of joint ventures	**(1.8)**	(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)
Joint ventures at the end of the period	**16.5**	–
Other investments	**0.1**	0.1
Interests in joint ventures and other investments	**16.6**	0.1

Note:
(1) Additions of £18.3 million comprise a £32.5 million subscription in the equity share capital of Water Plus during the year, net of £14.2 million of the group's share of joint venture losses recognised in prior years that were allocated against its long-term interest in Water Plus previously recognised within amounts owed by related parties.

Following the disposal of the group's overseas investment in AS Tallinna Vesi (Tallinn Water) in March 2021, which resulted in a profit on disposal of £36.7 million, the group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited (Water Plus), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement.

12 Joint ventures and other investments continued

The group's total share of Water Plus losses for the year was £1.8 million (2021: £8.9 million share of losses), all of which has been recognised in the income statement. As reported in the group's annual report for the year ended 31 March 2021, at that date a fully drawn £32.5 million revolving credit facility extended to Water Plus by United Utilities PLC, which was presented within amounts owed by related parties included within trade and other receivables, was considered to form part of the group's long-term interest in the Water Plus joint venture as there was a clear expectation that it would be converted to additional equity share capital. As such, the group's £14.2 million share of losses recognised in the income statement for the year then ended (comprising the group's share of Water Plus losses for the year of £8.9 million and £5.3 million of the group's previously unrecognised share of losses relating to prior years) was allocated against this fully drawn facility, resulting in a net reported balance of £18.3 million at 31 March 2021, which was included in amounts owed by related parties.

The conversion of this facility to equity share capital was executed on 23 April 2021 and therefore the brought forward balance of £18.3 million has been included as an addition to the group's joint ventures balance during the period.

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

Company

At 31 March 2022, the company's investments related solely to its investments in United Utilities PLC, which was recorded at a cost of £6,326.8 million (2021: £6,326.8 million).

13 Inventories

Group	2022 £m	2021 £m
Properties held for resale	**1.6**	2.5
Other inventories	**16.6**	15.8
	18.2	18.3

Included within other inventories are £0.4 million (2021: nil) of assets that are held for sale in the ordinary course of business, but where sales are not expected to occur within 12 months of the reporting date. These items are therefore classified within non-current assets in the statement of financial position.

Company

The company had no inventories at 31 March 2022 or 31 March 2021.

14 Trade and other receivables

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade receivables	**61.7**	63.5	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**95.2**	91.9
Amounts owed by related parties (see note A6)	**116.4**	113.8	**–**	–
Other debtors and prepayments	**37.7**	34.3	**–**	–
Accrued income	**88.6**	104.3	**–**	–
	304.4	315.9	**95.2**	91.9

At 31 March 2022, the group had £81.7million (2021: £86.7 million) of trade and other receivables classified as non-current, all of which was owed by related parties.

The carrying amounts of trade and other receivables approximate to their fair value at 31 March 2022 and 31 March 2021.

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

Group	2022 £m	2021 £m
At the start of the year	**80.4**	71.4
Amounts charged to operating expenses (see note 4)	**23.4**	28.7
Trade receivables written off	**(19.2)**	(20.2)
Amounts charged to deferred income	**–**	0.5
At the end of the year	**84.6**	80.4

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

14 Trade and other receivables continued

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for expected credit losses which are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers past events, current conditions and forecasts of future conditions.

At 31 March 2022 and 31 March 2021, the group had no trade receivables that were past due and not individually impaired.

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

At 31 March 2022	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Gross trade receivables	**68.7**	**26.1**	**51.4**	**146.2**
Allowance for expected credit losses	**(20.3)**	**(13.1)**	**(51.2)**	**(84.6)**
Net trade receivables	**48.4**	**13.0**	**0.2**	**61.6**

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

At 31 March 2022, the group had £0.1 million (2021: £2.2 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 2022 and 31 March 2021, 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 2022 and 31 March 2021, the company had no trade receivables that were past due. Of the £95.2 million (2021: £91.9 million) owed by subsidiaries, £75.0 million (2021: nil) was classified as non-current at the reporting date. This follows an exercise performed during the year to reassess the nature of the intercompany receivable balances. As a result, the group executed an agreement to split the existing intercompany receivable balance owed by United Utilities PLC, which had been classified as a current asset in prior years, into an intercompany term loan of £75.0 million that is repayable at 31 March 2027 with the remaining amount continuing to form part of the intercompany cash pooling arrangements presented within current assets.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2022 and 31 March 2021.

15 Cash and cash equivalents

		Group		Company
	2022 £m	2021 £m	**2022 £m**	2021 £m
Cash at bank and in hand	**9.9**	88.9	**–**	–
Short-term bank deposits	**231.0**	655.2	**–**	–
Cash and short-term deposits	**240.9**	744.1	**–**	–
Book overdrafts (included in borrowings, see note 16)	**(20.8)**	(10.5)	**–**	–
Cash and cash equivalents in the statement of cash flows	**220.1**	733.6	**–**	–

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

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

16 Borrowings

Group	2022 £m	2021 £m
Non-current liabilities		
Bonds	**6,168.4**	6,029.9
Bank and other term borrowings	**1,445.0**	1,710.4
Lease obligations	**57.6**	56.7
	7,671.0	7,797.0
Current liabilities		
Bonds	**–**	388.5
Bank and other term borrowings	**284.7**	252.5
Book overdrafts (see note 15)	**20.8**	10.5
Lease obligations	**3.3**	3.3
	308.8	654.8
	7,979.8	8,451.8

Company	2022 £m	2021 £m
Non-current liabilities		
Amounts owed to subsidiary undertakings	**1,799.9**	1,780.6
	1,799.9	1,780.6

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

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

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

17 Leases

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

	2022 £m	2021 £m
Less than 1 year	**3.3**	3.3
1 to 5 years	**10.4**	10.5
5 to 10 years	**8.1**	7.8
10 to 25 years	**25.5**	25.5
25 to 50 years	**42.0**	41.0
50 to 100 years	**81.5**	81.0
100 to 500 years	**106.9**	107.6
Longer than 500 years	**3.2**	3.2
Total undiscounted cash payments	**280.9**	279.9
Effect of discounting	**(220.0)**	(219.9)
Present value of cash payments	**60.9**	60.0

During the year ended 31 March 2022, £1.6 million (2021: £1.8 million) of interest expense on lease liabilities was recognised, representing the unwinding of the discounting applied to future lease payments (see note 6).

The total cash outflow for leases for the year ended 31 March 2022 was £3.7 million; of this, £1.6 million was payment of interest and £2.1 million payment of principal.

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

18 Retirement benefits

The group participates in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) – as well as a defined contribution scheme which is part of the UUPS, and a series of historic unfunded, unregistered retirement benefit schemes operated for the benefit of certain former employees.

Both defined benefit schemes are closed to new employees, and since 1 April 2018 the majority of active members in the defined benefit section of the UUPS have been part of a hybrid section comprising both defined benefit and defined contribution elements in order to reduce the overall costs and risk to the group resulting from increases in future service costs, while balancing the interests of employees by maintaining an element of defined benefit pension provision.

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

Defined benefit schemes

As similar financial and demographic assumptions are used in accounting for both of the group's defined benefit pension schemes, and given they have similar risk profiles, the information below and further detail provided in note A5 is presented on an aggregated basis unless otherwise stated.

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

Group	2022 £m	2021 £m
Current service cost	**7.5**	4.9
Curtailments/settlements	**–**	0.6
Administrative expenses	**2.1**	3.0
Pension expense charged to operating profit	**9.6**	8.5
Net pension interest income credited to investment income (see note 5)	**(14.3)**	(17.5)
Net pension income credited to the income statement before tax	**(4.7)**	(9.0)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £9.6 million (2021: £7.9 million) comprising current service costs and administrative expenses. Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £35.7 million (2021: £31.3 million) comprise the defined benefit costs described above of £9.6 million (2021: £7.9 million) and defined contribution costs of £26.1 million (2021: £23.4 million) (see note 3).

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

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

Group	2022 £m	2021 £m
At the start of the year	**689.0**	754.1
Income recognised in the income statement	**4.7**	9.0
Contributions	**9.5**	8.6
Remeasurement gains/(losses) gross of tax	**313.6**	(82.7)
At the end of the year	**1,016.8**	689.0

Included in the contributions paid of £9.5 million (2021: £8.6 million), which are included as cash outflows in arriving at net cash generated from operations in the consolidated statement of cash flows, enhancements to benefits provided on redundancy of £0.5 million (2021: £0.9 million), payments in relation to historic unfunded, unregistered retirement benefit schemes of £2.5 million (2021: £0.7 million), and administration expenses of £0.4 million (2021: £0.4 million). Contributions in relation to current service cost remained broadly stable at £6.1 million (2021: £6.6 million).

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

Group	2022 £m	2021 £m
The return on plan assets, excluding amounts included in interest	**102.2**	241.0
Actuarial gains/(losses) arising from changes in financial assumptions	**164.0**	(429.7)
Actuarial gains arising from changes in demographic assumptions	**52.4**	80.6
Actuarial (losses)/gains arising from experience	**(5.0)**	25.4
Remeasurement gains/(losses) on defined benefit pension schemes	**313.6**	(82.7)

18 Retirement benefits continued

Deferred tax on the movement in the defined benefit surplus during the year has been recognised at a rate of 35 per cent, being the rate applicable to refunds from a trust, reflecting the most likely method by which the defined benefit surplus would be realised (see notes 7 and 19).

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 £26.1 million (2021: £23.4 million) of contributions to defined contribution schemes which are included in employee benefits expense in the consolidated income statement (see note 3), and as cash outflows in arriving at net cash generated from operating activities in the consolidated statement of cash flows.

Company

The company did not participate in any of the group's pension schemes during the years ended 31 March 2022 and 31 March 2021.

