Registered No: 2366616

United Utilities PLC

Annual Report and Financial Statements

31 March 2024

Strategic Report

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Terms used in this report:
United Utilities PLC's ultimate parent company is United Utilities Group PLC. 'UUG' means United Utilities Group PLC and 'United Utilities' or 'the UUG group' means United Utilities Group PLC and its subsidiary undertakings. 'UU' or 'the group' means United Utilities PLC and its subsidiary undertakings.

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

References to TCFD, TNFD and other sustainability-related reporting:
Whilst mandatory reporting under the TCFD ('Task Force on Climate-related Financial Disclosures') framework is not applicable to United Utilities PLC, this annual report makes reference to TCFD, TNFD ('Taskforce on Nature-related Financial Disclosures') and certain other sustainability-related reporting. Such information contained herein should be read in conjunction with the detailed disclosures included within the UUG 2024 consolidated Annual report and financial statements.

Our purpose

To provide great water for a stronger, greener and healthier North West.

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

Greener

We protect and enhance urban and rural environments, and adapt to the challenges of climate change, allowing people, wildlife and nature to thrive, making the North West a better place to live now and for the future.

Healthier

We provide great quality drinking water and safely remove and recycle used water for more than seven million customers, while taking care of the beautiful landscapes in the North West every day.

Stronger

We deliver an essential service, help customers in vulnerable situations, invest in local communities, and support jobs and the economy, giving the North West resilience in a changing world.

Our strategy

Our strategic priorities are aligned to the greener, healthier and stronger elements of our purpose. These permeate everything we do, and this can be seen throughout this report. The stages in our water cycle, our principal risks, board and committee activities, and the measures in remuneration policy are all aligned to one or more of these themes.

Improve our rivers
We have a strong track record in minimising pollution, and continue to protect bathing waters across the North West. River health in the UK has grown in public interest in recent years. The industrial legacy and high rainfall in our region means we have a bigger task than many to deliver the significant reduction in spills from storm overflows required by the Environment Act 2021. This will form a significant component of our investment in AMP8, with £3.1 billion dedicated to it in our business plan, and we are accelerating part of this investment, with good progress already made.

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

Provide a safe and great place to work
We invest in our colleagues' training and development, and are dedicated to maintaining high levels of health, safety and wellbeing. We want to attract, develop and engage great talent across the organisation, we support and encourage a diverse and inclusive culture, and we want colleagues to be empowered to contribute to making things better. To facilitate this, our new 'Call it out' initiative enables everyone to raise any topic or suggestion for improvement directly with the CEO, and all contacts receive a response within 48 hours.

Deliver great service for all customers
We strive to continually improve our service for customers – improving water quality, minimising interruptions, fixing leaks and reducing the risk of sewer flooding. Engagement helps us understand what matters most to customers – the stretching targets in our AMP8 business plan reflect views based on

extensive engagement and this is reflected in strong levels of customer acceptability. Great service also means helping customers with affordability and vulnerability support, and keeping their data secure.

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

Contribute to our communities
We work closely with communities across the North West and we invest in those communities as well as opening our land for access and recreation. We actively engage and make use of partnerships to drive value for communities, such as our participation in the Love Windermere initiative. We produced individual business plans for each of the North West's five counties, recognising their unique and diverse needs and challenges, and we have mobilised our teams into county delivery squads to help manage these relationships and ensure we can deliver our planned improvements for each county with minimal disruption.

Our business model

What we do

Providing great water for a greener, healthier and stronger North West:

Water resources – sustainably sourcing water

• Providing great water: We collect raw water from a variety of sources across the North West, including lakes, rivers and boreholes, but predominantly from open reservoirs. The biggest are Thirlmere and Haweswater in the Lake District National Park. We have more reservoirs than any other UK water company. They provide great tasting water, but have high maintenance needs and the raw water requires more treatment than some other water sources. They are quick to fill when it rains, but are more vulnerable to periods of dry weather than ground water sources.

• For a stronger, greener and healthier North West: We own and manage 56,000 hectares of land, much of which is catchment land (the areas immediately surrounding our reservoirs). We are optimising the use of this land to protect water quality, create natural carbon sinks by restoring peatland and planting woodland, and explore potential clean energy development. We manage our land and water resources in a sustainable way, protecting and enhancing local habitats, and open our land to the public to enjoy nature and its health and wellbeing benefits.

Bioresources – generating renewable energy

• Providing great water: We minimise waste from our water and wastewater operations to promote a circular economy. Sludge by-product from wastewater treatment is transported to our bioresources treatment facilities, which process more than 200,000 dry tonnes of sewage sludge a year.

• For a stronger, greener and healthier North West: Our sludge treatment process use digestion technologies to safely and compliantly treat the sewage sludge. The digestion treatment process produces biogas and biosolids. We use some of this biogas to generate renewable electricity and power our operations and some is fed into the grid. Self-generation reduces our carbon footprint and saves costs. We purchased electricity to cover the remaining electricity needs and 100 per cent of this is certified renewable. We give biosolids to local farmers to use as a high-quality and effective fertiliser and soil conditioner. We are closely following developments in the interpretation of Farming Rules for Water, and the restrictions this could have on our provision of biosolids to farmers.

Water network plus – supplying treated water 24/7

• Providing great water: We treat raw water in one of our 86 water treatment works and then stored in covered reservoirs. An average of 1.8 billion litres of safe, clean drinking water is delivered every day to more than 7 million people and businesses, using more than 43,000 kilometres of water pipes.

• For a stronger, greener and healthier North West: Our integrated supply network enables us to move water around the region as needed. Along with production planning and optimization of storage levels ahead of anticipated demand increases, and a fleet of alternative supply vehicles, this helps us to deliver a more resilient water supply. We use sensors and artificial intelligence, and have dedicated teams to detect and fix leaks across our pipes as well as helping customers identify leaks on their property, which can save them money on their bills as well as reducing water losses. Our Haweswater Aqueduct uses gravity to transfer water from Cumbria to Manchester, helping to reduce our carbon footprint from energy-intensive pumping.

Wastewater network plus – cleaning and returning wastewater

• Providing great water: We have 79,000 kilometres of pipes that transport wastewater from sewers to one of our 583 wastewater treatment works. Wastewater is separated, treated and, once it 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. Of our sewers, 54 per cent are combined, taking a mix of wastewater and rainwater. In unusually high rainfall, when sewer capacity is overloaded, storm overflows are activated, using a separate pipe to allow this heavily diluted mix to flow directly into rivers or the sea to help prevent flooding of streets, homes and businesses.

• For a stronger, greener and healthier North West: We have a long coastline and 29 designated bathing waters in our region. With more combined sewers, our network comes under more strain than many others when we have to deal with higher than typical levels of urban water runoff from rainfall. Achieving future targets to reduce the use of storm overflows will, therefore, require particularly high levels of investment in the North West. We have already delivered a significant reduction in the number of spills since 2020, we have ambitious plans for AMP8, and we are accelerating the work to go further faster. We are also exploring new and innovative ways of working such as nature-based solutions and partnerships with groups such as The Rivers Trust.

Dynamic Network Management

We use Dynamic Network Management (DNM) to proactively manage our network in a more effective and efficient way. This creates long-term value, improving our asset reliability and resilience, reducing unplanned service interruptions, and delivering cost savings.

We combine artificial intelligence and machine- learning to better manage our end-to-end water and wastewater systems. Optimising our decision making and helping us to move away from the traditional reactive approach and address problems proactively before they affect customers.

Our operating environment and dependencies

Key resources

The six capitals

Delivering our purpose requires us to sustainably source, use and replenish resources from each of the six capitals.

Our business is dependent upon the availability and quality of these capitals – financial, manufactured, intellectual, social, human and natural.

As our business draws on these resources, we focus on minimising any negative impacts that may result. We also look to invest in the future, to positive effect, recognising that we must be careful about how we harness and protect them over the long term to ensure sustainable value creation and resilience.

Traditional financial accounting doesn't always show the full picture – we rely on things that are not on our balance sheet, like the colleagues that work for us and the natural environment, and we have an impact on things that have no associated income statement or cash flow value. Evaluating and monitoring the impacts and dependencies we have on the six capitals, alongside financial information, helps to give a fuller and more balanced picture of how we are performing, the value we are creating, and the sustainability of our activities.

We are integrating six capitals thinking into all our business processes and planning, to enhance our understanding of the wider consequences of different strategic options. Our performance monitoring and disclosures align with this 'wider value' way of thinking. As well as monitoring financial performance, our operational performance metrics – aligned to the stronger, greener and healthier aspects of our purpose – help us to assess and monitor the positive and negative impacts we have across the capitals and the value created for a range of stakeholders.

We followed a multi-capital value approach in the formation of our AMP8 business plan, using a suite of screening tools to inform our preferred solutions including assessment against the six capitals framework for value.

Financial capital

Our activities, including significant long-term infrastructure projects, require access to a pool of funds. In order to protect affordability and spread the cost fairly between generations of customers, we need to use debt and equity financing as well as direct procurement for customers (DPC) and funds received as revenue.

How we manage this key resource

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

We provide regular updates to investors and establish a two-way dialogue about matters of interest to them. We maintain relationships with a range of banks and access to a broad and diverse range of markets. Our medium-term note programme enables efficient debt issuance under pre-agreed contractual terms, our sustainable finance framework allows us to raise debt based on our strong ESG credentials, and the board delegates authority to the CFO so we can respond quickly to attractive financing opportunities. This helps us consistently raise efficient financing.

We aim to avoid a concentration of refinancing in any one year, our debt portfolio has a very long average life, and we monitor liquidity forecasts to maintain resources to cover the next 15–24 months of projected cash flow needs. We have clear and transparent hedging policies covering credit, liquidity, interest rate, inflation and currency risk, and these are aligned with the regulatory model.

Key dependencies:
• financing our activities and smoothing out cash flows; and
• paying our expenditure costs.
Improving our impact:
• being efficient in our operations;
• working with long-term investors and maintaining good governance for fair and sustainable returns; and
• being a responsible business that acts fairly on tax.
Relevant material themes:
• Financial risk management
• Corporate governance and business conduct

Manufactured capital

We have a large number of physical assets that are essential in enabling us to provide our services to customers and protect public health, including buildings, fleet, equipment and infrastructure.

How we manage this key resource

The significant investment we have made in our assets since privatisation has provided substantial benefits to customers, including reduced supply interruptions, reduced sewer flooding incidents, and improved water quality. We expect to continue with a substantial investment programme for the foreseeable future as current environmental legislation is expected to drive significant investment needs, as shown in our AMP8 business plan. Long-term planning helps us understand where and when we need to invest, and we continually monitor the condition, performance and health of our assets.

We manage our assets in a holistic way that seeks to minimize whole-life costs, and we embrace new technology and innovation. This helps us deliver efficient expenditure 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, such as odours from our wastewater treatment works.

Key dependencies:
• delivering safe and reliable services; and
• keeping our assets secure.
Improving our impact:
• maintaining, protecting and improving assets and infrastructure;
• developing new assets and infrastructure where required;
• managing the effectiveness of our capital delivery programmes; and
• following best practice approaches to be efficient and effective, such as ISO 55001 – Asset Management.
Relevant material themes:
• Resilience
• Customer service and operational performance

Intellectual capital

The knowledge and systems we have across our business, including our understanding of the region and the people who live here, are critical to effectively running our treatment works and maintaining our assets to ensure a long-term resilient service.

How we manage this key resource

We use a variety of methods to drive innovation. We scout ideas from other industries and from across the world, and we invite companies to bring new solutions to us through our Innovation Lab programme. Our core values encourage colleagues to voice new ideas and we encourage innovation across the business, including our CEO Challenge programme where graduates develop novel ways to tackle challenges that we face. These initiatives can lead to the development of products and software that give us a competitive advantage.

Dynamic Network Management (DNM) is one example of how our culture of innovation has helped us to improve our services. We developed the technology to improve management of our sewer network and it helped us significantly reduce sewer flooding incidents. We then developed and applied DNM further to maximise the benefits it offers across the entire water cycle, which is in line with our Catchment Systems Thinking approach.

Key dependencies:
• providing the know-how to run our business effectively and efficiently;
• delivering continuous improvement and innovation to be more efficient and effective, and giving us a competitive advantage; and
• protecting us from cyber attacks.

Improving our impact:
• investing in research, development and innovation;
• monitoring and managing our processes, systems and digital capability; and
• collaborating with the supply chain and other partners.

Relevant material themes:
• Cyber security
• Diverse and skilled workforce
• Innovation

Social capital

It is important that we maintain positive and constructive relationships with a wide variety of stakeholders across our region.

How we manage this key resource

We actively engage with all our stakeholders. These include community bodies, regulators, environmental interest groups, and political and governmental bodies. We seek to work alongside them to understand short and long-term priorities, exchanging information, building partnerships and working together wherever we can. Our supplier relationship management process ensures regular discussions 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 approach.

Engagement helps us assess the issues that are most important to stakeholders, which feed into our materiality assessment. This helps to shape our plans and the disclosures throughout this report. We conducted extensive customer and community research, which fed into the development of our AMP8 plan.

Key dependencies:
• maintaining and growing trust with all of our stakeholders to encourage them to act in a way that helps deliver improvements;
• shaping how we best deliver value for customers and other stakeholders by understanding their needs and priorities; and
• collaborating on shared challenges such as leakage, flooding and water efficiency.

Improving our impact:
• managing service quality and resilience now and for the future;
• supporting customers with affordability challenges and those in vulnerable circumstances;
• creating spaces for access and recreation; and
• communicating and collaborating with all stakeholders.

Relevant material themes:
• Trust, transparency and legitimacy
• Supporting communities
• Responsible supply chain

Human capital

Colleagues are essential in delivering our purpose and a skilled, engaged and motivated team is fundamental to great service and colleague 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. We are an accredited Living Wage Foundation employer, providing competitive salaries and benefits, healthcare schemes, an attractive pension offering, share incentive plan, and colleagues at all levels have the same bonus measures as executive directors, so everyone benefits from the success of the company. We measure engagement through an annual survey, and regularly outperform UK norms.