19 Deferred tax liabilities

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

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2020	1,217.4	263.9	(18.7)	1,462.6
Charged to the income statement (see note 7)	9.2	–	9.2	18.4
Credited to equity (see note 7)	–	(22.7)	(8.8)	(31.5)
At 31 March 2021	**1,226.6**	**241.2**	**(18.3)**	**1,449.5**
Credited to the income statement (see note 7)	**149.3**	**3.5**	**6.9**	**159.7**
Change in tax rate	**414.7**	**–**	**(12.0)**	**402.7**
Charged to other comprehensive income (see note 7)	**–**	**111.1**	**25.1**	**136.2**
At 31 March 2022	**1,790.6**	**355.8**	**1.7**	**2,148.1**

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

The £562.5 million deferred tax charge includes £402.7 million (2020: nil) reflecting the Government's planned increase in the rate of corporation tax from 19 per cent to 25 per cent from 1 April 2023.

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

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

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

The other net short-term temporary differences of £1.7 million includes £35 million relating to tax losses which have been carried forward, where permitted under HMRC rules, to be utilised in future periods when the tax rate is at 25 per cent. Also included are other short-term timing differences 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 fair value movements have no impact on future corporation tax payments as they only impact the year-on-year deferred tax movement.

Company

The company had no deferred tax assets or liabilities at 31 March 2022 or 2021.

Notes to the financial statements

20 Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 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)
At 31 March 2021	**1.6**	**9.5**	**11.1**
Charged to the income statement	**0.3**	**4.7**	**5.0**
Utilised in the year	**(0.7)**	**(1.9)**	**(2.6)**
At 31 March 2022	**1.2**	**12.3**	**13.5**

The group had no provisions classed as non-current at 31 March 2022 or 31 March 2021.

The severance provision as at 31 March 2022 and 31 March 2021 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 2022 or 31 March 2021.

21 Trade and other payables

	Group		Company	
Non-current	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
Deferred grants and contributions	**818.2**	780.4	**–**	–
Other creditors	**17.0**	17.9	**–**	–
	835.2	798.3	**–**	–

	Group		Company	
Current	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
Trade payables	**28.3**	33.3	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**9.5**	7.6
Amounts owed to related parties	**–**	2.4	**–**	–
Other tax and social security	**6.6**	5.9	**–**	–
Deferred grants and contributions	**16.0**	15.4	**–**	–
Accruals and other creditors	**266.8**	221.1	**3.6**	3.2
Deferred income	**48.1**	44.6	**–**	–
	365.8	322.7	**13.1**	10.8

The average credit period taken for trade purchases is 13 days (2021: 13 days).

The carrying amounts of trade and other payables approximates to their fair value at 31 March 2022 and 31 March 2021.

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

Deferred grants and contributions

Group	2022 £m	2021 £m
At the start of the year	**795.8**	751.3
Amounts capitalised during the year	**1.8**	5.0
Transfers of assets from customers	**52.4**	55.0
Credited to the income statement – revenue	**(15.4)**	(14.6)
Credited to the income statement – other operating expenses	**(0.4)**	(0.4)
Credited to allowance for bad and doubtful receivables	**–**	(0.5)
At the end of the year	**834.2**	795.8

22 Other reserves

Group	Cumulative exchange reserve £m	Capital redemp-tion reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2021	**–**	**1,033.3**	**(703.6)**	**0.4**	**6.2**	**336.3**
Other comprehensive income						
Changes in fair value recognised in other comprehensive income	**–**	**–**	**–**	**–**	**106.7**	**106.7**
Amounts reclassified from other comprehensive income to profit or loss	**–**	**–**	**–**	**–**	**(26.8)**	**(26.8)**
Tax on items recorded within other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
At 31 March 2022	**–**	**1,033.3**	**(703.6)**	**0.4**	**86.1**	**416.2**

Group	Cumulative exchange reserve £m	Capital redemp-tion reserve £m	Merger reserve £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2020	(2.4)	1,033.3	(703.6)	10.7	(1.3)	336.7
Other comprehensive income						
Changes in fair value recognised in other comprehensive income	–	–	–	(12.7)	9.3	(3.4)
Tax on items recorded within other comprehensive income	–	–	–	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
At 31 March 2021	–	1,033.3	(703.6)	0.4	6.2	336.3

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

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

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

Company

The company's other reserves at 31 March 2022, 31 March 2021 and 1 April 2020, were comprised entirely of a £1,033.3 million capital redemption reserve that arose as a result of a return of capital to shareholders following the acquisition of United Utilities PLC by the company in the year ended 31 March 2009.

23 Share capital

Group and company	2022 million	2022 £m	2021 million	2021 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	**681.9**	**34.1**	681.9	34.1
Deferred shares of 170.0 pence each	**274.0**	**465.7**	274.0	465.7
	955.9	**499.8**	955.9	499.8

Details of the voting rights of each category of shares can be found within the directors' report on pages 194 to 195.

The 170.0 pence deferred shares were created to facilitate a return of capital to shareholders following the reverse acquisition of United Utilities PLC by United Utilities Group PLC in the year ended 31 March 2009 (see company statement of changes in equity on page 214), and represent the amount of a special dividend paid on B shares at that time. The deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding up.

Notes to the financial statements

24 Contingent liabilities

At 31 March 2022, there were commitments for future capital expenditure and infrastructure renewals expenditure contracted but not provided for of £292.8 million (2021: £336.7 million).

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

The group has credit support guarantees as well as general performance commitments and potential liabilities under contract that may give rise to financial outflow. The group has determined that the possibility of any outflow arising in respect of these potential liabilities is remote and, as such, there are no contingent liabilities to be disclosed in this regard (2021: none).

The company has not entered into performance guarantees as at 31 March 2022 or 31 March 2021.

25 Events after the reporting period

In March 2022, the process to market the group's renewable energy business, United Utilities Renewable Energy Limited (UURE), for sale commenced having been approved by the group's board of directors earlier in the year. As at the 31 March 2022 reporting date, the criteria for presenting the assets and liabilities of the UURE disposal group as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' had not yet been met as the active programme to locate a buyer and complete the planned sale was only subsequently initiated in May 2022. The assets that are subject to the sales process primarily comprise property, plant and equipment with a carrying value of £64.6 million in the group's consolidated statement of financial position as at 31 March 2022.

In addition to this, in April 2022 the group issued a £100 million term loan facility to Export Development Canada due April 2030, and entered into a further two undrawn committed borrowing facilities with a total amount available of £50 million.

Notes to the financial statements – appendices

A1 Consolidated statement of cash flows – further analysis

Cash generated from operations

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Profit before tax	**439.9**	551.0	**274.5**	267.7
Adjustment for investment income and finance expense (see notes 5, 6 and A6)	**168.3**	78.5	**21.0**	24.2
Adjustment for share of profits of joint ventures (see note 12)	**1.8**	9.3	**–**	–
Adjustment for profit on disposal of joint ventures	**–**	(36.7)	**–**	–
Operating profit	**610.0**	602.1	**295.5**	291.9
Adjustments for:				
Depreciation of property, plant and equipment (see note 10)	**377.0**	379.8	**–**	–
Amortisation of intangible assets (see note 11)	**41.2**	42.5	**–**	–
Loss on disposal of property, plant and equipment (see note 4)	**3.9**	10.7	**–**	–
Amortisation of deferred grants and contributions (see note 21)	**(15.8)**	(15.0)	**–**	–
Equity-settled share-based payments charge (see note 3)	**4.8**	3.6	**–**	–
Changes in working capital:				
Increase in inventories (see note 13)	**0.1**	(1.7)	**–**	–
Decrease in trade and other receivables	**13.2**	18.1	**5.5**	3.0
Increase/(decrease) in trade and other payables	**24.7**	2.5	**0.2**	1.1
Decrease in provisions (see note 20)	**2.4**	(5.3)	**–**	–
Pension contributions paid less pension expense charged to operating profit	**0.1**	(0.1)	**–**	–
Cash generated from operations	**1,061.6**	1,037.2	**301.2**	296.0

The group has received property, plant and equipment of £52.4 million (2021: £55.0 million) in exchange for the provision of future goods and services (see notes 21 and A7).

Reconciliation of fixed asset purchases to fixed asset additions

Owned property, plant and equipment[1]	2022 £m	2021 £m
Purchase of property, plant and equipment in statement of cash flows	**609.0**	610.4
Non-cash additions:		
Transfers of assets from customers (see note 21)	**52.4**	55.0
IAS 23 capitalised borrowing costs (see note 6)	**52.1**	30.3
Net book value transfers to intangible assets	**–**	1.0
Timing differences on cash paid[2]	**15.0**	(18.8)
Property, plant and equipment additions	**728.5**	677.9

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

Intangible assets	2022 £m	2021 £m
Purchase of intangible assets in statement of cash flows	**19.5**	33.6
IAS 23 capitalised borrowing costs – non-cash additions (see note 6)	**0.6**	0.1
Net book value transfers from property, plant and equipment	**–**	(1.0)
Intangible asset additions	**20.1**	32.7

For the year ended 31 March 2022, the group has enhanced its disclosures relating to the statement of cash flows in respect of relevant accounting policies, judgements taken, and how items can be reconciled to other areas of the financial statements. Please see note A7 for further details.