We provide comprehensive training and development opportunities, offer hybrid working where practical, and are committed to protecting the health, safety and wellbeing of our colleagues and those in our supply chain. We promote equity, diversity and inclusion, recruiting from across the communities we serve and supporting our colleagues with equal opportunities. Networks, representing groups of colleagues that may face specific challenges, are overseen by an executive sponsor and support colleagues through their career progression.

Key dependencies:

- delivering services for customers through the skills, knowledge and experience of our workforce;
- delivering our services in an efficient and productive way; and
- providing diversity of thought and a range of perspectives.

Improving our impact:

- prioritising health, safety and wellbeing;
- developing, training and recruiting the workforce, including graduate and apprentice programmes; and
- managing equity, diversity and inclusion with fair opportunities and remuneration.

Relevant material themes:

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

External environment

Regulatory environment

United Utilities Water Limited (UUW) is the second largest of 11 regulated water and wastewater businesses in England and Wales.

UUW is subject to regulation of price, performance and compliance by various bodies. These bodies exist to help protect the interests of customers and the environment and assess whether companies are meeting their obligations. One of the ways they do this is to undertake comparative assessments of companies' performance.

We must balance incentives and requirements that can sometimes act in tension, such as the desire for rapid environmental improvements and the upward pressure this can place on customers' bills. We maintain constructive dialogue to agree commitments for continuous improvement.

The water industry national environment programme (WINEP) sets out the actions needed to meet environmental obligations. The Drinking Water Inspectorate (DWI) can put in place programmes of work to improve drinking water quality. Companies must also prepare and maintain long-term plans for managing water resources (WRMP) and drainage and wastewater (DWMP). These feed into business plan submissions from companies for five-year asset management periods (AMPs), which are submitted to Ofwat as part of the price review (PR) process.

Ofwat then sets each company's final determination (FD) detailing revenue, required service levels, and the incentive package for the AMP, which companies can either accept or appeal to the Competition and Markets Authority. Performance against the FD is reported in an annual performance report (APR).

2023/24 was the fourth year of the 2020–25 period (AMP7), and in October 2023 we submitted our 'PR24' business plan for the 2025–30 period (AMP8).

AMP8 business plan

We have submitted an exciting and ambitious plan for the 2025–30 period, reflecting the biggest investment in our region's water and wastewater infrastructure in over 100 years.

The plan we have submitted delivers what matters for customers, communities and the environment – safeguarding and securing supplies, protecting and enhancing our rivers, improving drinking water quality, and reducing flooding. It has been set in the context of our long-term delivery strategy, and addresses new environmental legislation, stakeholder priorities, and continuous improvements for customers.

Transforming services for customers and proposing an environmental programme seven times the size of AMP7, our plan provides significant growth opportunities for the North West – supporting 30,000 jobs and helping to ignite the regional economy – and for the business, with 37 per cent real growth in our Regulatory Capital Value (RCV) across AMP8.

We have stretched ourselves to innovate and optimise our plan, enabling significant efficiency to be realised, and we are enhancing our affordability support for customers, proposing a material increase with a £525 million affordability support package that would help one in six customers in the region.

We have five diverse counties in the North West with different challenges and needs, as set out on pages 12 to 17 and we have built targeted county-based plans that deliver what matters to each of them, based on extensive engagement. This has helped us secure strong support, with research showing that 74 per cent of customers support our proposals.
We have a strong balance sheet and financial flexibility, giving us confidence that we can deliver this level of investment, and we are not waiting – we have already started, with accelerated investment enabling us to make an early start on tackling storm overflows and other environmental improvements.

Natural environment

The natural environment is constantly changing. We have already experienced prolonged dry periods, more extreme rainfall events, and freezing temperatures followed by rapid thawing. This increases the level of risk for water availability, flooding and network damage.

The North West population is also increasing, with an anticipated one million increase by 2050, and much of the landscape in our region is legally protected for its environmental or cultural significance. We must plan well into the future and continually adapt to strengthen our long-term operational resilience, and we have a role to play in restoring healthy and resilient ecosystems.

We need to work collaboratively to deliver nature-based solutions, which offer many benefits including carbon sequestration, cleaner water, and improved biodiversity.

Read about our long-term planning on page 25.

Economic environment

Our costs are impacted by market rate movements such as interest rates and inflation. Inflation has risen sharply in recent years, and the government raised interest rates in response.

The impacts on our business are complex, with cost increases partly offset by increased allowances under the regulatory mechanism. Of our debt, £4.7 million is in index-linked form, therefore impacted by inflation, but our regulatory capital value (RCV) also rises with inflation and our £4.0 billion of fixed-rate debt increases in benefit as interest rates rise. Unlike many, our low dependency pension schemes are protected from market rate movements.

The economic environment also impacts customers, with the most deprived communities typically hit the hardest. We have more in the North West than any other region, making the industry-leading affordability support we provide even more critical.

Political environment

Political decisions have the potential to impact on our operations, including any changes to legislative obligations under environmental and competition law. We engage with regional and national politicians and other policymakers to understand developments and key policy issues, improving policy development where possible, and stay flexible to adapt as needed. For instance, with publication of the Environment Act 2021 the government set out an ambitious plan for reducing spills from storm overflows, as well as obligations to reduce phosphorus and address nutrient imbalance. We are already investing significant amounts in AMP7 to improve the quality of rivers and seas in the North West, and our AMP8 plan includes our biggest ever environmental investment programme, addressing these new legislative requirements. We also have a part to play in the plans of devolved regions and mayors for growth and green energy development in the North West, such as plans to host a pioneering carbon-capture facility on our head office site in Warrington.

Stakeholders

There are many people and groups who take an interest in the water industry, its role in society, and the North West region. The nature of our work and the huge areas of land we manage means we interact with a wide variety of stakeholders, from communities and environmental interest bodies, to suppliers and regulators. It is important that we understand what matters to each of them and develop constructive relationships built on mutual trust. We engage and consult with stakeholders to understand their views and priorities as we develop and execute our plans, balancing their often conflicting priorities.

Each of our operational performance measures is linked to one or more stakeholder for whom we are creating value.

Technology and innovation

New technology and innovation can create opportunities for improvements in service and efficiency. The use of artificial intelligence and machine learning helps us to improve performance, and is central to our Dynamic Network Management approach.

In an increasingly digital world, customer expectations change and we must evolve our services to ensure we meet those expectations. Technology has changed the way customers can get in touch to access their bills, update their information and receive updates on services and support.

Technology can also create risks, such as the threat of cyber-attacks, which has increased in recent years as a result of global political tensions. Protecting infrastructure, customer information and commercial data from malicious activity is a key priority.

Five counties

Each of the five diverse counties across the North West is unique.

In order to help shape and adapt our AMP8 business plan, we’ve been working with stakeholders and customers to better understand the needs, challenges and opportunities of each county.

We've engaged with 95,000 people in Cumbria, Lancashire, Merseyside, Greater Manchester and Cheshire, shaping our plans for each county to address the things that they have told us matter most.

This has helped us to develop not just one plan, but five individual plans for the 2025–30 period, adapted to meet the diverse needs of each county. We call it place-based planning.

Adopting this approach means we will deliver outcomes that are tailored for customers in the places where they live. We hope that by setting out our plan this way, we have made our investment plans and the benefits they would deliver more meaningful to customers and communities.

These pages set out some of the characteristics of each county, and how we plan to address its individual challenges and opportunities.

Cheshire

River water quality is important for Cheshire and, while it has transformed over the last 30 years, there is still much to do. Our plan targets improvements to 24 kilometres of rivers and tackles 63 storm overflows in Cheshire. We will work with partners, building on our innovative Cheshire Hub partnership, to identify opportunities to work collaboratively and deliver nature-based solutions to improve our rivers.

Agriculture is a dominant industry across the Cheshire environment and a key part of its economy. It is important that we work closely with local landowners and farmers to ensure sustainable catchment management practices that do not impact on water quality. Through our Catchment Systems Thinking approach, also known as CaST, we collaborate with farmers to take a joined-up and holistic approach to farming and protecting water quality.

With an ageing population across Cheshire, we recognise how important it is to have a service tailored to customers' individual needs. We will offer sector-leading support for vulnerable customers with additional needs through our Priority Services schemes.

Many customers in and around Cheshire receive their water supply from Lake Vyrnwy in Wales. This is supplied through the Vyrnwy Aqueduct. Our business plan includes investment to improve 65 kilometres of the Vyrnwy Aqueduct, helping to secure a long-term resilient supply for current and future generations and reduce discolouration.

Due to the flat nature of the area, some areas of Cheshire are vulnerable to flooding. We are partnering with local authorities to reduce flood risk, such as the Northwich flood defence scheme, and we are working with the National Trust to trial leaky dams at Lyme Park – improving water quality and slowing flows to deliver natural flood management.

Cumbria

Cumbria is home to some of the wettest areas in England. Over a third of the North West's water supply originates in Cumbria, captured in reservoirs and transported across the region. We will work to increase the resilience of supplies during dry weather events and ensure that in doing so, the environment is protected. We will improve the catchments that protect raw water quality, delivering sustainable abstraction now and for the future. We will also work to improve the resilience of our assets to flooding.

Keeping rivers and lakes clean is hugely important. Our plan targets improvements to 219 kilometres of rivers and tackles 158 storm overflows in Cumbria. This will help to ensure great river water quality, protect biodiversity, and contribute to achieving bathing water standards across coastal and inland bathing waters. Over 500,000 hectares of land across Cumbria are farmed. We work with farmers to support sustainable agricultural practices to maximise benefits for river water quality, such as in the River Petteril where our work with dairy farms is improving rivers.

Cumbria has a wide variety of special landscapes: two national parks; two world heritage sites; three areas of outstanding natural beauty; and hundreds of designated sites of special scientific interest. We will continue to invest, working alongside partners, to protect these landscapes and manage our catchment land. Cumbria is home to Britain's Energy Coast, where more than 5 per cent of the nation's electricity is generated, and our infrastructure is critical in supporting this and the growing 'green energy' sector. Our plan also includes 2,144 hectares of peatland restoration across Cumbria.

Cumbria has finely balanced needs across the tourist economy, food production, and delivering for protected environments. Preserving this balance is critical over the long term. We will provide services that respond to changing needs throughout the year and work with other partners to preserve the environment.

Greater Manchester
Flooding from rivers, sewers and surface water presents significant challenges for homes and businesses in Greater Manchester. We will work with partners to deliver an integrated water management plan to minimise the risk of flood and disruption. Through using nature-based solutions, we also aim to deliver more green spaces.

River water quality in the Irwell and Mersey catchments requires significant improvement due to the legacy of the industrial revolution and the impact of transferring and treating wastewater from 2.8 million people. Of the North West's storm overflows, 37 per cent are in this county – that's over 800 overflows. Our plan would see us invest over £2 billion to improve the river environment in and around Greater Manchester, tackling 105 overflows and improving 82 kilometres of rivers along the Mersey, Irk and Irwell.

Affordability is a challenge for many customers across Greater Manchester. We offer sector-leading support to customers who face difficulty when paying their water bill and have put in place extra support for vulnerable customers with additional needs.
Customers in and around Greater Manchester receive their water supply from Haweswater in the Lake District, transported by gravity through a 110 kilometre long supply pipe – the Haweswater Aqueduct. We will invest in this pipeline to secure a long-term resilient supply for future generations.

Through partnerships, we will provide the critical water infrastructure to support growth in this booming county, and our investment and creation of more high-skilled green jobs will help develop the green economy.

The Greater Manchester Combined Authority's vision for the county is that it be 'a place for everyone'. We want to support it to achieve this for its diverse population of 2.8 million people and over 120,000 businesses.

Lancashire
Lancashire's coastline and popular beaches mean that bathing water quality is a priority for both customers and visitors to the region. With multiple coastal towns and cities such as Blackpool, Morecambe and Southport relying on tourism-related revenues, it is important that we continue to invest and work with partners to ensure the right solutions to improve bathing water quality.

Lancashire is home to some of the region's most beautiful natural features. The county is carved by many rivers drained from the Pennines, including the Ribble, Wyre and Lune, all of which drain to the west of the county, and enter the Irish Sea. Protecting the Areas of Outstanding Natural Beauty of Lancashire from increasing threats from climate change, including wildfires, flooding and drought, remains a priority. Another priority is ensuring damaged peatland in East Lancashire and the Pennines is restored, in order to protect this important store of carbon and minimise its adverse impact on water quality. We will work in partnership with environmental NGOs to deliver environmental benefits, and actively prevent the destruction of habitats.

Victorian sewer systems are particularly prevalent in the historic towns of East Lancashire, with higher proportions of overflows. We're investing to reduce the number of spills from 91 storm overflows in the area, and protecting and improving water quality and amenity along 35 kilometres of rivers along the Ribble, Lune and Wyre. We're bringing forward part of this investment so we can start work on improving many of these sooner.

There are a mix of socio-economic levels across Lancashire. It is important we make provision for those who may need more support. Our sector-leading affordability and vulnerability support is important for many people across the county, and our plan sees us doubling our support by 2030.

Merseyside

The River Mersey is an iconic part of this increasingly vibrant region. Water quality in the river has transformed over the last 30 years, but there's still more to do.

Liverpool has the highest proportion of combined sewers, which creates surface water management challenges and means a high number of overflows. Reducing the frequency that these overflows operate requires re-plumbing the sewer system and we have a long-term plan for this. Our AMP8 plan targets improvements to 26 kilometres of rivers and tackles 20 storm overflows in Merseyside. We have also proposed spending over £11 million in 'Cleaner Mersey' to investigate the best way to deploy the much larger anticipated investments required in the next ten to 15 years.

Merseyside has a significant length of coastline, making parts of the coast vulnerable to coastal erosion and flooding, which are forecast to become more frequent with climate change. Our plans would see us invest to ensure assets are resilient to climate change and the impacts of coastal erosion, and protect up to 169 homes from flooding. We have also proposed investment across the Merseyside coastline to benefit bathing and shellfish waters.

The population and economy of Liverpool are growing, and our water infrastructure needs to develop to support this growth. Customers in Merseyside receive their water supply from sources in Cheshire and Lake Vyrnwy in Wales. We will invest in our water supply pipeline to secure long-term resilient supplies from Lake Vyrnwy for future generations.

Affordability is a real concern for some customers in Merseyside. There are concentrations of extreme deprivation and four of the ten most deprived areas in England are in this area. We will continue to offer sector-leading support to customers who face difficulty when paying their water bill and have put in place extra support for vulnerable customers with additional needs.

How we create value

We create sustainable long-term value for a range of stakeholders

Customers

In the short/medium 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, as well as providing help and support for those who are struggling to pay.

In the long term:

• Our water and wastewater services make a major contribution to the long-term health and wellbeing of customers in the North West, providing clean safe drinking water and hygienic sanitation.

• 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, helping to keep bills affordable.

• Providing additional help to vulnerable customers helps us to build long-term trust.

Environment

In the short/medium term:

• We meet increasingly stringent environmental consent levels and are investing to reduce the use of storm overflows, helping to improve the quality of rivers and bathing waters, which in turn helps to support tourism in the region.

• Our investment in renewable energy generation is reducing our carbon footprint and contribution to climate change.

• Investment in infrastructure, such as our West-East Link Main and West Cumbria pipeline, allows us to transfer water around the region more efficiently to avoid depletion of individual water sources.

In the 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 and nature-based solutions to solve environmental challenges for future generations.

• We manage our land in a way that safeguards habitats and protects the 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 environments across the North West.

Communities

In the short/medium term:

• We look after 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 in nature.

• Working in partnership with others means we can accomplish more in tackling mutual issues, such as partnering to engage people with nature and river improvements.

• Our operations and projects are often near homes and businesses, and we engage with these communities to build understanding and trust.

In the long term:

• Our graduate and apprentice programmes ensure we have a diverse and skilled talent pipeline providing skills development and opportunities across the region.

• Managing land responsibly means we leave the North West region 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 that nature provides.

Colleagues

In the short/medium term:

• We have a strong focus on health, safety and wellbeing and our number one priority is that all colleagues go home safe and well at the end of the day.

• We invest in training and development to enable our colleagues to grow their skills and to keep them motivated.

• Listening to our colleagues helps to create an engaged workforce, increasing job satisfaction, and through colleague communications and conferences we update our people on business developments so they feel part of a team.

In the long term:

• Investing in the development of current, and future, colleagues 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 in the region.

• We provide pension offerings that support colleagues in later life.

• Promoting equity, diversity and inclusion helps ensure we have a workforce that truly represents the region.

Suppliers

In the short/medium term:

• We spend significant amounts of money with our suppliers each year to help deliver maintenance and enhancement projects across our asset base. This investment 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, so lower risk, they work closely with us to address human rights, and in particular modern slavery.

In the 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. Our AMP8 business plan supports 30,000 jobs, directly and through our supply chain, including 7,000 new skilled jobs created.

• 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 everyone that works with us.

Investors

In the short/medium term:

• We are committed to high ethical standards of business conduct, strong corporate governance and doing the right thing 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 focus on innovation drives continuous improvements, enabling us to be at the frontier of our industry.

In the long term:

• We plan far into the future and invest in our infrastructure to ensure sustainability and operational resilience.

• 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.

The value that we create goes wider than our direct stakeholders

Bringing people together

We have undertaken a number of initiatives that bring people together across a variety of organisations and different industries. Our summits on affordability, vulnerability, and diversity and inclusion help us to share ideas and best practice, driving improvements that go wider than our region and customers. The Hardship Hub enables debt advisers to help more people and find cross-industry help more quickly, all in one accessible place.

Reducing emissions helps to mitigate climate change

Climate change is a real and present risk, and we are committed to contribute to, and prepare for, a global transition towards a low-emission economy.

We are playing our part to help mitigate climate change, and we set out on pages 37 to 39 of the UUG 2024 Annual report and financial statements our transition plan to reach net zero by 2050, underpinned by our six carbon pledges and ambitious science-based targets.

Contributing to public finances

We are committed to paying our fair share of tax and have held the Fair Tax Mark for five consecutive years.

We paid total taxes of £240 million this year, including business rates, employment taxes, and environmental taxes. These help to fund essential public services across the country.

Charitable activities

We provide colleagues with up to three days' paid volunteering leave per year, match individual colleague fundraising efforts to any UK-registered charity up to £200 per person per year, and cover the admin fees of payroll giving, or 'Give As You Earn'.

We achieved bronze in the Payroll Giving Quality Mark this year, after colleagues donated more than £80,000 to their favourite charities.

Working with SMEs and start ups

We are undertaking our fifth Innovation Lab process this year, following previous successes with a range of partners.

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Our Innovation Lab process creates a unique opportunity for small and medium-sized enterprises (SMEs) and start ups, who we would otherwise not have worked with, to develop and test their products and ideas in a live customer environment.

Dividend income for a diverse investor base

The shareholders of the parent company, United Utility Group PLC, include charities, customers, pension funds that provide income to millions of people every year, and colleagues holding shares under our employee share scheme. This means that the predictable and progressive inflation-linked dividends that we pay to UUG, and which are subsequently paid onwards to the shareholders of UUG, are relied on by millions of people, both directly and indirectly, in the North West and the wider world.

Materiality assessment

Assessing and prioritising material themes

In order to ensure we are disclosing relevant information across this integrated report, as well as our corporate website and other communications, we have conducted a materiality assessment that considers material themes and their potential impact on both our ability to create value as a company and the value we create for our many stakeholders.

Stakeholder views and priorities

There are a number of stakeholders who take an interest in the water industry, its role in society, and the North West region. We actively engage with these stakeholders to help us understand their views and priorities.

Understanding what matters to our stakeholders helps us to prioritise areas for focus and investment, enabling us to factor their views into strategic decision making at board level, as set out in our S172(1) Statement on pages 26 to 28.

This understanding feeds into our materiality assessment, giving rise to the materiality matrix on the page opposite, which drives the matters disclosed across this report, helping to ensure we are disclosing relevant information of interest to our stakeholders.

Other considerations

In defining the strategic relevance of a theme to the company, we continue to adopt the integrated reporting <IR> framework definition of materiality and value creation. This means considering the impacts of the company on all of our stakeholders, alongside our dependencies, i.e. the impacts of the material themes on the company. This value may be financial or non-financial. This approach is consistent with the concept of double materiality.

In this year's assessment, we have also considered the definition of materiality adopted by the International Sustainability Standards Board (ISSB), which strengthens the concept of considering a material risk or opportunity from a level of interest to stakeholders to consider the impact on value created for stakeholders, in addition to the potential effect on our ability to create value as a company.

Disclosure guidance from the ISSB suggests that material sustainability-related risks and opportunities are discussed using a four-pillar approach, in line with the TCFD and TNFD frameworks. We have adopted this approach to report on our most material themes (which represent areas of risk and opportunity), as set out on page 23.

2023/24 assessment

We have carried out a thorough review of our material themes and materiality matrix. 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 of our stakeholders.

The applicability of industry-specific topics in the Sustainability Accounting Standards Board (SASB) standards were also considered as part of this assessment, as required by the ISSB S1 standard.

Read more on our website at unitedutilities.com/corporate/responsibility/our- approach/esg-reporting/sasb
Our materiality assessment is aligned closely with our assessment of principal risks and uncertainties, with close linkage between the themes highest in terms of company value (horizontal axis) and our top principal risks and common causal and consequence themes identified.

Our assessment process this year identified 29 material themes.

Spotlight on: river water quality and storm overflows

The protection of rivers across the UK, and in particular the use of storm overflows, has rapidly grown in significance in recent years, now sitting in the top five themes.

Storm overflows and storm tank discharges have been an important part of the sewerage network for over 150 years, acting as a safety valve for sewers at times of heavy rainfall, protecting homes, businesses and land from pollution events, but this needs to change.

In normal conditions, sewage, mixed with rainwater in wet weather, transits through our wastewater treatment works, and only treated water is returned to the natural environment. If the flow is too much for the works to deal with, it is usually stored in tanks until the incoming flows have returned to normal levels. Then the tanks are emptied and the water is treated.

Our sewers are typically no more than 15 per cent full in dry conditions but, when rainfall is very heavy and the tanks fill to capacity, overflows act as a pressure relief valve allowing rainwater, mixed with sewage, to rise inside the sewer and eventually enter a separate pipe, which flows into a river or the sea. Sewers operate this way to help prevent the flooding of streets, homes and businesses.

The North West has 54 per cent combined sewers, receiving a mix of rain and sewage, compared with the industry average of 33 per cent. We also have 40 per cent higher urban rainfall than the average for England and Wales, so considerably more surface water enters our sewers.

When overflows are activated they can sometimes affect river and bathing water quality. With more extreme rainfall events and significant population growth expected over the next 25 years, more foul and rainwater will be entering our sewers, and the use of storm overflows would increase if investment needs were not addressed.

We understand and share concerns around this and we are committed to driving a step-change, recognising this as one of our six strategic priorities.

This significant change will not happen overnight, and we have 25 per cent more storm overflows than the industry average to tackle. We are proposing a long-term programme of investment that will deliver significant changes to the region's sewer system and increase in capacity. This will reduce the use of combined storm pipes and creating new ways of storing and dealing with excess wastewater at times of heavy rainfall.
We have made a fast start to a very ambitious plan that is already delivering improvement, and we are keen to go further faster, as discussed on pages 69 and 70 of the UUG 2024 Annual report and financial statements.

Materiality matrix

Our materiality assessment process:

• Define: We reviewed current best practice in materiality reporting. The assessment criteria was confirmed as potential value creation for both the company and stakeholders. Building on our existing matrix, we evolved the matrix design to integrate fully with our strategic priorities. This assessment provides the basis for disclosures included in this report, with more detailed commentary on the most material themes.

• Engage: Views were obtained from across all our stakeholder groups. Insight from consultations and data was made available through the engagement processes. Key internal subject matter experts and stakeholder relationship managers provided further insight on themes.

• Assess: Comments and data were drawn together to form an initial view of the themes. The rationale for theme selection and its significance was reviewed and approved by the executive team. This included potential new themes, removal of themes, and movement of existing themes.

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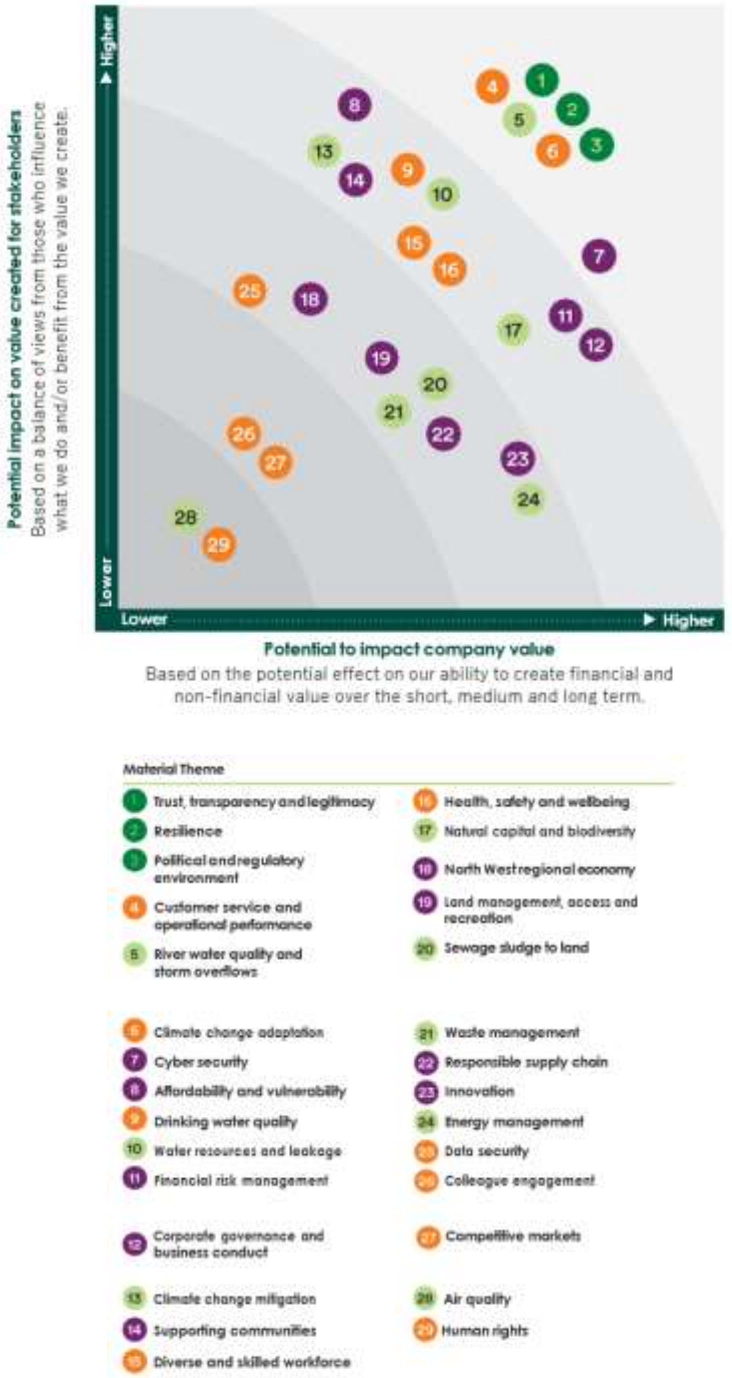
- Align: We cross-referenced and aligned identified themes with SASB industry-specific topics and our principal risks and uncertainties. Matrix visuals were then created to easily display the prioritisation of themes.