Notes to the financial statements – appendices

A2 Net debt

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

	Borrowings			Derivatives					
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m	Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjust-ments in calculating net debt[2] £m	Net debt £m
At 31 March 2021	(6,418.4)	(1,962.9)	(60.0)	263.0	40.5	(8,137.8)	733.6	98.4	(7,305.8)
Non-cash movements:									
Inflation uplift on index-linked debt	(150.4)	(78.2)	–	–	–	(228.6)	–	–	(228.6)
Fair value movements	203.3	5.1	–	(194.1)	99.8	114.1	–	(138.5)	(24.4)
Foreign exchange	(5.6)	1.3	–	–	–	(4.3)	–	–	(4.3)
Other	1.4	–	(4.6)	–	–	(3.2)	–	–	(3.2)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives[1]	(173.7)	–	–	–	–	(173.7)	173.7	–	–
Payments in respect of borrowings and derivatives[1]	375.0	304.8	2.1	–	–	681.9	(681.9)	–	–
Dividends paid	–	–	–	–	–	–	(295.5)	–	(295.5)
Exercise of share options –purchase of shares	–	–	–	–	–	–	(6.1)	–	(6.1)
Other	–	–	–	–	–	–	1.6	–	1.6
Changes arising from financing activities	250.0	233.0	(2.5)	(194.1)	99.8	386.2	(808.2)	(138.5)	(560.5)
Cash flows used in investing activities	–	–	–	–	–	–	(639.7)	–	(639.7)
Cash flows generated from operating activities	–	–	1.6	–	–	1.6	934.4	–	936.0
At 31 March 2022	(6,168.4)	(1,729.9)	(60.9)	68.9	140.3	(7,750.0)	220.1	(40.1)	(7,570.0)

Notes:

(1) Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.

(2) The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in fair value hedge relationships) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

Fair value movements includes the indexation expense relating to the group's inflation swap portfolio of £29.9 million (2021: a credit of £0.7 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

A2 Net debt continued

	Borrowings			Derivatives					
	Bonds £m	Bank and other term borrowings £m	Lease liabilities £m	in a fair value hedge £m	at fair value through profit or loss £m	Total liabilities from financing activities £m	Cash and cash equivalents £m	Adjust-ments in calculating net debt[2] £m	Net debt £m
At 31 March 2020	(5,648.5)	(2,642.1)	(57.6)	395.7	80.1	(7,872.4)	513.2	131.7	(7,227.5)
Non-cash movements:									
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)
Cash flows used in financing activities:									
Receipts in respect of borrowing and derivatives[1]	(900.7)	(6.1)	–	(2.9)	–	(909.7)	909.7	–	–
Payments in respect of borrowings and derivatives[1]	–	689.0	1.7	10.8	–	701.5	(701.5)	–	–
Dividends paid	–	–	–	–	–	–	(291.9)	–	(291.9)
Exercise of share options – purchase of shares	–	–	–	–	–	–	(4.0)	–	(4.0)
Other	–	–	–	–	–	–	(2.0)	–	(2.0)
Changes arising from financing activities	(769.9)	679.2	(4.2)	(132.7)	(39.6)	(267.2)	(89.7)	(33.3)	(390.2)
Cash flows used in investing activities	–	–	–	–	–	–	(549.3)	–	(549.3)
Cash flows generated from operating activities	–	–	1.8	–	–	1.8	859.4	–	861.3
At 31 March 2021	(6,418.4)	(1,962.9)	(60.0)	263.0	40.5	(8,137.8)	733.6	98.4	(7,305.8)

Notes:

(1) Where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.

(2) The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in fair value hedge relationships) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

Notes to the financial statements – appendices

A3 Borrowings

Terms and debt repayment schedule

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

	Currency	Year of final repayment	Fair value 2022 £m	Carrying value 2022 £m	Fair value 2021 £m	Carrying value 2021 £m
Borrowings in fair value hedge relationships			**2,511.5**	**2,494.0**	2,913.6	2,895.5
5.75% 375m bond	GBP	2022	**–**	**–**	394.6	388.6
2.0% 450m bond	GBP	2025	**450.1**	**441.2**	470.6	465.3
2.867% 320m bond	HKD	2026	**30.8**	**31.3**	31.7	32.0
2.92% 739m bond	HKD	2026	**71.0**	**72.4**	73.2	74.1
1.129% 52m bond	EUR	2027	**43.4**	**43.9**	46.9	46.6
2.37% 830m bond	HKD	2027	**77.0**	**80.4**	79.6	81.9
5.625% 300m bond	GBP	2027	**356.4**	**346.9**	388.0	380.4
1.43% 100m bond	GBP	2028	**95.4**	**94.1**	–	–
5.02% JPY 10bn dual currency loan	JPY/USD	2029	**80.9**	**83.9**	87.2	90.2
0.875% 300m bond	GBP	2029	**269.0**	**274.6**	284.8	295.8
2.058% 30m bond	EUR	2030	**26.4**	**25.7**	28.9	28.6
0.175% 11bn bond	JPY	2030	**64.5**	**67.6**	–	–
2.625% 425m bond	GBP	2031	**428.5**	**407.8**	460.8	440.5
1.641% 30m bond	EUR	2031	**25.6**	**24.5**	28.0	27.4
2.9% 600m bond	HKD	2031	**58.4**	**55.1**	60.4	56.4
1.474% 35m bond	USD	2031	**22.4**	**22.8**	23.5	22.7
1.707% 28m bond	EUR	2032	**23.8**	**24.0**	26.1	27.0
1.653% 26m bond	EUR	2032	**21.0**	**21.9**	24.0	24.7
1.70% 30m bond	EUR	2033	**25.3**	**25.7**	27.8	29.0
2.0% 100m bond	GBP	2033	**94.8**	**91.7**	103.8	98.4
5.0% 200m bond	GBP	2035	**246.8**	**258.5**	273.7	285.9
Borrowings designated at fair value through profit or loss			**369.9**	**369.9**	373.6	373.6
6.875% 400m bond	USD	2028	**369.9**	**369.9**	373.6	373.6
Borrowings measured at amortised cost			**6,283.7**	**5,115.9**	6,568.1	5,182.7
Short-term bank borrowings – fixed	GBP	2022	**49.2**	**49.2**	150.7	150.7
0.80%+LIBOR 100m loan(1)	GBP	2022	**–**	**–**	101.1	100.0
0.47%+RPI 100m IL loan	GBP	2023	**132.3**	**129.1**	125.2	119.7
0.49%+RPI 100m IL loan	GBP	2025	**134.3**	**124.2**	126.6	115.2
0.013%+RPI 25m IL bond	GBP	2025	**33.2**	**31.0**	30.7	28.7
0.1275%+RPI 100m IL loan	GBP	2026	**133.3**	**122.5**	125.0	113.6
0.01%+RPI 20m IL bond	GBP	2028	**26.6**	**25.3**	25.0	23.7
1.23%+RPI 50m EIB (amortising) IL loan	GBP	2029	**37.6**	**34.7**	40.5	36.8
0.288%+CPI 100m IL loan	GBP	2029	**117.0**	**107.6**	113.9	102.1
1.29%+RPI 50m EIB (amortising) IL loan	GBP	2029	**40.2**	**36.9**	42.9	38.8
1.12%+RPI 50m EIB (amortising) IL loan	GBP	2029	**39.7**	**36.6**	42.4	38.5
1.10%+RPI 50m EIB (amortising) IL loan	GBP	2029	**39.7**	**36.6**	42.3	38.5
0.75%+RPI 50m EIB (amortising) IL loan	GBP	2029	**41.2**	**38.2**	43.6	39.8
0.76%+RPI 50m EIB (amortising) IL loan	GBP	2030	**41.1**	**38.1**	43.6	39.7
1.15%+RPI 50m EIB (amortising) IL loan	GBP	2030	**41.5**	**37.9**	44.1	39.6
1.11%+RPI 50m EIB (amortising) IL loan	GBP	2030	**41.6**	**38.0**	44.2	39.7
0.178%+RPI 35m IL bond	GBP	2030	**49.7**	**43.3**	46.1	40.2
0.245%+CPI 20m IL bond	GBP	2031	**24.5**	**22.7**	24.0	21.5
0.01%+RPI 38m bond	GBP	2031	**50.8**	**47.6**	48.6	44.5
3.375%+RPI 50m IL bond	GBP	2032	**142.2**	**86.4**	140.2	83.1
0.986%+SONIA 100m EIB (amortising) loan(2)	GBP	2032	**61.6**	**62.5**	68.7	68.8
0.968%SONIA 150m EIB (amortising) loan(2)	GBP	2032	**96.8**	**98.4**	107.6	107.8
0.850%+SONIA 100m EIB (amortising) loan(2)	GBP	2033	**67.1**	**68.8**	74.2	75.0
0.788%+SONIA 150m EIB (amortising) loan(2)	GBP	2033	**104.9**	**107.8**	115.7	117.2
2% 250m bond	GBP	2033	**236.9**	**245.6**	259.4	245.7
0.01%+RPI 100m EIB (amortising) IL loan	GBP	2033	**97.6**	**91.8**	100.3	92.2