Themes are plotted on the matrix from higher (top right) to lower (bottom left) in terms of their potential to impact company value (horizontal axis) and their potential impact on the value we create for stakeholders, and have been colour coded according to the key elements of our purpose.



Strategic Report

Reporting on our material themes

Information on all material themes can be found within our report and corporate website.

The top three overarching themes are covered across the entire report:

• Our comprehensive disclosures across this report and our corporate website provide leading levels of transparency, and our integrated reporting approach ensures all material matters, financial and sustainability-related, are covered together in an understandable way that represents the integral nature of sustainability to how we run our business and create value.

• Resilience is a key consideration in our planning, including the very long-term approach we take and our adaptive planning approach. It is key to the way we manage our key resources, and resilience in the round is the ultimate focus of our robust risk management procedures.

• The external environment in which we operate, including the political and regulatory environment and the developments around the price review and our AMP8 business plan submission.

As set out in our business model, we provide disclosures across the four pillars set out by the ISSB – strategy, governance, risk management, and metrics and targets. For each pillar, we set out general company information followed by information relating to our most material themes, i.e. the remaining themes that sit within the upper two segments of the matrix. These are split into the key elements of our purpose – greener (climate and nature-related), healthier and stronger. The 'greener' elements also cover our disclosure requirements under the TCFD (climate- related) and TNFD (nature-related).

Our planning horizons

We plan for the short, medium and long term, using an adaptive planning approach, which helps to ensure we are delivering our purpose in a sustainable way.

Short-term planning (1 year)
We set annual, measurable targets, but retain flexibility to enable us to respond to challenges that may arise.

Short-term planning helps us work towards our medium and long-term goals and provides us with measurable targets so we can continually monitor and assess our progress. Before the start of each financial year, which runs from 1 April to 31 March, we develop a business plan that is reviewed and approved by the board. This sets our annual targets to deliver further improvements in service delivery, environmental targets and efficiency, helping us move closer to our longer-term goals.

Performance against these stretching targets determines the annual bonus percentage that is awarded to executive directors and all colleagues right through the organisation. To avoid encouraging short-term decision making and ensure management is focused on the long-term performance of the company, executive directors and senior leaders are also remunerated through a long-term incentive plan (LTP).

The LTP assesses three-year performance and includes return on regulated equity (RoRE) alongside a basket of customer and environmental measures, including carbon. Executive directors hold regular business review meetings with senior managers across the business to track progress against our annual targets.

It is vital that we retain flexibility within this short-term planning so we can adapt to meet challenges that may arise during each year while continuing to deliver resilient and high-quality 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 to prioritise expenditure and focus our time on dealing with unexpected challenges that may arise.

The extreme weather we have seen in recent years demonstrates how important it is that we retain this flexibility, as we are already experiencing the impacts of climate change and the challenges it brings.

Hot, dry summers can lead to drought triggers being crossed, while prolonged excessive periods of rainfall at other times heightens the risk of flooding, and rapid freeze-thaw events during winter cold snaps put enormous pressure on pipes leading to more likelihood of leaks and bursts. Our adaptive approach to planning positions us well to tackle these challenges.

Medium-term planning (up to 2030)
Aligned to the commitments in our AMP7 final determination and our AMP8 business plan.

The majority of the group's activities sit in our regulated water and wastewater business - United Utilities Water Limited (UUW). Our medium-term planning mostly sets out how we will deliver against the commitments in the final determination published by Ofwat for UUW for each five-year asset management period (AMP), and our plans for the next one. Our medium-term plans are also designed to help us work towards our long-term delivery strategy, which accompanied our AMP8 business plan submission, to build and maintain resilience, and help us fulfil our purpose.

To ensure we deliver for all stakeholders, including customer preferences and environmental requirements, we align our plans to these priorities in line with key published methodologies. We engage in extensive research to ensure our plans are robust and balanced, targeting the best overall outcomes for all our stakeholders. Following scrutiny and challenge from Ofwat, we receive the final determination, which sets the price (in terms of total expenditure recovered through customer bills), service level, and incentive package that we must deliver over the five-year period. This includes an expected return to meet financing costs.

Adaptive planning is important in meeting our medium-term targets in the most effective and efficient way. During the current 2020–25 period (AMP7), we have adapted our total expenditure (totex) in three ways.

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

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

Third, we are accelerating around £400 million of AMP8 expenditure into the final two years of AMP7, helping us to speed up delivery of environmental commitments, improving river health and reducing the use of storm overflows.

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

Long-term planning (up to 2100)
We plan far into the future, using adaptive planning pathways to ensure we can respond to risks and opportunities that may arise.

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

Depending on the context, long-term can mean 2050, 2100, or beyond. We review this information as part of our long-term planning and risk management processes, through which we assess and manage opportunities and risks from climate change, population growth, increased market competition, water trading, more stringent environmental regulations, developments in technology, and combining affordable bills with a modern, responsive service.

Our website has a dedicated section where we examine key long-term challenges and how we will focus our resources and talents to meet them. You can find our:
• Drainage and Wastewater Management Plan – examining the risks around flooding, pollution, storm overflows, and wastewater treatment over a 25- year period;
• Water Resources Management Plan – setting out the investment needed to ensure we have sufficient water to continue supplying customers, taking into account the potential impacts of climate change, covering a 25-year period and considering consumption and climate forecasts out to 2080;
• Drought Plan – setting out the actions we will take to manage drought risk, updated every five years; and
• Adaptation progress reports – setting out the current and future predicted impacts of climate change on the business and our proposals for adapting to a changing climate.

Our long-term delivery strategy out to 2050 is embedded into our plans for AMP8. We use whole-life cost modelling and maintain a robust financing structure to ensure we can invest efficiently to meet our long-term plans. Our training and development, graduate and apprenticeship programmes, and work with schools to encourage STEM careers, all help to ensure we retain the skills we need in the North West to continue delivering these plans.

S172(1) Statement

Our key decisions during the year to 31 March 2024.

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

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

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

The board of directors of United Utilities PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172 Companies Act 2006, in the decisions taken during the year ended 31 March 2024 including:

AMP8 business plan submission and long-term delivery strategy

The decision

The AMP8 business plan was approved for submission to Ofwat on 2 October 2023.

How we engaged with stakeholders

Customer and stakeholder engagement directly informed the development of our business plan. Our five-year business plan is set in the context of a 25-year long-term delivery strategy (until 2050). We wanted customer insight and research to directly inform our business plan, which covered ambition and performance commitments, such as water supply, customer experience, affordability, biodiversity, and carbon/ net zero. Engagement was conducted in a variety of ways including: setting up customer focus groups, workshops and online community panels, carrying out face-to-face surveys and over the phone and online, and working with our partnerships, in addition to the countless conversations taking place daily. YourVoice, the independent challenge group for the North West continued in its role to review and challenge our approach to research and engagement, closely examining our strategies and plans relating to affordability, social value and the environment.

This year, we ran 'Your water, your say' online panels for each of the North West's five counties – Cumbria, Lancashire, Merseyside, Greater Manchester and Cheshire – with a further workshop open to attendees from across the entire region. At panel sessions, the CEO and selected members of the executive team answered questions from customers and stakeholders. Each county session was facilitated by an independent chair from YourVoice, while for the regional session, an independent chair was appointed by Ofwat and the Consumer Council for Water.

The panels held in June sought feedback on the proposed business plan, seeking views from customers and stakeholders about our proposals; at those held in November we shared details on the actual plan submitted to Ofwat and how stakeholder insight had shaped this. Attendees were encouraged to ask questions on any topic of their choice or to submit questions in advance for the chair to raise on their behalf. The output of the sessions in June was taken into consideration in formulating the business plan, the customer aspects of which, was reviewed by YourVoice. In total, over the 12 sessions, around 2,000 stakeholders registered their interest, with around 700 joining the sessions. Over 300 questions were answered at the November sessions alone.

The board's view

The board were satisfied, supported by independent third-party assurance, that the customer research and stakeholder engagement was of high quality and that the business plan consistently reflected customers' and other stakeholders' views and priorities obtained during the course of our research and testing. The board believes that having our business plan informed by customer and stakeholder views would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Five counties model

The decision

To structure our operations by integrating our network and treatment activities, deliver our plans and invest in new capabilities on a regional basis, and in doing so communicating and providing more transparency than before about our services to our regional stakeholders and recognising the regional differences of the five counties within our area.

How we engaged with stakeholders

Building on the wider stakeholder engagement of the online 'Your water, your say' county workshops, all colleagues were invited to an event held in Blackpool where they learned about the business plan and the new five counties operating model. We engaged with community and environmental groups and charities and held both a Rivers Forum and Customer Vulnerability Summit in November 2022. We wrote to every MP and local authority offering to talk through the benefits our plan will deliver in each county. There have been several follow up conversations with these stakeholders to explore opportunities for greater collaboration on improving how water is managed across the region.

The board's view

The five counties in the North West are varied in nature, experiencing a range of different social conditions and natural environments from the predominantly rural and sparsely populated Cumbria to the urban and densely populated cities of Liverpool and Manchester in Merseyside and Greater Manchester respectively.

Each area provides its own challenges and opportunities, and no more so than when it comes to the delivery of water and wastewater services to customers. Additional demands on water and wastewater infrastructure are expected to be concentrated in certain high-growth areas, such as Manchester and Carlisle. We know that protecting the environment and the quality of coastal waters is important for customers and the regional economy with notable tourism hotspots such as the Lake District, designated as a UNESCO World Heritage Site in 2023, and Blackpool. Along our region's coastline we have 29 designated coastal bathing waters, and 26 designated shellfish waters. The North West marine plan areas are of particular importance to numerous bird species, including Liverpool Bay, which is designated as a marine special protection area. Population growth and the associated development of new or extended urban areas means water efficiency and rainwater management are key priorities during AMP8 and the longer term. The board believes the county approach to deliver our plan would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Clean energy and renewables

The decision

The board endorsed the aspirations of the group's clean energy strategy focusing on bioenergy, renewable energy generation – the majority of the opportunities identified being 'front of meter' schemes selling power back to the grid, and battery storage facilities.

How we engaged with stakeholders

Feedback from investors and analysts towards investment in clean energy opportunities continues to be supportive, using funds from shareholders and so outside of the regulated business. We are participating in a pioneering carbon-capture facility, funded by the Department for Energy Security and Net Zero through their Direct Air Capture and Greenhouse Gas Removal Innovation Programme, which will be constructed on our head office site at Warrington. Once the facility's carbon-capture capabilities are proven, the heat and power generated by the process could be redirected to heat our on-site buildings as part of our long-term decarbonisation of the site.

The disposal of United Utilities Renewable Energy Limited (completed in September 2022) provided capital to invest in non-regulated activities and we know that our customers are supportive of our net zero ambitions, particularly when the costs are not impacting customer bills.

The board's view

United Utilities uses around 800GWh each year of electricity – costing in the region of £160 million during 2023/24 and with usage forecast to increase, we need to take every opportunity to minimise our electricity usage as well as de-risk our susceptibility to energy price volatility.

The clean energy generation opportunities identified to date are predominantly solar arrays. Approximately 1,000 hectares of the company's land assets across 142 locations are considered to be potentially suitable for development in this way. In generating clean energy and using battery storage facilities we will be improving our resilience and energy security and provide mitigation for energy usage/price volatility. We are particularly mindful of the potential human rights/forced labour supply chain risk in the manufacture of solar panels and batteries, including the component parts and minerals used in battery manufacture. Mitigation of this risk will be managed through the human rights and modern slavery working group and our United Supply Chain approach.

The board believes our approach to clean energy will contribute toward the achievement of our net zero ambitions and our strategy to create a greener future for the North West and would be most likely to promote the long-term success of the company for the benefit of its members as a whole.

Risk management

Our approach to risk and resilience

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

Our risk and resilience framework provides the foundation for the business to:

• anticipate threats and variability to delivering an effective service in these challenging times;

• understand the interrelationships and interdependencies for an integrated approach;

• apply preventative measures to avoid, or increase resistance and reliability; and

• 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, we continue to encourage an integrated approach through:

• maturing the escalation of data from operational risk assessment;

• reinforcing reputational impact (the impact on trust) using the six capitals and stakeholders to emphasise this;

• standardisation of controls for cross business analysis; and

• the continued development of tactical appetite and tolerance statements.

Roles and responsibilities

In addition to the governance and reporting structure, the risk and resilience framework incorporates specific roles and responsibilities. Executive members (business unit heads) are accountable for sponsoring risk management activity in their business unit; for the determination of strategic risk appetite (the propensity to take risk and apply control); and tactical level tolerances for each event-based risk. Executive sponsors delegate responsibility for the risk assessment, and the implementation of control/risk mitigation to risk sponsors. Risk sponsors are senior managers who identify and consult with cross-business control owners on the effectiveness of controls, and action owners for the determination and progress of further mitigation. Control and action owners are typically subject matter experts who have the remit to mobilise resource.

Supporting these risk management roles are a network of risk leads and coordinators within each business area who support the corporate risk team in the coordination and facilitation of the risk management process.

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 appetite statements that align directly to the inherent risk area. Each statement reflects the strategic intent, strategic priority, 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 inherent risk areas 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 identified for each of the event-based risks.

Inherent risk areas and the risk profile

A key feature of the business risk profile is the ten inherent risk areas. These are categories of risk that are based on the value chain of the company, reflecting the interrelationship of the primary and supportive structures or activities across the business where value can be gained, preserved or lost. As a result, they support the identification and/or gap analysis of risk, facilitate analysis of correlation and interdependency, and provide the platform for determining risk appetite and tolerance, which in turn helps us to articulate our direction and priorities to support decision making around risk and resilience.

Underpinning each inherent risk area are the event-based risks, which are reviewed at the integrated risk reviews at the full and half-year reporting cycle. There are currently approximately 100 event-based risks, which are inherent to the company's objectives and obligations, and cover core elements of the production lines, systems, networks and activities across the business. Each event-based risk is sponsored by a senior manager who is responsible for the ongoing assessment and treatment (management) of risk. Each event-based risk remains dynamic by reflecting new and emerging circumstance relative to the ever-changing external threats and internal vulnerabilities.

Water service	The assets and operations to deliver a reliable supply of clean safe drinking water.	• Water services director	• Water quality – Averse
Wastewater service	The assets and operations to remove, treat and return water to the environment, and the disposal of sludge to land.	• Wastewater services director • Bioresource and green energy director	• Wastewater – Prudent • Bioresource – Moderate
Retail and commercial	All aspects of business development, income generation and cash collection in regulated and non-regulated businesses.	• Customer and technology director • General counsel and company secretary	• Retail – Averse • Non-regulated commercial activity – Moderate
Supply chain and programme delivery	All elements of the supply chain and the delivery of capital, operational or change programmes.	• Capital delivery, engineering and commercial director • Transformation and strategic programmes director	• Supply chain – Prudent • Programme delivery – Moderate
Resources	The resource to support core business activity, including people (capacity and capability), technology (applications, systems, services and infrastructure), property (other than operational assets) and fleet.	• Customer and technology director • People director • Bioresource and green energy director	• Technology, property and fleet – Moderate • Human resources – Prudent
Financial	The financing and financial control of business activity, including operational expenditure, capital investment, treasury, pensions and tax.	• Chief financial officer	• Finance – Prudent
Health, safety and wellbeing	The potential harm to colleagues, contractors, or the public.	• People director	• Health, safety and wellbeing – Averse
Environment	The influence the environment has on water, wastewater and bioresource assets and the impact our operations can have on the environment (air, soil, water and biodiversity) in the short and longer term.	• Asset management director	• Environment – Averse
Security	The security and protection of our colleagues, the public, data assets.	• General counsel and company secretary	• People, data and critical infrastructure – Averse • Other assets – Prudent
Conduct and compliance	All elements of the regulated, legal and ethical frameworks associated with being a regulated water and wastewater company, which is listed on the stock market with multiple stakeholders.	• Corporate affairs director • General counsel and company secretary • Regulation and compliance director	• Statutory and regulatory – Averse • Conduct and standards – Prudent

Our strategic priorities

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

How we assess and manage risk

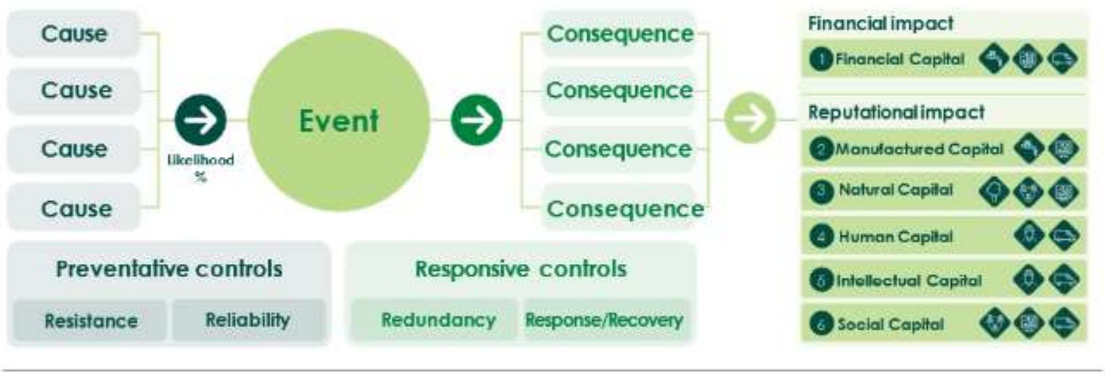
We have a number of mechanisms in place to identify risk, including: the inherent risk areas; the water cycle; cross-business horizon scanning forums; consultation with third parties; and comparison with national risk registers. Understanding the context of the risk is a fundamental part of the assessment, and relative to our objectives and obligations. It takes into account new and emerging circumstances from the internal and external business environment, and utilises bottom-up information from operational and project risk assessments where appropriate. Risk assessments are also supported by top-down assessments as described in the governance section.

This integrated top-down – bottom-up approach ensures that reporting reflects the risks facing the company, serves to calibrate the risk assessments, and enables assessment of the risks relative to our appetite.

Following an update of the risk context, the process then quantifies the risk for likelihood and impact with the bow tie diagram below illustrating the components of risk. The likelihood of the event occurring is based on the causal factors with the financial and reputational impacts reflecting the consequences of the event should it occur. Financial impact include loss of revenue, additional costs, fines, regulatory penalties and compensation. Reputational impact represents the impact on stakeholder trust and the six capitals.

The full range of financial and reputational impact is considered from a minimum (best case) to a maximum (worst case) scenario.

Out of this range, the most likely impact scenario is assessed. 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. Further mitigating action will target either the likelihood of occurrence, the impact, or a combination of both, through new or improved preventative or responsive controls. Further mitigating actions have a specific owner as per roles and responsibilities, specified resolve by dates and progress status indicators to support monitoring.



Common themes

Recognising the value of an integrated approach to risk and resilience management, we consider common themes across the event-based risks. This enables us to take a holistic view of the strengths, weaknesses and gaps in our control, enabling us to take appropriate action.

As part of our risk assessment, we have identified a number of common causal and consequence themes that relate to multiple risks. This allows us to understand correlating risk and take a holistic view of the short, medium and long-term implications of risks materialising. Categorisation indicates seven causal themes and six consequence themes.

As illustrated in the bow tie diagram above, each of the event-based risks have multiple causes and consequences, with impacts that range across all six capitals and stakeholders. Preventative and responsive controls (incorporating four components of resilience – resistance, reliability, redundancy and response/recovery), are also critical to understanding how to reduce the likelihood of the event occurring, limit the impact if the event were to materialise or both.

Common causal themes

Categorisation of all causal themes indicate seven common themes:

• Asset health: Asset deterioration, technological obsolescence and operating assets beyond their optimal capacity to cope with increased demand (population growth and/or climate change) affect operational efficiency and resilience.

• Culture: Internal company attitude and behaviour, and external perception and expectations of wider society can lead to increased threat and vulnerability as an organisation relative to service delivery, capital programmes and reputation.

• Demographic change: Population growth/ shift and evolving age profiles can impact the capacity and capability of water and wastewater treatment and network assets, can affect demand on water resources, and increase uncertainty in relation to pension obligations.

• Economic conditions: Macroeconomic events can have multiple financial implications, including: lower revenue; reduced cash collection; increased operational cost through inflationary pressures; and increased cost of borrowing.

• Extreme weather / climate change: Climate change projections highlight increased temperatures, rainfall, wind and more frequent extreme variations in weather patterns with the potential to affect our service delivery and the environment that we strive to protect and enhance.

• Legislative and regulatory change: Changes in, or the interpretation of, legislation and regulation can have implications for our business model, asset base and ways of working.

• Technology and data: Aging technology assets, and poor quality data can threaten efficiency and security. In addition, the pace of technological change (including artificial intelligence), and seeking opportunities through increased automation and system integration, can also provide challenges in the adaptability of the workforce and increase security threats through greater connectivity.

Common consequence themes:

Categorisation of all consequences indicate six common themes:

• Environmental impact: The potential impact to air, soil, water and biodiversity in the short and longer term, based on our assets, activities, carbon emissions and waste.

• Investors: The financial, ethical and environmental performance of our activity have implications for the value of investments and the market perception of the company.

• Non-compliance: The potential inadvertent breach in legislation or regulation when undertaking our activities.

• People: The diversity, skill set, engagement and wellbeing of our colleagues and the health and safety of our people and the public relative to both our culture and activities.

• Service delivery: The quality of our service delivery, capital programmes and communication, and the effect on customer experience and trust with the wider community.

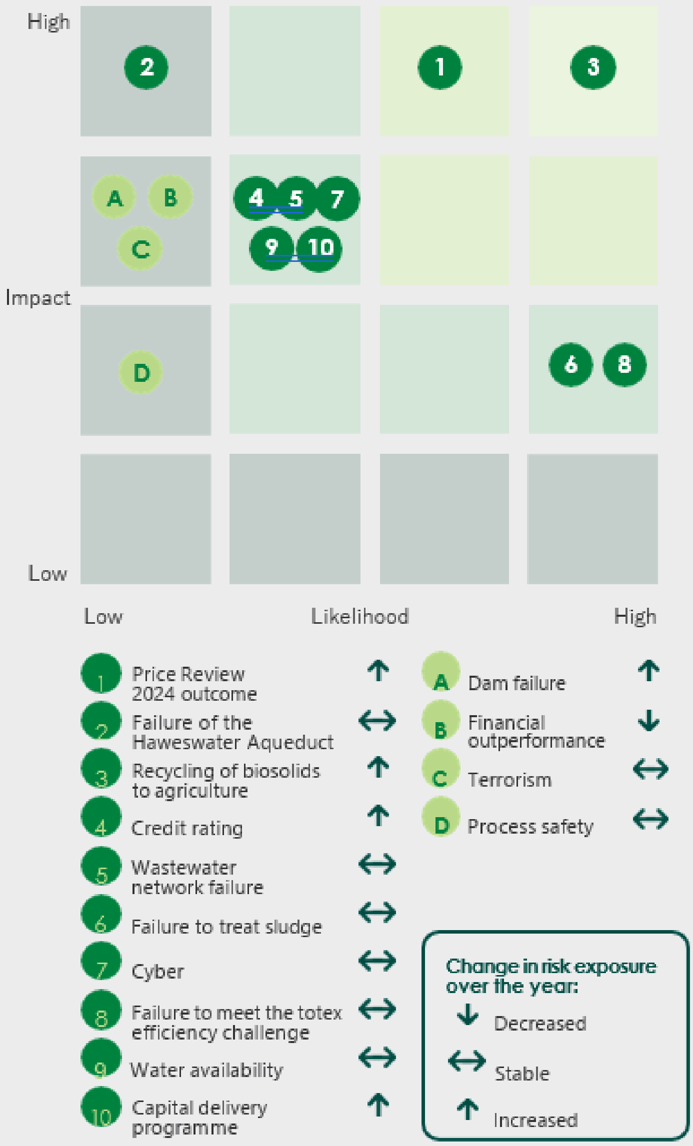
• Supply chain: The sustainability and resilience of suppliers can be affected by our culture and activities.

The company's principal risks and uncertainties

The most significant group risks represent our principal risks and uncertainties. These reflect the ten highest-ranked risks by exposure (likelihood of occurrence of the event multiplied by the most likely financial impact over the long-term) and those risks that have been assessed as having a significantly high impact, but low likelihood. The heat map diagram opposite provides an indicative view of these risks relative to each other, with the top ten ranking risks labelled 1–10, and those assessed as having high impact, but low likelihood labelled A–D.

Eight of the fourteen principal risks have remained relatively stable in the last year with the following principal risks demonstrating a change in exposure:

- **Price Review 2024 outcome:** Increase due to the competing issues of cost effective environmental improvement plans verses keeping bill increases to a minimum.
- **Recycling of biosolids to agriculture:** Increase due to the potential for regulatory change combined with changing climate impeding the availability of, or access to, land.
- **Credit rating:** Increase due to timing difference of investment and associated revenues which may affect financial ratios, and developments in the broader sector which could change rating agency sector risk assessments and related rating thresholds.
- **Capital delivery programme:** Increase due to the challenges associated with delivery of an expected significant capital programme over future asset management periods (AMPs).
- **Dam failure:** Increase following the routine cyclical reassessment resulting in the probability of one dam (now subject to enhanced control measure pending capital intervention) influencing the portfolio position.
- **Financial outperformance:** Decreased due to a less volatile inflationary environment as inflation starts to come down following its peak in the prior year.



The company's principal risks

1. Price Review 2024 outcome

Risk exposure: Following submission of our business plan to Ofwat, the risk relates to our expenditure allowance, performance incentives and penalties, and the allowable return on investment at the final determination. Risk factors include Ofwat's assessment of the quality and ambition of our plan, including cross company comparisons of stretching performance and delivery targets alongside efficient costs and alignment to customers' interests.

Control/mitigation: We believe we have presented an ambitious and high quality business plan with comprehensive supporting evidence and justification, and continue to liaise and work closely with Ofwat and other stakeholders.

Assurance: Second line assurance has been provided through a dedicated price review team and a PR24 programme board. There was a blend of internal audit and external assurance focused on the quality of the PR24 business plan and related submissions.

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 our 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).

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

3. **Recycling of biosolids to agriculture**

Risk exposure: We believe that recycling of biosolids to agriculture is the most practical environmental option, however, a reduction in the agricultural landbank could have significant implications to operations and expenditure into the long-term, with a total ban being the worst case scenario. Threats include the quality of biosolids, and changes in, or the interpretation of, regulations.

Control/mitigation: Treatment, sampling and testing ensures that quality standards are met, and we work closely with farmers, landowners and contractors to ensure compliance with regulations. In addition, we work closely with regulators and lawmakers to influence policy from an informed postilion.

Assurance: The bioresources team ensures compliance with the UK Biosolids Assurance Scheme (BAS) and other codes of practice. Second line assurance is undertaken by the assurance team, with third line assurance provided by internal audit, and external auditors certifying our BAS accreditation.

4. **Credit rating**

Risk exposure: Credit ratings are important for access to capital, meeting regulatory requirements and to give confidence to investors of our financial health. A potential downgrade in credit rating, leading to increased cost of funding, can occur due to: external factors (such as inflation and/or a change in sector risk assessment by a ratings agency); financial and/or operational performance; and a large capital programme which is not matched by equity support where necessary.

Control/mitigation: We continuously monitor financial markets, manage key financial and treasury risks within defined policy parameters, and we will review the capital structure once we have clarity following Ofwat's Final Determination for Price Review 2024.