A3 Borrowings continued

	Currency	Year of final repayment	Fair value 2022 £m	Carrying value 2022 £m	Fair value 2021 £m	Carrying value 2021 £m
Borrowings measured at amortised cost (continued)						
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	**73.2**	**68.8**	75.3	69.1
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	**76.0**	**71.3**	75.3	71.4
0.01%+RPI 75m EIB (amortising) IL loan	GBP	2034	**75.9**	**71.3**	75.3	71.4
1.9799%+RPI 100m IL bond	GBP	2035	**242.4**	**161.1**	243.9	155.2
1.150%SONIA 100m EIB (amortising) loan(2)	GBP	2035	**83.5**	**84.4**	91.6	90.6
1.117%0+SONIA 75m EIB (amortising) loan(2)	GBP	2035	**66.6**	**65.6**	71.2	70.3
0.01%+RPI 26.5m IL bond	GBP	2036	**36.3**	**35.1**	35.7	33.0
0.379%+CPI 20m IL bond	GBP	2036	**25.4**	**22.7**	25.6	21.5
0.01%+RPI 29m IL bond	GBP	2036	**39.5**	**36.6**	38.9	34.2
0.093%+CPI 60m IL bond	GBP	2037	**73.2**	**67.6**	73.7	64.1
1.66%+RPI 35m IL bond	GBP	2037	**70.6**	**53.5**	67.1	49.6
1.75% 250m bond	GBP	2038	**215.0**	**248.2**	239.0	248.1
2.40%+RPI 70m IL bond	GBP	2039	**152.2**	**104.4**	148.3	96.8
1.7829%+RPI 100m IL bond	GBP	2040	**255.2**	**159.4**	241.3	153.5
0.01%+CPI 125m IL bond	GBP	2040	**143.9**	**151.3**	144.5	145.6
1.3258%+RPI 50m IL bond	GBP	2041	**120.1**	**79.6**	117.8	76.6
1.5802%+RPI 100m IL bond	GBP	2042	**248.9**	**158.9**	205.1	153.1
1.875% 300m bond	GBP	2042	**257.1**	**295.5**	287.7	295.3
1.5366%+RPI 20m IL bond	GBP	2043	**51.1**	**31.7**	49.6	30.6
1.397%+RPI 50m IL bond	GBP	2046	**126.0**	**79.5**	113.6	76.5
0.359%+CPI 32m IL bond	GBP	2048	**40.7**	**35.6**	41.0	33.8
1.7937%+RPI 50m IL bond	GBP	2049	**143.8**	**79.1**	122.4	76.2
Commission for New Towns (amortising) loan – fixed	GBP	2053	**46.3**	**25.5**	52.6	26.2
1.847%+RPI 100m IL bond	GBP	2056	**252.7**	**161.5**	255.0	149.8
1.815%+RPI 100m IL bond	GBP	2056	**250.8**	**160.8**	251.9	149.1
1.662%+RPI 100m IL bond	GBP	2056	**244.6**	**160.5**	241.6	148.8
1.5865%+RPI 50m IL bond	GBP	2056	**120.1**	**80.2**	122.0	74.4
1.591%+RPI 25m IL bond	GBP	2056	**60.7**	**40.0**	60.5	37.1
1.556%+RPI 50m IL bond	GBP	2056	**122.2**	**79.8**	121.6	74.0
1.435%+RPI 50m IL bond	GBP	2056	**119.1**	**79.5**	119.4	73.7
1.3805%+RPI 35m IL bond	GBP	2056	**81.7**	**55.7**	82.4	51.6
1.585%+RPI 100m IL bond	GBP	2057	**241.2**	**154.5**	311.2	143.2
0.387%+CPI 33m IL bond	GBP	2057	**42.6**	**36.4**	44.4	34.5
1.702%+RPI 50m IL bond	GBP	2057	**122.8**	**77.9**	124.5	72.2
Book overdrafts (see note 15)	GBP	2022	**20.8**	**20.8**	10.5	10.5
Lease obligations	GBP	various	**60.9**	**60.9**	60.0	60.0
			9,165.1	**7,979.8**	9,855.3	8,451.8

Notes:
(1) Loan repaid in October 2021. As such, the floating reference rate through to repayment was LIBOR.
(2) Rates on these loans have been affected by the IBOR transition. The LIBOR/SONIA credit adjustment spread, finalised as a spread adjustment at 27.66bps in each instance, has been added to the fixed rate component referenced in the table to reflect the underlying fixed interest payable post IBOR reform. The loans all referenced LIBOR as the floating rate in the prior year. See accounting policies ('Phase II' – IBOR Reform) and note A4 (Interest rate benchmark reform) for further details of the financial and accounting impacts of the IBOR rate reform.

IL — Index-linked debt – this debt is adjusted for movements in the Consumer or Retail Prices Indices with reference to a base CPI or RPI established at trade date.
CPI — The UK general index of consumer prices (for all items) as published by the Office for National Statistics (May 2015 = 100).
RPI — The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987 = 100).
EIB — Borrowings that are held with the European Investment Bank.

Borrowings in the above table are unsecured. Funding raised in foreign currencies 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 board is responsible for treasury strategy and governance, which is reviewed on an annual basis.

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

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

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

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

Liquidity risk

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

At 31 March 2022, the group had £1,040.9 million (2021: £1,444.1 million) of available liquidity, which comprised £240.9 million (2021: £744.1 million) of cash and short-term deposits and £800.0 million (2021: £700.0 million) of undrawn committed borrowing facilities.

The group had available committed borrowing facilities as follows:

Group	2022 £m	2021 £m
Expiring within one year	100.0	100.0
Expiring after one year but in less than two years	150.0	100.0
Expiring after more than two years	550.0	600.0
Total borrowing facilities	800.0	800.0
Facilities drawn	–	(100.0)
Total borrowing facilities	800.0	700.0

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

Company

The company did not have any committed facilities available at 31 March 2022 or 31 March 2021.

Maturity analysis

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

Group At 31 March 2022	Total(1) £m	Adjust-ment(2) £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	11,289.3		137.6	138.6	589.7	267.2	130.0	10,026.2
Bank and other term borrowings	2,041.2		332.3	133.4	268.9	269.5	131.4	905.7
Adjustment to carrying value(2)	(5,411.6)	(5,411.6)						
Borrowings	7,918.9	(5,411.6)	469.9	272.0	858.6	536.7	261.4	10,931.9
Derivatives:								
Payable	1,209.5		42.5	59.5	58.9	146.3	41.1	861.2
Receivable	(1,756.0)		(123.0)	(141.7)	(122.2)	(193.5)	(86.5)	(1,089.1)
Adjustment to carrying value(2)	226.3	226.3						
Derivatives – net assets(3)	(320.2)	226.3	(80.5)	(82.2)	(63.3)	(47.2)	(45.4)	(227.9)

A4 Financial risk management continued

Group At 31 March 2021	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	11,368.2		528.1	132.6	133.6	584.7	255.6	9,733.6
Bank and other term borrowings	2,274.8		280.4	348.7	122.4	254.3	257.3	1,011.7
Adjustment to carrying value[2]	(5,251.2)	(5,251.2)						
Borrowings	8,391.8	(5,251.2)	808.5	481.3	256.0	839.0	512.9	10,745.3
Derivatives:								
Payable*	1,001.2		133.4	43.1	39.4	38.3	133.1	762.0
Receivable*	(1,659.5)		(186.0)	(88.8)	(86.8)	(87.0)	(175.4)	(1,035.5)
Adjustment to carrying value*[2]	200.2	200.2						
Derivatives – net assets[3]	(310.0)	200.2	(52.6)	(45.7)	(47.4)	(48.7)	(42.3)	(273.5)

* Re-presented (see footnote 3).

Notes:

(1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 3 per cent and CPI will be 2 per cent over the life of each instrument.

(2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £60.9 million (2021: £60.0 million) of lease liabilities.

(3) The derivative balance includes swaps with a carrying value of £32.5 million (2021: nil) subject to optional break clauses that could be exercised within one year of the reporting date, and £107.6 million (2021: £204.3 million) subject to optional break clauses that could be exercised in later periods. At the reporting date it was considered highly unlikely that these break clauses would be exercised and so cash flows that could arise from the exercise of these optional break clauses are not included in this table. Prior year figures have been re-presented to similarly exclude such cash flows in order to provide more comparable information.

Company

The company has total borrowings of nil (2021: nil), which are payable within one year, and £1,799.9 million (2021: £1,780.6 million), which are payable within one to two years.

Credit risk

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

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

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

In reaction to the impact of the COVID-19 pandemic, changes were made to the payment terms set out within the market codes. These changes provided the option for extended credit terms for retailers. However, this has now ended and all outstanding payments have been made. As at 31 March 2022, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £28.6 million (2021: £27.2 million). During the year, sales to Water Plus in relation to wholesale services were £363.1 million (2021: £362.9 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.

A4 Financial risk management continued

At 31 March 2022 and 31 March 2021, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and short-term deposits (see note 15)	240.9	744.1	–	–
Trade and other receivables (see note 14)	304.4	315.9	95.2	91.9
Investments (see note 12)*	0.1	0.1	–	–
Derivative financial instruments	457.4	424.7	–	–
	1,002.8	1,484.8	95.2	91.9

* Group investments relate to preference share holdings, which are financial instruments under IFRS 7 and should be included. Company investments relate to ordinary shares held in subsidiaries, which are not financial instruments under IFRS 7 and should not be included.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2022, the group held £49.2 million (2021: £50.7 million) as collateral in relation to derivative financial instruments.

Market risk

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

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

Inflation risk

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

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

The group's inflation hedging policy aims to have around half of the group's net debt in index-linked form (where it is economic to do so), by issuing index-linked debt and/or swapping a portion of nominal debt. This is currently weighted towards RPI-linked form, with circa 75 per cent of the hedge linked to RPI and circa 25 per cent linked to CPI and/or CPIH. These weightings are consistent with the prior financial year.

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

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

The carrying value of index-linked debt held by the group, including the carrying value of the nominal debt swapped to CPI, was £4,220.4 million at 31 March 2022 (2021: £4,093.3 million).

Sensitivity analysis

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

Increase/(decrease) in profit before tax and equity	2022 £m	2021 £m
1% increase in RPI/CPI	(37.0)	(35.4)
1% decrease in RPI/CPI	37.0	35.4

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

Company

The company had no material exposure to inflation risk at 31 March 2022 or 31 March 2021.

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).

A4 Financial risk management continued

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

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

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

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

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

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

Sensitivity analysis

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

	Group		Company	
Increase/(decrease) in profit before tax and equity	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
1% increase in interest rate	**89.5**	130.7	**(18.0)**	(17.8)
1% decrease in interest rate	**(94.3)**	(134.7)	**18.0**	17.8

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

Hedge accounting

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

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	–	–	450.0	1,425.0
Average contracted fixed interest rate %	–	–	1.00	2.15

This table represents the derivatives that are held in fair value hedging relationships, with the weighted average net fixed rate receivable across both legs to the swap disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate element of the payable leg which is to be netted off against the fixed rate receivable leg for the purposes of the rates shown here. Further detail on the fair value hedging relationships is provided below:

				Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2022[1]			
Risk exposure	**Nominal amount of the hedging instruments £m**	**Carrying amount of the hedging instruments £m**	**Accumulated fair value (gains)/losses on hedged items £m**	**Hedged items £m**	**Hedging instruments £m**	**Hedge ineffective-ness recognised in the income statement £m**	**Nominal amount of hedging instruments directly impacted by IBOR reform £m**
Interest rate risk on borrowings	1,875.0	45.8	33.9	(164.6)	162.7	(1.9)	1,675.0

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

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.