Assurance: Second line assurance is provided by financial control and monthly executive performance review meetings, with oversight provided by the treasury committee. The treasury function is subject to regular internal audits.

5. **Wastewater network failure**

Risk exposure: Our sewer network can fail to operate effectively, resulting in unpermitted storm overflow activations, sewer flooding and environmental damage. Causes include blockages, operational failures or inadequate hydraulic capacity relative to population growth, extreme weather, asset health, and legal / regulatory change.

Control/mitigation: Key preventative measures include proactive maintenance and inspection regimes, customer campaigns and a sewer rehabilitation programme. Sewer network performance is subject to dynamic monitoring, and the Better Rivers programme is improving the capacity of the network.

Assurance: Second line assurance is provided by wholesale assurance, engineering technical governance and the flood review panel. The risk is subject to regular internal audits and external assurance of regulatory reporting.

Strategic Report

6. Failure to treat sludge

Risk exposure: Treating sludge to the appropriate quality relates to the capacity of our assets to cope with increasing volume relative to changing demographics, asset health and legislative / regulatory change, such as the Industrial Emissions Directive (IED).

Control/mitigation: We adopt a Throughput, Reliability, Availability and Maintainability (T-RAM) approach for our facilities, balance capacity and demand, undertake regular testing and analysis of sludge, and operate a programme of asset cleaning.

Assurance: Bioresources production planning team provides first line assurance on managing sludge treatment plant performance and capacity. Second line assurance is provided through our internal environmental, regulatory and technical advisers, and assurance team. Third line assurance is undertaken by the internal audit team.

7. Cyber

Risk exposure: There is an increasing and constantly changing cyber threat landscape, with the potential for data and technology assets to be compromised, leading to a major impact to key business processes and operations.

Control/mitigation: Multiple layers of control exist including a secure perimeter, segmented internal network zones, training and access controls. Constant monitoring and forensic response capability also exists.

Assurance: Second line assurance is provided by the security team who monitor multiple sources of threat intelligence, and the security steering group provides oversight. Independent assurance is provided by annual internal audits and various technical audits, including penetration testing, is regularly undertaken by external specialist.

8. Failure to meet the totex efficiency challenge

Risk exposure: AMP7 totex efficiencies are challenged through a combination of factors including supply chain issues, inflationary pressures, and additional investment to deliver performance improvements.

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

Assurance: First line assurance is undertaken through executive-led meetings, with the strategic portfolio board, and monthly executive performance review meetings providing second line governance and assurance. Third line assurance is undertaken through cyclical internal audits.

9. Water availability

Risk exposure: The availability of raw water is one of the most sensitive risks to climate change. Extended periods of low rainfall and exceptionally hot weather, with accompanying increased customer demand, impacts our water resources, which can result in the need to implement water use restrictions.

Control/mitigation: We produce a Water Resources Management Plan (WRMP) every five years which, based on in-house, industry and regulatory assumptions, 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.

10. Capital delivery programme

Risk exposure: The delivery of the capital programme to time, cost and quality is under constant challenge due to ongoing exposure to natural hazards, and the capacity and capability of third parties and internal resource. This risk will be amplified with the proposed increased size and scale of the capital programme in subsequent AMPs.

Control/mitigation: All projects are subject to planning and project management within a managed programme of capital works. There is a transformation programme in place to ensure readiness of the significant increased capital programme in the AMP8.

Assurance: The engineering team provide technical governance and the Programme Management Office (PMO) assures against delivery obligations. The assurance team undertake health, safety, environmental and quality inspections, and internal audit undertake third line assurance against performance metrics as well as audits of specific projects and programme management.

A. Dam failure

Risk exposure: The integrity of dams is fundamental to water storage and the safety of society downstream. Flood damage, overtopping, earthquake or erosion could, in remote circumstances, result in an uncontrolled release of a significant volume of water with catastrophic implications.

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

Assurance: There are various sources of second line assurance, including supervising engineers, dam safety group, assurance team and regular board reviews. Independent assurance is provided by panel engineers and internal audit.

B. Financial outperformance

Risk exposure: Inflation is fundamental to the economic regulation of the water sector affecting wholesale revenues, regulatory asset values, return on investment, and indexed link debt. Periods of low inflation impact the value of the company and its profitability.

Control/mitigation: The impact of interest rates and inflation is mitigated through hedging and forward buying of commodities such as energy. Business planning, including sensitivity analysis, takes into account ongoing monitoring of markets and regulatory developments.

Assurance: Second line assurance and oversight is provided by the board and treasury committee in addition to monthly executive performance meetings. The risk is also subject to cyclical internal audit reviews.

C. Terrorism

Risk exposure: Terrorism is a threat to our business with terrorist groups looking to advance their political agendas by causing harm and destruction. Although deemed remote, there is a risk to our assets leading to the subsequent loss or contamination of supply and/ or pollution of the environment.

Control/mitigation: Assets are protected in accordance with the Security and Emergency Measures Direction (SEMD), and we liaise with the Protective Security Authority (NPSA), regional counter terrorist units, local agencies, and emergency services.

Assurance: Second line assurance is provided by the security steering group. In addition, internal audit undertake cyclical audits with external technical assurance being delivered by specialists.

D. Process safety

Risk exposure: Our activities include processes that are inherently hazardous, with the storage of toxic and explosive gases across multiple sites (two of which fall under the Control of Major Accident Hazard (COMAH) regulations).

Control/mitigation: Multi layers of protection are in place including: design standards; maintenance and operating regimes; work authorisation procedures; and emergency planning and training.

Assurance: Second line assurance is undertaken by both the assurance and health and safety teams, with third line assurance being undertaken through periodic internal audits. The Health and Safety Executive also carries out regulatory inspections.

The wheel diagram illustrates how the principal risks relate to the common causal and consequence themes demonstrating how new and emerging circumstances associated with the themes can influence the likelihood of a risk event occurring, the impact should the event occur, and the capacity and capability to respond through control / mitigation.

New and emerging risks and opportunities

We define new risks as those that have not previously been apparent and are expected to have long-term implications for the group and/or sector. We consider emerging risks to be those that are growing, developing, becoming more apparent or prominent. The emerging status of a risk can, therefore, relate to either newly established or existing risks. Horizon scanning activity is a key feature of the risk and resilience framework. It is undertaken routinely as part of external research and benchmarking, the assessment of event-based risks, and through dedicated forums such as the new and emerging risk forum and the compliance working group. Where there are high levels of uncertainty, or the circumstances are too complex to quantify, we classify and retain new and emerging risks as watching briefs. Where there is more understanding, assumptions can be applied to the assessment of causal factors, consequences, and control effectiveness, which will be reflected in the quantification of the likelihood and/or impact. Recent assessments of new and emerging risks can be categorised into two areas, namely: geopolitical environment; and political, regulatory and legal.

Geopolitical environment

Geopolitical issues continue to emerge with hostilities around the world changing the security landscape and threaten supply chain resilience.

• Cyber: There is a steady growth in cyber incidents globally with increased sophistication and approaches by which attacks are enacted. Ongoing geopolitical tensions compound the issue with Russian state sponsored actors targeting western countries, and pro-Palestinian / Iranian attackers targeting those they believe are supportive of Israel’s posture. This constantly changing threat landscape requires continuous updates in cyber security measures and further development of our business continuity plans.

• Scarcity of goods and services: The outbreak of war in the Middle East and related hostilities, coupled with the existing war in Ukraine and tensions between America and China over Taiwan, continues to affect the supply and demand of operational, construction and technology goods. As a result, we are now reducing reliance on global supply chains, placing greater focus on UK suppliers, and encouraging suppliers to increase resilience.

• Energy resilience: There is an increasing external threat of planned and unplanned outages, and supply voltage quality issues that could affect technological and operational assets. As a result we continue to increase our self sufficiency and work closely with Energy North West regarding outages.

Political, regulatory and legal

Increased public and political interest in the water sector and changes to societal expectations is leading to a number of developments.

• Reputation and scrutiny: The sector continues to be under significant scrutiny, linked to issues arising from storm overflows, proposed bill increases and other water companies being under financial stress. These reputational issues add to ongoing criticism of the sector and existing concerns over sector legitimacy. While UU's high quality and ambitious business plan and improving environmental performance are positive mitigation against direct regulatory action, overall sector performance and risk of contagion continues to emerge and remains a concern. These challenges could potentially lead to a change in sector risk assessment by a credit ratings agency, and a credit rating downgrade, the effect of which would be an increase in the cost of debt over the long-term and lower financial outperformance.

• Plastics and forever chemicals: There is increased attention on single-use plastic, microplastic (plastics less than 5mm) and perfluoroalkyl and polyfluoroalkyl substances (PFAS) commonly known as 'forever chemicals', with their presence in the environment being linked to the water cycle.

• Capacity and capability: Whilst our transformation and strategic programmes team are coordinating preparations, and our new county model focuses on stakeholder relationships, emerging risk factors associated with the significant planned investment programme include: the suitability of technology and information; skill-sets and efficient ways of working; and partner arrangements. The availability of goods and services may also be impacted by the size and scale of our capital programme relative to competition with the water sector and other industries for limited resources. In addition, whilst underlying credit quality is not a concern, the additional spend could result in timing mismatches affecting financial ratios and thresholds which could lead to a credit rating downturn, an increase in the cost of debt, and low financial outperformance.

Material litigation

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

• In relation to the Manchester Ship Canal Company matter reported in previous years, a hearing was held in the Court of Appeal in 2022 and the main additional points raised by MSCC were dismissed, although MSCC were granted leave to appeal to the Supreme Court. The final appeal was heard in early March 2023 and the Court's decision is awaited. This may provide further clarity in relation to the rights and remedies afforded to the parties and others in relation to discharges by water companies into the canal and other watercourses.

• Collective proceedings in the Competition Appeal Tribunal (CAT) were issued on 8 December 2023 against UUW and United Utilities Group PLC on behalf of approximately 5.6 million domestic customers following an application by the Proposed Class Representative, Professor Carolyn Roberts. It is alleged that customers have collectively paid an overcharge for sewerage services during the claim period (which runs from 1 April 2020 and may continue into the early years of the PR24 period) as a result of UUW allegedly abusing a dominant position by allegedly providing misleading information to regulatory bodies. A hearing is currently scheduled in late September 2024 to deal with certification of the claim and any possible preliminary issue or strike out arguments in respect of the claim. UUW believes the claim is without merit and will defend it robustly. Similar claims have also been issued and served against five other water and wastewater companies.

Metrics and targets

Performance metrics

Our key performance indicators

We measure our performance against a selection of key performance indicators (KPIs), both operational and financial.

Our operational KPIs are aligned with our purpose and strategic priorities, which also provides alignment with environmental, social and governance (ESG) matters. KPIs for each element of our purpose – stronger, greener and healthier – can be found in the relevant sections of our operational performance.

Our financial KPIs assess both profitability and financial resilience, including income statement, balance sheet and shareholder performance metrics. More detail on these can be seen on page 52.

Bonuses (for all colleagues) and long-term incentives (for senior leaders and executive directors) are closely aligned to many of our operational and financial KPIs.

Our other performance indicators

Our operational and financial KPIs are by no means the only measures by which we monitor and assess our performance. We report on a range of material ESG measures across our operational performance section on pages 47, 49 and 51 with consideration to what stakeholders tell us matters most, as well as our contribution to wider value and global goals such as the UN SDGs and climate change mitigation goals.

These measures relate to all activities undertaken by the group unless stated otherwise in the performance tables, in which case they relate solely to the water and wastewater activities of our regulated entity, United Utilities Water Limited.

Assurance of performance metrics

All these performance indicators have received an appropriate level of assurance, such as independent third-party verification, regulatory reporting assurance processes, or through our own internal audit team. The performance tables on pages 68 to 88 of the UUG 2024 Annual report and financial statements state what level of assurance has been obtained for each metric, and the sections of this report that have received external assurance are marked as such on the relevant pages, including the figures in our energy and carbon report and our remuneration report. These audit opinions can be found on our website at: unitedutilities.com/corporate/responsibility/our-approach/esg-performance/

Benchmarking our ESG performance

We measure ourselves against national and international benchmarks of responsible business practice and align ourselves to recognised management standards and accreditations to give confidence in the way we are operating.

We actively participate in a range of global ESG ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges, and our performance against a suite of trusted indices is one of our operational KPIs. Our strong consistent performance against these external benchmarks demonstrates our commitment to operating in a responsible manner.

Many of the ESG indices draw their data from this report. We collate, monitor and report publicly on a wide range of performance measures across ESG categories. In addition to the wealth of ESG disclosures and performance data throughout this report, 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 integrated annual report and to make this easier for those searching for the information we have collated them into one place on our website.

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 publish comparable SASB data on our corporate website. This covers the main SASB data points for the water utilities industry, of which we are a part.

Our Annual Performance Report (APR)

Performance against our regulatory contract is monitored and assessed each year, and reported within the annual performance report (APR), as required by our economic regulator Ofwat. We include several regulatory performance measures within this integrated annual report but our APR (published in July of each year) provides greater detail, as well as further narrative, about our regulatory performance during the year and cumulatively across the AMP.

There is financial information contained within the APR, which 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 performance at the group level, and are calculated within the definitions given in this report. Our previous year APRs are available on our website, and the APR for 2023/24 will be published in July 2024.

Future targets

This section sets out some of the future targets we have set ourselves over the short, medium and long term in relation to the three key elements of our purpose.

Short term:

• Improve water quality in 1,315 kilometres of rivers across the North West

•100 per cent of targeted suppliers signed up to United Supply Chain

• >220,000 customers registered for our Priority Services scheme

Medium term:

• Work to enable future national water trading

• 100 per cent of our fleet to be green

• Restore 1,000 hectares of peatland and create 550 hectares of woodland

• Absolute greenhouse gas emissions reductions targets

• Improve 437 storm overflows and reduce spills by 60 per cent

• 50 per cent female executives and their direct reports

• Install additional water meters to achieve coverage of around 75 per cent of households

Long term:

• Net zero GHG emissions aligned to the Paris Agreement and Net Zero Standard

• Help reduce water demand to 110 litres per person per day

• Reduce leakage by 50 per cent

• Reduce to an average of no more than ten spills per storm overflow

• Eliminate lead pipes in customers' homes

Metrics and targets used to assess relevant climate-related risks and opportunities

TCFD metrics and targets disclosures

a) We track both physical and transitional metrics to assess climate-related risk and opportunities. We also consider some of our environmental KPIs as key to understanding our resilience to climate change and monitor accordingly.

b) We disclose our GHG emissions and underlying energy use for 2023/24 in our energy and carbon report on pages 75 to 77 of the UUG 2024 Annual report and financial statements.

c) Our key climate-related targets are our six carbon pledges and our four near-term science-based targets. Our progress against them is summarised on page 74 of the UUG 2024 Annual report and financial statements. Other climate-related targets and performance against them can be found on page 47.

Our vulnerability to climate-related risks is determined by both the physical and transitional impacts we experience and the control measures we have put in place to manage the risks and realise opportunities.

Metrics to monitor risks

Physical risks

As a water company, weather metrics (and forecasts) are vital inputs into our day-to-day operational planning. Rainfall volume, intensity and location direction impact the demands on water resources, wastewater and bioresources functions. To manage this we track recent and historic patterns of weather and weather events and use the data to continually improve our understanding of how different patterns can affect demand and our ability to deliver our services. We use both short-term forecasts and longer-term projections from the Met Office, and for the long-term plan for up to a 4°C change in global temperature.

Transitional risks

We horizon scan for changes relating to transitional risks across technology, policy and legal, markets and expectations of our stakeholders. Topics include looking for technologies to measure and reduce process and fugitive emissions, government policy changes and developments, energy pricing fluctuations (of both fossil fuels and low carbon alternatives), and the developing market (availability and cost) of alternative fuelled vehicles, batteries.

Carbon pricing is an important topic and we track closely the costs of purchasable credits, offsets and energy attribute certificates. For medium and long-term risk and benefits assessments (such as our AMP8 business plan) we use the UK Government carbon values 'for use in policy appraisal' for the relevant year to convert GHG emissions to a financial value, e.g. £130 per tCO_2e for 2030.

Opportunities

As a regulated business, climate-related opportunities are limited to ways we can avoid costs, rather than generate revenue. For example, our strategy to increase renewable energy generation is primarily focused on reducing costs to buy electricity rather than to export more and generate revenue.

Performance metrics and targets

Environmental KPIs

We manage our climate-related risks by putting in place controls such as those as set out on page 85 to 89 of the UUG 2024 Annual report and financial statements and in Appendix A.3 of the 2021 climate change adaptation report, published on our corporate website. The effectiveness of these controls is seen in our operational performance metrics. The following environmental KPIs are recognised as climate-related performance metrics and are reported on page 47:

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

Science-based emissions 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 electricity procurement.

Our ambition and commitments are based on international guidance and climate science and our four near-term science-based targets were verified by the Science Based Targets initiative (SBTi) in July 2021. The SBTi Net Zero Standard was launched in late 2021 and we have submitted our long-term net zero target for validation in January 2024. We plan to review and, if needed, revise our near-term science-based targets in 2025 as per the SBTi guidance and also aligned with the next business planning period.

Performance and remuneration

Climate-related environmental KPIs and targets influence remuneration. Bonuses for all colleagues are linked to the company scorecard (see page 143 of the UUG 2024 Annual report and financial statements) and the long-term incentive plans for senior leaders and executive directors, for periods ending 2025 and 2026, include measures directly linked to our carbon pledges and clean energy strategy.

Metrics and targets to monitor and assess delivery of the 'healthier' ambition in our purpose

Customer service and operational performance, including drinking water quality

We have a number of performance commitments with associated customer outcome delivery incentives (ODIs), through which we monitor and assess operational performance for customers and the environment. These set ambitious targets for performance each year, and rewards and/or penalties for over/underperformance against those targets. This includes Ofwat’s measure of customer satisfaction, C-MeX, which is one of our KPIs, and water quality metrics.

We monitor individual performance and overall net rewards/penalties, as well as other metrics of operational performance outside of our regulatory performance commitments. Many of these measures are included in this report, and fuller commentary and outcomes related to our regulatory performance commitments can be found in our APR each year.

Affordability and vulnerability

We monitor metrics including cash collection, bad debt, and the number of customers on our support schemes. Our C-MeX score for customer satisfaction is impacted in part by the help we provide to customers in vulnerable situations. We have performance commitments with FY25 targets for lifting customers out of water poverty (which is one of our KPIs) and signing more customers up to Priority Services, and we have set ambitious targets in our AMP8 business plan to double affordability support, supporting one in six customers in 2025–30.

Health, safety and wellbeing

We monitor various metrics including accidents and near misses, and health, safety and wellbeing is one of the things we assess in our annual colleague opinion survey. We target reductions in significant incidents and injuries, whilst ensuring the correct levels of training and competency, and we have targets for accident frequency rates for both colleagues and contractors. Our overarching aim is that every person working for us or on our behalf goes home safe and well. We also monitor programmes to maintain accreditation with the Workplace Wellbeing Charter.

One of the most important ways to protect colleague safety is to ensure they are properly trained. Recognising this, we have implemented a rule that colleagues must remain in certification on all mandatory training throughout the year to be eligible for the annual bonus. We monitor this regularly and report monthly on any colleagues out of certification.

Diverse and skilled workforce

We monitor metrics on the inclusive nature of our workforce, including gender, ethnicity, disability, social mobility and LGBT+. We target scoring at least in line with both the UK norm and the Utilities norm on the diversity and inclusion questions in our colleague engagement survey, and we seek to make progress towards improving our diversity statistics, including closing the gender pay gap.

In 2023, we published our very first equity, diversity and inclusion report, detailing the progress we have made and our commitments and plans to go further still. We have set long-term measurable and actionable ambitions for equity, diversity and inclusion, with a short-term action plan highlighting the areas of focus for the next financial year.

By 2027

5% Ethnic minority – UUG executive and direct reports

By 2030

5.4% Ethnic minority – total workforce

40% Females – total workforce

44% Females on the UUG board

50% Female executives on the UUG board

50% Female direct reports to the UUG executive

Our goals are focused initially on prioritising gender and ethnicity, but we also remain focused on fully supporting candidates and colleagues from all characteristics and social background.

Colleague training is monitored through a training and development portal, and they receive frequent reminders when they are due to come out of certification and need to undertake any refresher or new training, as well as giving them access to a wide range of training courses.

Metrics and targets to monitor and assess delivery of the 'stronger' ambition in our purpose

Cyber security

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

We target (and achieve) zero malware outbreaks and use a series of technical and process controls to ensure we achieve this. We aim to have all our major suppliers security assured to our standards, and maintain a dynamic and live assessment of our supply chain through dedicated assessment tools and resources.

We are measured annually by our regulators against NIS security targets and have remained compliant since this was introduced. As a tier two PCI-DSS merchant, we are measured annually by our payment industry stakeholder against PCI-DSS and have remained compliant to requirements for many years.

Financial risk management

We operate within targets set out in our financial risk management policies, including a range for how many months' liquidity we maintain on a rolling basis, levels of index-linked and fixed rate debt as a percentage of net debt that we want to maintain, and energy price hedging. We set individual credit risk targets for counterparties based on their level of risk to ensure we are not over-exposed to any counterparty. We target a 55 to 65 per cent gearing range, which supports our credit rating targets.

Performance against all of these targets is monitored on a monthly basis through management information updates, with more detailed analysis provided quarterly. We also monitor and forecast performance against financial covenants to ensure these will not be breached.

Supporting communities

Community investment is one of our KPIs, with a target to increase our investment by ten per cent in AMP7 compared with the average over AMP5 and AMP6. We also monitor other community support metrics, such as the number of children benefiting from our education materials.

Our AMP8 business plan has ambitious targets for what we will deliver for each of the five counties in our region, setting out how we will go even further to support these communities in 2025–30.

Key performance indicators

Our key performance indicators for building a greener North West are achievement of our Better Rivers commitments, our carbon pledges relating to renewable energy, green fleet, peatland restoration and woodland creation, and the Environment Agency's Environmental Performance Assessment. We report on a selection of other environmental metrics of interest to stakeholders.

Better Rivers: Better North West commitments

The percentage of in-year milestones delivered as part of our Better Rivers programme.

Target

At least 95% of programme milestones delivered by 2025

Annual performance

100%

All of this year's Better Rivers programme milestones have been delivered, including ensuring 100 per cent of our storm overflows are monitored, which was completed by December 2023.

2022/23: 100% of milestones for the year

2021/22: n/a - new measure in 2022/23

Status

Met expectation/target

Key stakeholder

Environment

Relevant material themes[2]

- River water quality and storm overflows
- Political and regulatory environment
- Trust, transparency and legitimacy

Relevant principal risks[3]

- Wastewater network failure

Link to remuneration[4]

Bonus

Assurance

Independent third-party verification

Carbon pledges

Six pledges supporting our climate change mitigation activities including green fleet, peatland restoration and woodland creation, and supplier engagement.

Target

Individual targets for each of the six carbon pledges

Annual performance

Good progress

Having already delivered two of our six pledges, during the last 12 months we have surpassed our 2030 target for peatland restoration ahead of schedule, with potential identified to go further. We continue to make progress on the other pledges.

2022/23: Pledges 2 and 6 met

2021/22: Pledges 2 and 6 met

Status

Met expectation/target

Key stakeholder

Environment

Relevant material themes[2]

- Climate change mitigation
- Resilience
- Trust, transparency and legitimacy

Relevant principal risks[3]

- Carbon commitments

Link to remuneration[4]

LTP

Assurance

Independent third-party verification

EA's Environmental Performance Assessment (EPA) rating[1]

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

Target

Upper quartile performance within the water industry each year

Annual performance

3* 'good' rating

The most recent assessment is for 2022, when we were awarded three stars, meaning we were classed by the Environment Agency as a good company. The EA will publish its annual assessment for 2023 in July 2024, and we are on track for 4* 'industry-leading' performance.

2021: Joint first

2020: Joint first

Status

Met expectation/target

Key stakeholder

Environment

Relevant material issues[2]

- Customer service and operational performance
- Trust, transparency and legitimacy
- Political and regulatory environment

Relevant principal risks[3]

- Wastewater network failure
- Recycling of biosolids to agriculture

Link to remuneration[4]

LTP

Assurance

Independent third-party verification

Strategic Report

Status key

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

Stakeholder key

Customers · Environment · Communities · Colleagues · Suppliers · Investors

Measure	2025 target	Performance 2023/24	Performance 2022/23	Performance 2021/22	Assurance[6]	Link to remuneration[2]	Key stakeholder	Status: Annual performance	Status: Against 2025 target
Pollution incidents per 10,000km sewer network[1]	19.5	**27.93**	16.29	17.71	RRA	LTP			
Reduction in spills per storm overflow monitored	33% sustainable reduction[4]	**24%**	41%	29%	IAT	Bonus			
Treatment works compliance[1]	99%	**99.0%**	98.5%	99.0%	RRA	LTP			
Leakage reduction[1]	15%[3]	**9%**	6%	8%	RRA	LTP			
Reduction in per capita consumption[1]	6.3%[4]	**2.5% decrease**	0.5% increase	1.5% increase	RRA	PC			
Internal flooding incidents per 10,000 sewer connections[1]	1.34	**4.35**	2.32	2.98	RRA	PC			
External flooding incidents[1]	5,859	**7063**	5,916	6,223	RRA	PC			
Waste to beneficial use	98%	**98.3**	98.3%	97.8%	IAT				
Enhancing natural capital for customers[1]	£4 million	**£15.777 million**	£0	£3.234 million	RRA	PC			
Number of trees planted	500,000	**600,466**	566,733	461,240	IAT				
Carbon pledge 1: reduction of scope 1 and 2 GHG emissions	14% reduction[5] (42% by 2030)	**3.4% reduction**	3.7% reduction	2.2% reduction	ITV				
Carbon pledge 2: renewable electricity purchased	100% by 2023	**100%**	100%	96%	ITV				
Carbon pledge 3: green fleet	100% by 2028	**91 vehicles**	33 vehicles	27 vehicles	IAT	LTP			
Carbon pledge 4: peatland restoration	1,000 hectares (ha) by 2030	**1,211 ha**	585 ha	Activity underway	ITV	LTP			
Carbon pledge 5: woodland created	550 hectares (ha) by 2030	**37 ha**	37 ha	9 ha	ITV	LTP			
Construction services suppliers with science-based targets	66%	**23%**	23%	n/a	IAT	LTP			
Better air quality: nitrogen oxides (NOx) emissions per unit of renewable electricity generated[1]	1.42	**0.96**	1.07	1.19	RRA	PC			
Energy generated directly, and with partners, as a percentage of used	25% at 2025	**22.4%**	23.0%	n/a	ITV	LTP			

(1) Measure relates to the water and wastewater activities of our regulated entity, United Utilities Water Limited.

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163 of the UUG 2024 Annual report and financial statements.

PC = Performance commitment subject to reward and/or penalty as part of customer outcome delivery incentives (ODIs). These feed into both bonus and LTP through inclusion of customer ODIs and return on regulated equity (RoRE) respectively.

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

(4) As measured against a 2019/20 baseline.

(5) As measured against science-based target baseline year 2019/20.

(6) Read more about the assurance over our performance metrics on page 63 of the UUG 2024 Annual report and financial statements .

ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team

Key performance indicators

Our key performance indicators for building a healthier North West are colleague engagement, customer satisfaction as measured through our ranking within Ofwat's C-MeX survey, and the number of customers lifted out of water poverty. We report on a selection of other metrics relating to customers, colleagues and other social matters on page 49.