A4 Financial risk management 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	442.9
Average contracted fixed interest rate %	–	–	1.92	0.96

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average net receivable for the fixed interest rate elements of the swap disclosed. The SONIA/LIBOR credit adjustment spread has been assumed to form part of the fixed rate payable which is to be netted off against the fixed rate receivable for the purposes of the rates shown here.

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

Risk exposure	Nominal amount of the hedging instruments £m	Carrying amount of the hedging instruments £m	Accumulated fair value (gains)/losses on hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2022[(1)]: Hedged items £m	Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2022[(1)]: Hedging instruments £m	Hedge ineffectiveness recognised in the income statement £m	Nominal amount of hedging instruments directly impacted by IBOR reform £m
Foreign currency and interest rate risk on borrowings	542.8	23.0	31.8	(34.8)	36.7	1.9	442.8

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

Interest rate benchmark reform

Globally, financial regulators are requiring that market participants cease using certain financial market benchmark reference rates (i.e. interbank offered rates, IBORs), and transition to the use of alternative nearly risk-free rates (RFRs).

The only benchmark reference rate that the group was exposed to was GBP LIBOR, which ceased on 31 December 2021. In the run up to 31 December 2021, the group fully transitioned all of its financial instruments away from GBP LIBOR.

Floating rate loans payable were re-documented to replace references to GBP LIBOR with appropriate sterling risk free rates or, where the maturity date was sufficiently short, repaid early to avoid re-documentation. Derivatives were transitioned away from GBP LIBOR by the group and all of its counterparties adhering to the ISDA 2020 IBOR fall-backs protocol, which has automatically replaced references in derivatives to GBP LIBOR with risk free rates, and systems were upgraded to enable accurate recording and valuation of transitioned financial instruments. Inter-company loans and loans receivable with the group's principal joint venture have also been restructured to reference the Bank of England Base Rate.

The group is not exposed to any other benchmark reference rate and so its activities in relation to interest rate benchmark reform are now complete.

In August 2020, the IASB issued Interest Rate Benchmark Reform Phase II, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase II Amendments), and the group has applied all relevant amendments when accounting for the impact of the IBOR transition in the year.

Applying the ISDA fall-back provisions in transitioning the group's derivative portfolio has maintained economic equivalence across the financial instruments held in fair value hedges and, as a result, immaterial hedge ineffectiveness was recorded in the group's income statement in the year.

The amount of financial instruments that transitioned to alternative benchmarks is set out below. Non-derivative financial instruments are presented at their carrying value, with the derivatives at their nominal value, in order to give the fairest representation of the magnitude of instruments that transitioned to RFRs. In addition to the below, the group held £800 million of undrawn committed facilities as at 31 December 2021 that transitioned away from referencing LIBOR to reference sterling risk free rates.

Type of financial instrument	Amounts transitioned to RFR £m
Non-derivative financial liabilities (pay GBP LIBOR)	501.6
Derivative instruments (pay GBP LIBOR)	2,343.9
Derivative instruments (receive GBP LIBOR)	(2,822.1)
Net position	23.4

A4 Financial risk management continued

Repricing analysis

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

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

Group At 31 March 2022	Total £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,494.0	–	–	441.2	103.7	–	1,949.1
Effect of swaps	–	2,494.0	–	(441.2)	(103.7)	–	(1,949.1)
	2,494.0	2,494.0	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	369.9	–	–	–	–	–	369.9
Effect of swaps	–	369.9	–	–	–	–	(369.9)
	369.9	369.9	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	924.9	50.1	1.1	1.9	3.2	1.4	867.2
Floating rate instruments	508.3	508.3	–	–	–	–	–
Index-linked instruments	3,682.7	3,682.7	–	–	–	–	–
	5,115.9	4,241.1	1.1	1.9	3.2	1.4	867.2
Effect of fixed hedge for the term of the regulatory period	–	(2,267.8)	575.0	350.0	200.0	–	1,142.8
Total borrowings	7,979.8	4,837.2	576.1	351.9	203.2	1.4	2,010.0
Cash and short-term deposits	(240.9)	(240.9)	–	–	–	–	–
Net borrowings	7,738.9	4,596.3	576.1	351.9	203.2	1.4	2,010.0

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

A4 Financial risk management continued

Company	Total 2022 £m	1 year or less 2022 £m	Total 2021 £m	1 year or less 2021 £m
Borrowings measured at amortised cost				
Floating rate instruments	**1,799.9**	**1,799.9**	1,780.6	1,780.6
Total borrowings	**1,799.9**	**1,799.9**	1,780.6	1,780.6

Electricity price risk

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

Hedge accounting

Details of electricity swaps designated as hedging instruments to manage electricity price risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional amount MWh	306,480	329,400	350,280	–
Average contracted fixed price £/MWh	46.52	46.35	45.95	–

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.

Risk exposure	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument £m	Fair value (gains)/ losses used for calculating hedge ineffectiveness for the year ended 31 March 2022[1] £m	Hedge ineffectiveness recognised in the income statement £m	Cash flow hedge reserve excluding effects of tax £m	Amount reclassified from the cash flow hedge reserve to the income statement £m
Electricity price risk	45.6	111.1	106.7	–	86.3	(1.3)

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

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 2022, RCV gearing was within the range at 61 per cent (2021: 62 per cent).

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

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

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

A4 Financial risk management continued

Fair values

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

Group 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	156.3	–	156.3
Derivative financial assets – held for trading[1]	–	190.1	–	190.1
Derivative financial assets – cash flow hedge	–	111.0	–	111.0
Investments	–	0.1	–	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	(87.4)	–	(87.4)
Derivative financial liabilities –held for trading[1]	–	(49.8)	–	(49.8)
Derivative financial liabilities – cash flow hedge	–	–	–	–
Financial liabilities designated as fair value through profit or loss	–	(369.9)	–	(369.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,206.6)	(304.9)	–	(2,511.5)
Other financial liabilities	(2,383.8)	(3,899.9)	–	(6,283.7)
	(4,590.4)	(4,254.4)	–	(8,844.8)

Group 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	275.6	–	275.6
Derivative financial assets – held for trading[1]	–	142.6	–	142.6
Derivative financial assets – cash flow hedge	–	6.5	–	6.5
Investments	–	0.1	–	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	–	(12.6)	–	(12.6)
Derivative financial liabilities –held for trading[1]	–	(102.1)	–	(102.1)
Derivative financial liabilities – cash flow hedge	–	–	–	–
Financial liabilities designated as fair value through profit or loss	–	(373.6)	–	(373.6)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,766.0)	(147.6)	–	(2,913.6)
Other financial liabilities at amortised cost	(2,321.6)	(4,246.5)	–	(6,568.1)
	(5,087.6)	(4,457.6)	–	(9,545.2)

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 £130.1 million (2021: £141.5 million).

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

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £4,590.4 million (2021: £5,087.6 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 £497.2 million decrease (2021: £2,906.2 million increase) in level 1 fair value measurements primarily reflects the maturity of the 5.75 per cent £375 million bond in March 2022, which was classified as a level 1 fair value measurement in the prior financial year, and a reduction in the number of observable quoted bond prices in active markets at 31 March 2022.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £0.4 million loss (2021: £23.9 million loss). Included within this was a £4.2 million gain (2021: £43.3 million loss) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £39.9 million profit (2021: £35.7 million profit). The carrying amount is £143.8 million (2021: £147.5 million) higher than the amount contracted to settle on maturity.

Company

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

Notes to the financial statements – appendices

A5 Retirement benefits

Defined benefit schemes

Under the group's defined benefit pension schemes – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC group of the Electricity Supply Pension Scheme (ESPS) – employees are entitled to annual pensions on retirement. Benefits are payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The assets of these schemes are held in trust funds independent of the group's finances. The trustees are composed of representatives of both the employer and employees, who are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regards to the assets plus the day-to-day administration of the benefits.

As at 31 March, the total fair value of the schemes' assets, and the present value of the defined benefit obligations, and therefore the value of the net retirement benefit surplus included in the consolidated statement of financial position, was as follows:

Group	2022 £m	2021 £m
Total fair value of schemes' assets	**4,035.7**	3,984.7
Present value of defined benefit obligations	**(3,018.9)**	(3,295.7)
Net retirement benefit surplus	**1,016.8**	689.0

Estimated future benefits payable

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

Group	2022 £m	2021 £m
Total value of current employees' benefits	**504.7**	783.5
Deferred members' benefits	**602.1**	574.4
Pensioner members' benefits	**1,912.1**	1,937.8
Total defined benefit obligation	**3,018.9**	3,295.7

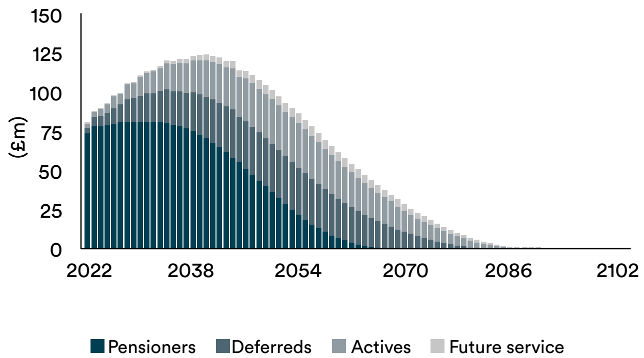
Movements in the present value of the defined benefit obligations are as follows:

Group	2022 £m	2021 £m
At the start of the year	**(3,295.7)**	(3,057.6)
Interest cost on schemes' obligations	**(66.5)**	(68.5)
Actuarial gains/(losses) arising from changes in financial assumptions	**164.0**	(429.7)
Actuarial gains arising from changes in demographic assumptions	**52.4**	80.6
Actuarial (losses)/gains arising from experience	**(5.0)**	25.4
Curtailments/settlements arising on reorganisation	**–**	(0.6)
Member contributions	**(2.3)**	(2.4)
Benefits paid	**141.7**	162.0
Current service cost	**(7.5)**	(4.9)
At the end of the year	**(3,018.9)**	(3,295.7)

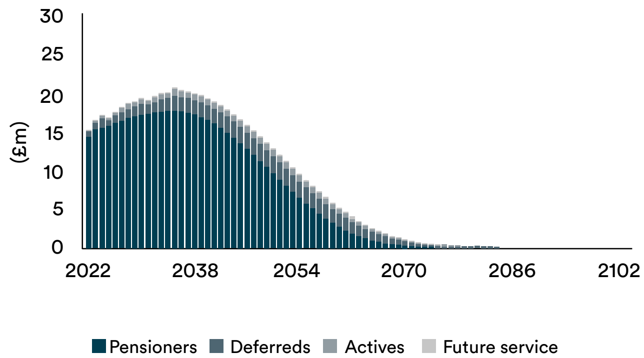
The duration of the combined schemes is around 17 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

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

UUPS



ESPS



A5 Retirement benefits continued

Funding of future benefits payable

Under UK legislation there is a requirement that pension schemes are funded prudently, and that funding plans are agreed by pension scheme trustees. The defined benefit schemes are subject to funding valuations carried out by independent qualified actuaries, in conjunction with the schemes' trustees, on a triennial basis. These valuations inform the level of future contributions to be made by the group in order to ensure that the schemes are appropriately funded and therefore that benefits can be paid. The latest finalised funding valuation was carried out as at 31 March 2021, and determined that the schemes were fully funded on a low-dependency basis without any funding deficit that requires additional contributions from the company over and above those related to current service and expenses.

The schemes' funding plans are reviewed regularly, including between funding valuations. The group expects to make further contributions of £9.1 million in the year ending 31 March 2023, £8.0 million in respect of current service contributions and £1.1 million in respect of expenses. Annual contributions are expected to be broadly similar to this until at least the point at which the next triennial valuation (due as at 31 March 2024), is finalised, which is expected to be towards the end of the year ending 31 March 2025. At this point a detailed re-evaluation of the level of annual contributions, and the basis on which these are made, will take place.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets, such as corporate bonds and gilts, supplemented by swap and gilt long-term hedges of interest and inflation rates, which perform in line with the liabilities so as to hedge against changes in interest and inflation rates. Both the UUPS and ESPS schemes are fully hedged for inflation exposure through external market swaps and gilts. Further details of the derivatives used in reducing investment risk are disclosed in the 'Schemes' assets' section of this appendix.

In addition to the strategies implemented to date, the group and trustees are committed to exploring further de-risking options that may be implemented in the future, including in relation to longevity risk.

The basis on which scheme liabilities are valued for funding purposes differs from the basis required under IAS 19 'Employee Benefits', with liabilities on a funding basis being subject to assumptions at the valuation date that are not updated between revaluations. Funding deficits vary significantly from company to company, but neither the deficits, the assumptions on which they are based, the associated sensitivities, nor the risk exposures are disclosed by many companies and, therefore, meaningful cross-company comparisons are not possible. Conversely, scheme liabilities are valued on a consistent basis between companies under IAS 19 and are subject to assumptions and sensitivities that are required to be disclosed. Consequently, the relative economic positions of companies are comparable only on an IAS 19 basis, subject to normalisation of assumptions used between companies.

A retirement benefit surplus was recognised as an asset in the consolidated statement of financial position at both 31 March 2022 and 31 March 2021 as, under both the UUPS and ESPS scheme rules, the group has an unconditional right to a refund of the surplus assuming the gradual settlement of plan liabilities over time until all members have left the plans.

Impact of scheme risk management on IAS 19 disclosures

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

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

Consequently, the reported statement of financial position under IAS 19 remains volatile due to changes in credit spread and changes in mortality, neither of which have been hedged at the current time.

Changes in credit spreads have not been hedged primarily due to difficulties in doing so over long durations. In contrast, the schemes' specific funding bases are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied.

Changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term and relatively high hedging costs, though the group and scheme trustees are committed to exploring options to de-risk changes in mortality, or pension longevity, in future periods, as outlined above.

Pension benefits under the defined benefit element of the UUPS hybrid section, which represents a relatively small proportion of total defined benefit obligations, are linked to CPI rather than RPI.

In the year ended 31 March 2022, the discount rate increased by 0.75 per cent (2021: 0.25 per cent decrease), which includes a 0.35 per cent increase in credit spreads and a 0.4 per cent increase in gilt yields over the year. The IAS 19 remeasurement gain of £313.6 million (2021: £82.7 million loss) reported in note 18 has largely resulted from an increase in credit spreads during the year partially offset by an RPI inflation assumption increase of 0.4 per cent (2021: 0.55 per cent increase). The impact of movements in credit spreads is less pronounced on a scheme funding basis compared with the remeasurement loss recognised on an IAS 19 accounting basis as the discount rate used for valuing obligations utilises a fixed credit spread assumption.

Notes to the financial statements – appendices

A5 Retirement benefits continued

Reporting and assumptions

The results of the latest funding valuation at 31 March 2021 have been used to inform the group's best estimate assumptions to use in calculating the defined benefit pension position reported on an IAS 19 basis at 31 March 2022. The results of the funding valuation have been adjusted to take account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

Member data used in arriving at the liability figure included within the overall IAS 19 surplus has been based on the finalised actuarial valuations as at 31 March 2021 for both UUPS and ESPS.

Financial assumptions

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

Group	2022 % p.a.	2021 % p.a.
Discount rate	**2.80**	2.05
Pension increases	**3.75**	3.35
Pensionable salary growth (pre-2018 service):		
ESPS	**3.75**	3.35
UUPS	**3.75**	3.35
Pensionable salary growth (post-2018 service):		
ESPS	**3.75**	3.35
UUPS	**3.20**	2.75
Price inflation – RPI	**3.75**	3.35
Price inflation – CPI(1)	**3.20**	2.75

Note:

(1) The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.85 per cent pre-2030 and 3.65 per cent post-2030 (31 March 2021: 2.45 per cent pre-2030 and 3.25 per cent post-2030).

The discount rate is consistent with a high-quality corporate bond rate, with 2.80 per cent being equivalent to gilts plus 1.10 basis points (31 March 2021: 2.05 per cent being equivalent to gilts plus 75 basis points). The corporate bond population used in deriving this rate comprises corporate bonds rated at least AA by one or more credit rating agencies.

In accordance with the scheme rules, pensionable salary growth is linked to RPI for UUPS for service pre-2018 and CPI for service post-2018, for ESPS the growth is linked to RPI.

Assumed pension increases are aligned to the RPI price inflation assumption as the vast majority of benefits across the schemes have a direct RPI linkage.

In September 2019, the Chancellor of the Exchequer highlighted the UK Statistic Authority's proposals to change RPI to align with CPIH (Consumer Prices Index, including housing costs). Plans to reform RPI and bring it in line with CPIH from 2030 were confirmed on 25 November 2020, though this is subject to judicial review. Broadly CPIH increases are expected to average around 1 per cent per annum below RPI in the long-term (about the same as CPI), so this change could have a significant impact on many pension schemes.

Demographic assumptions

At 31 March 2022, the base tables used for the mortality in retirement assumption are the Continuous Mortality Investigation's (CMI) S3PA (2021:S2PA) year of birth tables, with a scaling factor of 109 per cent (2021: 106 per cent) and 115 per cent (2021: 109 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2021: 104 per cent) and 111 per cent (2021: 105 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. At 31 March 2022, future improvements in mortality are based on the extended CMI 2021 (2021: CMI 2020) projection model, with a long-term annual rate of improvement of 1.25 per cent (2021: 1.25 per cent). To adjust for the impact of circumstances arising as a result of the COVID-19 pandemic on future mortality trends for the schemes' membership, an adjustment has been made to reflect an expectation that the direct and indirect consequences of the pandemic will have an adverse impact on longevity in the short to medium term. Accordingly, in arriving at the mortality assumptions for the current year, the group has included a w2021 parameter of 10 per cent within the CMI 2021 projections, which is a subjective estimate that has an impact of circa £30 million decrease in the defined benefit obligation. All other parameters within the future improvements model are consistent with the prior year.

A5 Retirement benefits continued

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

Group	2022 years	2021 years
Retired member – male	**25.9**	26.0
Non-retired member – male	**26.5**	26.9
Retired member – female	**27.9**	28.4
Non-retired member – female	**29.0**	29.5

Financial and demographic assumptions – further analysis

The assumptions used in measuring the group's defined benefit surplus reflect management's best estimates as at the reporting date. These estimates inherently involve judgement, and the measurement of the defined benefit surplus is sensitive to changes in these key assumptions. These sensitivities, together with further information on the judgements involved and level of estimation uncertainty, are presented below. Sensitivity calculations allow for the specified movement in the relevant key assumption, while all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted, however it demonstrates how reasonably possible changes could impact on the measurement of the defined benefit surplus.

- Asset volatility – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- Discount rate – An increase/decrease in the discount rate of 0.25 per cent would have resulted in a £119.7/£127.7 million (2021: £142.1/£151.9 million) decrease/increase in the schemes' liabilities at 31 March 2022, 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. High quality corporate bonds are considered to be those that have a credit rating of AA or above with at least one rating agency. An alternative approach could be taken whereby only those bonds rated AA or higher by at least two rating agencies are used. While this alternative approach may provide additional comfort around the quality of these corporate bonds, management believes that the wider population of corporate bonds under a 'single agency' approach gives a more representative indication of high quality corporate bonds that are aligned to the schemes' liabilities, and therefore provides a more robust estimate.
- Price inflation – An increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £111.5/105.2 million (2021: £144.3/£136.1 million) increase/decrease in the schemes' liabilities at 31 March 2022, 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 2022, meaning that this sensitivity is likely to be insignificant as a result. The sensitivity to price inflation allows for the impact of changes to pensionable salary growth and pension increases, which are both assumed to be linked to price inflation. While inflation may be volatile in the near term, as has been the case during the year ended 31 March 2022, the value of the schemes' liabilities is based on inflation assumptions that reflect the full profile of the liabilities, in particular the long-term nature.
  - Consistent with market practice, and reflecting the possibility that inflation may rise or fall more than expected in the future, in arriving at the company's best estimate for RPI, an inflation risk premium of 0.2 per cent (2021: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2022. The impact of this is a decrease in the defined benefit obligation of around £90 million and therefore an increase in the net defined benefit surplus compared with no inflation risk premium being deducted. There is no allowance for any further change in the inflation risk premium post 2030 as a result of RPI reform. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.
  - The assumption for CPI is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation this wedge has been estimated at 0.9 per cent per annum, reducing to 0.1 per cent per annum post-2030 given that RPI and CPI are expected to converge. The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £8 million increase to the defined benefit obligation and therefore a decrease in the net defined benefit surplus compared with the wedge remaining at 0.9 per cent per annum after 2030.
- Mortality long-term improvement rate – An increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £29.1 million decrease in the schemes' liabilities at 31 March 2022 (2021: £33.2 million decrease in the schemes' liabilities).
- Life expectancy – An increase/decrease in life expectancy of one year would have resulted in a £135.0 million (2021: £152.8 million) increase/decrease in the schemes' liabilities at 31 March 2022. 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

Schemes' assets

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

Group	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %
At 31 March 2022				
Non-equity growth assets	**606.6**	**–**	**606.6**	**15.0**
Gilts	**2,839.1**	**(1,657.6)**	**1,181.5**	**29.3**
Bonds	**1,708.0**	**(3.7)**	**1,704.3**	**42.2**
Other	**423.0**	**120.3**	**543.3**	**13.5**
Total fair value of schemes' assets	**5,576.7**	**(1,541.0)**	**4,035.7**	**100.0**
At 31 March 2021				
Non-equity growth assets	406.6	–	406.6	10.2
Gilts	2,784.3	(1,409.8)	1,374.5	34.5
Bonds	1,859.2	(5.8)	1,853.4	46.5
Other	376.2	(26.0)	350.2	8.8
Total fair value of schemes' assets	5,426.3	(1,441.6)	3,984.7	100.0

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £270.2 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 2022. Estimates of the fair value of these assets have been performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total level 3 asset balance, updated for any subsequent cash movements between the statement date and the year end reporting date.

The UUPS has entered into a variety of derivative transactions to change the return characteristics of the assets held to reduce undesirable market and liability risks. As such, the above breakdown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

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

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

	2022 £m	2021 £m
Gilts		
Repurchase agreements	**(1,657.6)**	(1,409.8)
	(1,657.6)	(1,409.8)
Bonds – hedging non-sterling exposure back to sterling		
Currency forwards	**(1.4)**	(8.9)
Interest rate swaps	**(2.3)**	3.1
	(3.7)	(5.8)
Other – managing liability risks targeting a high level of interest rate and inflation hedging		
Asset swaps	**(32.5)**	(26.6)
Interest rate swaps	**18.0**	23.3
RPI inflation swaps	**134.2**	(21.5)
Total return swaps	**0.6**	(1.2)
	120.3	(26.0)
Total fair value of derivatives	**(1,541.0)**	(1,441.6)

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks. The schemes invest in a number of other pooled funds that make use of derivatives. No allowance is made in the figures above for any derivatives held within these other pooled funds, as they are not held expressly for the purpose of managing risk. The total fair value of pooled funds held within the schemes' assets was £681.5 million (2021: £667.2 million).

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

A5 Retirement benefits continued

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

Group	2022 £m	2021 £m
At the start of the year	**3,984.7**	3,811.7
Interest income on schemes' assets	**80.8**	86.0
The return on plan assets, excluding amounts included in interest	**102.2**	241.0
Member contributions	**2.3**	2.4
Benefits paid	**(141.7)**	(162.0)
Administrative expenses	**(2.1)**	(3.0)
Company contributions	**9.5**	8.6
At the end of the year	**4,035.7**	3,984.7

The group's actual return on the schemes' assets was a gain of £183.0 million (2021: £327.0 million), largely as a result of the schemes' investment strategies hedging increases in the technical provisions due to change in financial conditions.

A6 Related party transactions

Group

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

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

	2022 £m	2021 £m
Sales of services	**363.1**	362.9
Charitable contributions advanced to related parties	**0.1**	–
Purchases of goods and services	**–**	–
Costs recharged at nil margin under transitional service agreements	**–**	–
Interest income and fees recognised on loans to related parties	**2.8**	3.7
Amounts owed by related parties	**116.4**	113.8
Amounts owed to related parties	**–**	2.4

Sales of services to related parties mainly represent non-household wholesale charges to Water Plus that were billed and accrued 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 2022, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £116.4 million (March 2021: £113.8 million), comprising £28.5 million (March 2021: £27.1 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £80.4 million (March 2021: £86.7 million) relating to loans. £6.1 million owed by Water Plus relating to the surrender of consortium relief tax losses is also included within the amounts owed by joint ventures as at 31 March 2022.

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

- £79.4 million (2021: £66.3 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 rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £80.5 million outstanding, net of a £1.1 million allowance for expected credit losses (2021: £67.5 million net of a £1.2 million allowance for expected credit losses); and
- £1.0 million (2021: £0.7 million) receivable being the £10.6 million (2021: £10.3 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 (2021: £0.1 million) allowance for expected credit losses and £9.5 million of the group's share of joint venture losses relating to historic periods as the loan note is deemed to be part of the group's long-term interest in Water Plus. This is a zero coupon shareholder loan with a total amount outstanding at 31 March 2022 and 31 March 2021 of £12.5 million, comprising a £10.6 million (2021: £10.3 million) receivable representing the present value of the £12.5 million payable at maturity discounted using an appropriate market rate of interest at the inception of the loan, and £1.9 million (2021: £2.2 million) recorded as an equity contribution to Water plus recognised within interests in joint ventures.

A6 Related party transactions continued

In the prior year, amounts owed by Water Plus also included £18.3 million outstanding on a £32.5 million revolving credit facility provided by United Utilities PLC, comprising £32.5 million outstanding net of the group's £14.2 million share of Water Plus losses allocated against this amount as at 31 March 2021. At that date, the facility formed part of the group's long-term interest in the Water Plus joint venture given that there was a clear expectation that this revolving credit facility would be replaced with additional share capital, with this transaction subsequently executed in April 2021. Accordingly, this £18.3 million balance ceased to be treated as a related party receivable and was recognised as an addition to the group's joint ventures balance during the year ended 31 March 2022 (see note 12).

A further £1.4 million (2021: £1.4 million) of non-current receivables was owed by other related parties at 31 March 2022.

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, of which £32.1 million related to guarantees to United Utilities Water Limited.

At 31 March 2022, amounts owed to related parties were nil (March 2021: £2.4 million). The amount outstanding at 31 March 2021 included £1.1 million due to Water Plus for the surrender of consortium relief tax losses including other amounts due to be settled in accordance with normal credit terms. These amounts were paid during the current year bringing this balance to a nil position.

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £295.5 million (2021: £291.9 million) and total net interest payable during the year was £21.0 million (2021: £24.2 million). Amounts outstanding at 31 March 2022 and 31 March 2021 between the parent company and subsidiary undertakings are disclosed in notes 14, 16 and 21.

At 31 March 2022 and 31 March 2021, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2022 and 31 March 2021.

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 217 to 218.

Basis of consolidation

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

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

Subsidiaries

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

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

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

Revenue recognition

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

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

- the provision of core water and wastewater services, accounting for more than 97 per cent of the group's revenue; and
- capital income streams relating to diversions work, and activities, typically performed opposite property developers, that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

The core water and wastewater services, which are deemed to be distinct performance obligations under the contracts with customers, follow the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

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

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

Operating profit

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

Borrowing costs and finance income

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

Tax

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

Current tax

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

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

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

Deferred tax

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

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.

Notes to the financial statements – appendices

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

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

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

Property, plant and equipment

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

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

- Water and wastewater infrastructure assets:
  - Impounding reservoirs 200 years;
  - Mains and raw water aqueducts 30 to 300 years;
  - Sewers and sludge pipelines 60 to 300 years;
  - Sea outfalls 75 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

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

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

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

Water and wastewater infrastructure assets

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

Other assets

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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

Transfer of assets from customers and developers

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

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

Intangible assets

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

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and subsequently amortised over a period of three to 10 years.

Impairment of assets

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

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

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.

Capitalisation of costs associated with regulatory price review programmes

As a regulated business the group's principal subsidiary, United Utilities Water Limited, is required to submit business plans to its regulator, Ofwat, on a cyclical basis. The costs to develop these business plans, which can be significant, largely relate to the development of material capital programmes to be delivered over the next five-year price control period. As such, the majority of these costs are considered to be directly attributable to bringing capital solutions into working condition, giving rise to future economic benefit in the form of reduced project costs as the capital programme is delivered, and supporting the enhancement of the company's infrastructure network as a whole. Such costs are therefore capitalised within property, plant and equipment where appropriate, and depreciated over a period of five years as the economic benefit is realised through the delivery of the capital programme.

Non-current assets held for sale

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

Financial instruments

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

Cash and short-term deposits

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

Financial investments

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

Trade receivables

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

Trade payables

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

Financial liabilities and equity

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

Equity instruments

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

Borrowings

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

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

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

Borrowings designated within a fair value hedge relationship

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

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

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

Borrowings designated at fair value through profit or loss

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

Notes to the financial statements – appendices

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. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

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

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

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

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

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

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

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

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

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

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

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

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

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

Group companies

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

Grants and contributions

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

Leases

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

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

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

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

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

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

Statement of cash flows

Grants and contributions received

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

Interest payments and receipts

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

Support costs

Costs of time and resources incurred by the group's support functions that is capitalised in the period (see page 218) is included in purchase of property, plant and equipment within investing activities. These cash flows represent expenditures that have been made for resources intended to generate future income and cash flows, and the group deem these to therefore meet the definition of an investing activity.

Cash flows on derivatives

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

Taxes paid

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

Dividend receipts

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

Notes to the financial statements – appendices

A8 Subsidiaries and other group undertakings

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

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

* Shares are held by subsidiary undertakings rather than directly by United Utilities Group 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: South Court Riverside Park, Campbell Road, Stoke-on-Trent, United Kingdom, ST4 4DA.

Five-year summary – unaudited

The financial summary (unaudited) set out below has been derived from the audited consolidated financial statements of United Utilities Group PLC for the five years ended 31 March 2022. Underlying profit measures and net debt have been re-presented for the years ended 31 March 2018 to 31 March 2021 so that they are presented on a consistent basis to the measures presented for the year ended 31 March 2022. Further detail of the changes to how underlying profit measures are presented can be found on pages 82 to 83, and further detail of the changes to how net debt is calculated can be found on page 238.

Year ended 31 March Continuing operations	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Revenue	1,862.7	1,808.0	1,859.3	1,818.5	1,735.8
Reported operating profit	610.0	602.1	630.3	634.9	636.4
Underlying operating profit	610.0	602.1	732.1	677.6	639.1
Reported profit before tax	439.9	551.0	303.2	436.2	432.1
Underlying profit before tax	301.9	460.0	534.8	500.9	411.0
Reported profit after tax	(56.8)	453.4	106.8	363.4	354.6
Underlying profit after tax	367.0	383.0	486.3	449.5	389.6
Reported earnings per share (basic)	(8.3)p	66.5p	15.7p	53.3p	52.0p
Underlying earnings per share	53.8p	56.2p	71.3p	65.9p	57.1p
Dividend per ordinary share	43.5p	43.24p	42.06p	41.28p	39.73p
Non-current assets	13,823.2	13,166.2	13,215.7	12,466.4	11,853.6
Current assets	613.8	1,012.9	828.4	721.4	1,149.9
Total assets	14,437.0	14,179.1	14,044.1	13,187.8	13,003.5
Non-current liabilities	(10,791.5)	(10,152.6)	(9,877.3)	(9,025.0)	(8,911.1)
Current liabilities	(688.1)	(995.5)	(1,204.7)	(1,052.0)	(1,141.5)
Total liabilities	(11,479.6)	(11,148.1)	(11,082.0)	(10,077.0)	(10,052.6)
Total net assets and shareholders' equity	2,957.4	3,031.0	2,962.1	3,110.8	2,950.9
Net cash generated from operating activities	934.4	859.4	810.3	832.3	815.6
Net cash used in investing activities	(639.7)	(549.3)	(593.9)	(627.7)	(723.2)
Net cash (used in)/generated from financing activities	(809.7)	(89.7)	(27.8)	(377.4)	184.7
Effects of exchange rates	1.5	–	–	–	–
Net (decrease)/increase in cash and cash equivalents	(513.5)	220.4	188.6	(172.8)	277.1
Net debt	7,570.0	7,305.8	7,227.5	6,990.4	6,816.8
RCV gearing[1] (%)	61%	62%	61%	60%	61%

Note:
(1) Regulatory capital value (RCV) gearing is calculated as group net debt (see note A2), divided by the RCV expressed in out-turn prices, of United Utilities Water Limited.

Shareholder information

Key dates

- **23 June 2022**
  Ex-dividend date for the 2021/22 final dividend
- **24 June 2022**
  Record date for 2021/22 final dividend
- **11 July 2022**
  DRIP election date for 2021/22 final dividend
- **22 July 2022**
  Annual general meeting
- **1 August 2022**
  Payment of 2021/22 final dividend to shareholders
- **23 November 2022**
  Announcement of half-year results for the six months ending 30 September 2022
- **22 December 2022**
  Ex-dividend date for 2022/23 interim dividend
- **23 December 2022**
  Record date for 2022/23 interim dividend
- **11 January 2023**
  DRIP election date for 2022/23 interim dividend
- **1 February 2023**
  Payment of 2022/23 interim dividend to shareholders
- **May 2023**
  Announce the final results for the 2022/23 financial year
- **June 2023**
  Publish the Annual Report and Financial Statements for the 2022/23 financial year

Electronic communications

We're encouraging our shareholders to receive their shareholder information by email and via our website. Not only is this a quicker way for you to receive information, it helps us to be more sustainable by reducing paper and printing materials and lowering postage costs.

Registering for electronic shareholder communications is very straightforward, and is done online via **shareview.co.uk** which is a website provided by our registrar, Equiniti.

Log on to **shareview.co.uk** and you can:

- set up electronic shareholder communication;
- view your shareholdings;
- update your details if you change you address; and
- get your dividends paid directly into your bank account.

Please do not use any electronic address provided in this annual report or in any related document to communicate with the company for any purposes other than those expressly stated.

Make life easier and have your dividends paid straight into your bank account

- The dividend goes directly into your bank account and is available immediately;
- No need to pay dividend cheques into your bank account;
- No risk of losing cheques in the post;
- No risk of having to replace spoiled or out-of-date cheques; and
- It's cost-effective for your company.

To take advantage of this, please contact Equiniti via **shareview.co.uk** or complete the dividend mandate form you receive with your next dividend cheque.

If you choose to have your dividend paid directly into your bank account you'll receive one tax voucher each year. This will be issued with the interim dividend normally paid in February and will contain details of all the dividends paid in that tax year. If you'd like to receive a tax voucher with each dividend payment, please contact Equiniti.

Online annual report

Our annual report is available online. View or download the full Annual Report and Financial Statements from:
unitedutilities.annualreport2022.com

Keeping you in the picture

You can find information about United Utilities quickly and easily on our website: **unitedutilities.com/corporate**. Here the annual report and financial statements, responsible business performance, company announcements, the half-year and final results and presentations are published.

Registrar

The group's registrar, Equiniti, can be contacted on: **0371 384 2041** or textphone for those with hearing difficulties: **0371 384 2255**. Lines are open 8.30 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

The address is:
Equiniti, Aspect House, Spencer Road,
Lancing, West Sussex, BN99 6DA.

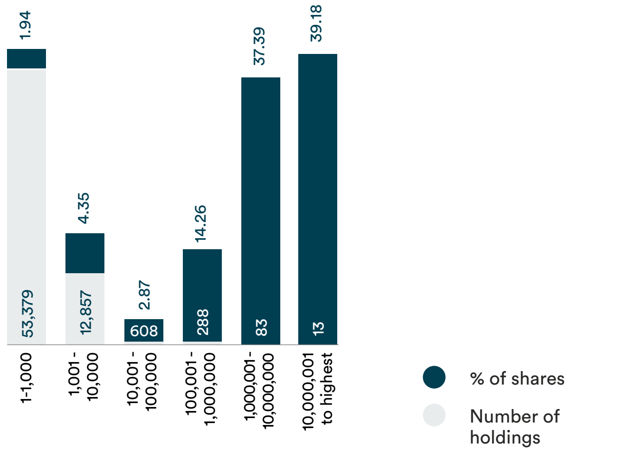
Overseas shareholders may contact them on:
+44 (0)121 415 7048

Equiniti offers a share dealing service by telephone: **0345 603 7037** and online: **shareview.co.uk/dealing**

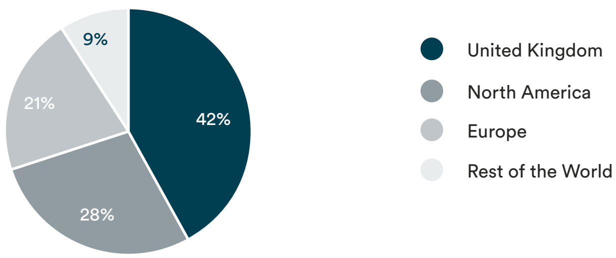
Equiniti also offers a stocks and shares ISA for United Utilities shares: call **0345 300 0430** or go to: **shareview.co.uk/dealing**

Key shareholder facts

Balance analysis as at 31 March 2022



Geographic location of major shareholdings



Dividend history – pence per share

	2018	2019	2020	2021	2022
Interim	13.24	13.76	14.20	14.41	**14.50**
Final	26.49	27.52	28.40	28.83	**29.00**
Total ordinary	39.73	41.28	42.60	43.24	**43.50**

Warning to shareholders

Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high-risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Conduct Authority at:
fca.org.uk/consumers/unauthorised-firms-individuals

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Important information

Cautionary statement:

The Annual Report and Financial Statements (the annual 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. These forward-looking statements include without limitation any projections or guidance relating to the results of operations and financial conditions of the group as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and any strategic initiatives relating to the group, as well as discussions of our business plan and our assumptions, expectations, objectives and resilience with respect to climate scenarios. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the company undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast. Certain regulatory performance data contained in this annual report is subject to regulatory audit

Terms used in this report:

Unless expressly stated otherwise, the 'group', 'United Utilities', 'UU' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water Limited (formerly United Utilities Water PLC) in the North West of England.

Stock Code: UU.

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Registered in England and Wales
Registered number 6559020

Water for the North West