Colleague engagement

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

Target
At least as high as utilities norm benchmark

Annual performance
81%

We have achieved a strong set of results this year, scoring well against external benchmarks. Our overall engagement score is in line with the UK high performance norm benchmark.

2022/23: 82 per cent

2021/22: 87 per cent

Status
Met expectation/target

Key stakeholder
Colleagues

Relevant material themes[2]
- Colleague engagement
- Diverse and skilled workforce
- Health, safety and wellbeing

Relevant principal risks[3]
- Inherent risk areas: Resources and Health, safety and wellbeing

Link to remuneration[4]
n/a

Assurance[5]
Independent third-party verification

C-MeX ranking[1]

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

Target
Upper quartile against water and sewerage companies (WASCs)

Annual performance
2nd quartile

We continue to be the highest performing listed company, ranked fourth out of the WaSCs, and sixth out of all 17 companies.

2022/23: top listed company, fourth WaSC, and fifth overall

2021/22: top listed company, fourth WaSC, and seventh overall

Status
Close to meeting expectation/target

Key stakeholder
Customers

Relevant material themes[2]
- Customer service and operational performance
- Trust, transparency and legitimacy
- Political and regulatory environment

Relevant principal risks[3]
- Failure of the Haweswater Aqueduct
- Wastewater network failure
- Water sufficiency

Link to remuneration[4]
Bonus and LTP

Assurance[5]
Regulatory reporting assurance

Customers lifted out of water poverty[1]

Where our support acts to lift a customer out of water poverty, which is defined as spending more than 3 per cent of income on their water bill.

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

Annual performance
100,758

We have helped more than 100,000 customers out of water poverty so far this AMP (including more than 84,000 against our regulatory target and related ODI, which applies a maximum cap on the number of company-funded customers that can be included).

2022/23: 106,936 customers

2021/22: 98,293 customers

Status
Met expectation/target

Key stakeholder
Customers

Relevant material themes[2]
- Affordability and vulnerability
- Customer service and operational performance
- North West regional economy

Relevant principal risks[3]
- Inherent risk areas: Retail and commercial

Link to remuneration[4]
LTP

Assurance[5]
Regulatory reporting assurance

(1) Measure relates to the water and wastewater activities of our regulated entity, United Utilities Water Limited.

(2) Read more about our materiality assessment on pages 20 to 21.

(3) Read more about our principal risks on pages 34 to 38.

(4) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163 of the UUG 2024 Annual report and financial statements.

(5) Read more about the assurance over our performance metrics on page 63 of the UUG 2024 Annual report and financial statements.

Strategic Report

Status key

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

Stakeholder key

Customers · Environment · Communities · Colleagues · Suppliers · Investors

Measure	2025 target	Performance 2023/24	Performance 2022/23	Performance 2021/22	Assurance[5]	Link to remuneration[2]	Key stakeholder	Status: Annual performance	Status: Against 2025 target
Customer ODIs[1]	[illegible] improvement	**£(34) million**	£25 million	£25 million	RRA	Bonus			
Water quality customer contacts per 10,000 population[1]	12.2	**13.2**	14.1	17.9	RRA	Bonus			
Supply interruptions per property per year (hours:minutes:seconds)[1]	00:05:00	00:09:39	00:38:44	00:07:58	RRA	PC			
Unplanned outages of peak week production capacity[1]	2.34%	**2.05%**	1.73%	2.07%	RRA	PC			
Number of household written complaints compared to WASCs[1]	Upper quartile	**Third quartile**[3]	Second quartile	Second quartile	RRA				
Speed of resolution[1]	5 days	**3.95 days**	3.9 days	3.5 days	RRA				
Developer satisfaction score (D-MeX)[1]	Above industry median	**Above industry median**	Above industry median	Above industry median	RRA	PC			
Number of households registered for Priority Services[1]	In excess of 220,000 (7%)	**401,987 (12.35%)**	294,490 (9.1%)	186,224 (5.9%)	RRA	LTP			
Certification for Priority Services[1][4]	Maintain certification	**ISO22458: 2022 Verification achieved**	ISO22458: 2022 Verification achieved	Maintained BS18477	ITV				
Helping customers look after water in their home[1]	10% increase	**34.30%**	31.60%	23.85%	RRA	PC			
Compliance Risk Index[1]	0.00	**6.00**	3.67	3.02	RRA	LTP			
Wellbeing Charter accreditation	Retain accreditation	**Retained**	Retained	Retained	ITV				
Accident frequency rate for colleagues (per 100,000 hours)	10% year-on-year improvement	**0.092**	0.072	0.073	IAT				
Accident frequency rate for contractors (per 100,000 hours)	Year-on-year improvement	**0.043**	0.078	0.043	IAT				
Your Opinion Survey score for diversity and inclusion questions	Upper quartile against utilities norm	Upper quartile	Upper quartile	Upper quartile	ITV				

(1) Measure relates to the water and wastewater activities of our regulated entity, United Utilities Water Limited.

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163 of the UUG 2024 Annual report and financial statements.

PC = Performance commitment subject to reward and/or penalty as part of customer outcome delivery incentives (ODIs). These feed into both bonus and LTP through inclusion of customer ODIs and return on regulated equity (RoRE) respectively.

(3) Latest comparative data available 2022/23.

(4) The new Consumer Vulnerability standard, ISO 22458:2022 replaces the previous BS18477:2010 Inclusive Service Provision standard.

(5) Read more about the assurance over our performance metrics on page 63 of the UUG 2024 Annual report and financial statements.

ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team.

Key performance indicators

Our key performance indicators for building a stronger North West are our capital programme delivery incentive, community investment, and our ratings and rankings against a range of trusted investor indices. We report on a selection of wider governance metrics of interest to stakeholders on page 51.

Capital programme delivery incentive (CPDI)	Community investment	Performance across a range of trusted investor indices
Measures the extent to which we have delivered our capital projects efficiently, on time, and to the required quality standard.	Total community investment as measured by the Business for Social Impact (B4SI) method.	Company performance relative to water and utilities sector participants in a selection of trusted investor ESG ratings and indices.
Target At least 85%	**Target** Average community investment between 2020 and 2025 to be at least 10 per cent higher than the average between 2010 and 2020 of £2.56 million per annum	**Target** Upper quartile
Annual performance 98%	**Annual performance** £3.99m	**Annual performance** Upper quartile
We have delivered a strong performance, exceeding our target and improving on last year.	Direct community investment has increased this year and we have once again exceeded our target.	We have maintained upper quartile performance across our selection of ESG ratings and indices.
2022/23: 92.9 per cent	2022/23: £2.88 million	2022/23: Upper quartile
2021/22: n/a – new measure in 2022/23	2021/22: £2.82 million	2021/22: Upper quartile
Status Met expectation/target	**Status** Met expectation/target	**Status** Met expectation/target
Key stakeholder Investors	**Key stakeholder** Community	**Key stakeholder** Investors
Relevant material themes[1] • Customer service and operational performance • Financial risk management • Corporate governance and business conduct	**Relevant material themes[1]** • Supporting communities • Trust, transparency and legitimacy • Land management, access and recreation	**Relevant material themes[1]** • Trust, transparency and legitimacy • Corporate governance and business conduct • Political and regulatory environment
Relevant principal risks[2] Totex efficiency challenge	**Relevant principal risks[2]** n/a	**Relevant principal risks[2]** Inherent risk area: Conduct and compliance
Link to remuneration[3] Bonus	**Link to remuneration[3]** n/a	**Link to remuneration[3]** n/a
Assurance[4] Internal audit team	**Assurance[4]** Independent third-party verification	**Assurance[4]** Independent third-party verification

(1) Read more about our materiality assessment on pages 20 to 21.

(2) Read more about our principal risks on pages 34 to 38.

(3) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163 of the UUG 2024 Annual report and financial statements.

(4) Read more about the assurance over our performance metrics on page 63 of the UUG 2024 Annual report and financial statements.

Strategic Report

Status key

Annual performance — Met expectation/target — Close to meeting expectation/target — Behind expectation/target

Against 2025 target — Confident of meeting target — Some work to do — Target unobtainable

Stakeholder key

Customers — Environment — Communities — Colleagues — Suppliers — Investors

Measure	2025 target	Performance 2023/24	Performance 2022/23	Performance 2021/22	Assurance[2]	Link to remuneration	Key stakeholder	Status: Annual performance	Status: Against 2025 target
Credit rating UUW (Moody's, S&P, Fitch)[1]	A3, BBB+, A-	**A3, BBB+, A- (Stable outlook)**	A3, BBB+, A- (Stable outlook)	A3, BBB+, A- (Stable outlook)	ITV				
Maintain Sustainable Finance framework	Available/ continued issuance	**Available**	Available	Available	IAT				
Anti-bribery: percentage of identified colleagues completing required training	100%	**100%**	100%	100%	IAT				
Number of children benefitting from education materials	20,000	**39,131**	23,253	12,998	ITV				
Partnership leverage[1]	1:4	**1:3**	1:4	1:4	RRA				
Invoices paid within 60 days	At least 95%	**99.60%**	98.91%	99.34%	ITV				
Average time taken to pay invoices	<28 days	**11**	12	13	ITV				
Supplier Relationship Management score	90%	**95%**	90%	54%	IAT				
CIPS ethical mark	Retain accreditation	**Retained**	Retained	Retained	ITV				
Percentage of targeted suppliers signed up to United Supply Chain	100%	**94%**	89%	90%	IAT				
Percentage of partner and strategic suppliers that have sustainability risk assessment in place	75%	**78%**	73%	72%	IAT				
Percentage of suppliers in high risk categories (in sustainability risk assessments) covered by enhanced due diligence audits	5%	**4%**	3%	Delivery scheduled from 2022	IAT				
UK Corporate Governance Code	Maintain compliance	**Compliant**	Compliant	Compliant	IAT				
Fair Tax Mark	Retain accreditation	**Retained**	Retained	Retained	ITV				
Living Wage accreditation	Secure and retain	**Retained**	Retained	Retained	ITV				
Pension Quality Mark +	Retain accreditation	**Retained**	Retained	Retained	ITV				

(1) Measure relates to the water and wastewater activities of our regulated entity, United Utilities Water Limited.

(2) Read more about the assurance over our performance metrics on page 63 of the UUG 2024 Annual report and financial statements.

ITV = Independent third-party verification. RRA = Regulatory reporting assurance. IAT = Internal audit team

Strategic Report

Key performance indicators

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

Underlying operating profit

See note 1.

Target
Not externally disclosed

Annual performance
£517 million

Reported operating profit: £480 million

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

2022/23: £444 million

Status
Behind expectation/target

Link to remuneration[2]
Bonus

UUG Gearing

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

Target
55–65%

Annual performance
59%

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

2022/23: 58 per cent

Status
Met expectation/target

Link to remuneration[2]
n/a

Return on regulated equity (RoRE)

Base allowed return plus or minus any out or underperformance.

Target
Not externally disclosed

Annual performance
8.5%

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

2022/23: 10.9 per cent

Status
Met expectation/target

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

(1) Underlying operating profit is an alternative performance measure that excludes adjusted items from their reported equivalents. Underlying operating profit excludes any significant non-recurring items. A description of adjusted items, the framework by which these are assessed, and reconciliations between reported and underlying measures, can be found on pages 59 and 60.

(2) Read our remuneration report, with details about the bonus and Long Term Plan (LTP), on pages 140 to 163 of the UUG 2024 Annual report and financial statements.

Financial performance

We delivered robust underlying financial performance this year. Revenue increased 8 per cent, mainly driven by the inflation increase allowed as part of our revenue cap. This revenue increase, partly offset by inflationary increases to costs resulted in underlying operating profit increasing by £76 million to £517 million. Reported operating profit was £38 million lower than underlying, at £480 million, reflecting an adjusting item in respect of costs associated with a fractured outlet pipe at our Fleetwood Wastewater Treatment Works.

Adjusted items between underlying and reported are set out on pages 59 and 60.

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

Revenue

	£m
Year to 31 March 2023	1,804.2
Regulatory revenue impact	102.6
Other impacts	42.7
Year to 31 March 2024	**1,949.5**

* Revenue for the year to 31 March 2023 has been re-presented so as to include £20.2 million of income not derived from the output of the group's ordinary activities in Other income rather than in revenue. This income relates to amounts receivable under government renewable energy schemes and the sale of energy generated to the grid.

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

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

Other revenue impacts largely reflects increases in consumption.

Operating profit

	£m
Year to 31 March 2023	440.8
Revenue increase	145.3
Operating cost increases	(41.2)
Infrastructure Renewals Expenditure ('IRE') increase	(12.3)
Depreciation increase	(15.2)
Underlying operating profit - year to 31 March 2024	517.4
Adjusted items*	(37.6)
Year to 31 March 2024	**479.8**

Underlying operating profit at £517 million was £76 million higher than last year, largely reflecting the increase in revenue, offset by inflationary pressures on our core costs.

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

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

Reported operating profit increased by £39 million compared to last year, reflecting the £76 million increase in underlying operating profit offset by £38 million of costs associated with responding to a fractured outlet pipe at our Fleetwood Wastewater Treatment Works. The specific nature, and the activity involved in remediating this failure was unlike anything that would typically be experienced. As such, the associated costs were not representative of normal business activity and were excluded in arriving at underlying operating profit.

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

Profit before tax

	£m
Underlying profit before tax – year to 31 March 2023	**21.6**
Underlying operating profit increase	76.6
Underlying net finance expense decrease	238.9
Share of JVs losses increase	(4.1)
Underlying profit before tax – year to 31 March 2024	**333.0**
Adjusted items *	(50.5)
Reported – year to 31 March 2024	**282.5**

* Adjusted items are set out on pages 59 and 60.

Underlying profit before tax of £333 million compared to a £21.6 million underlying profit before tax last year. The £311 million difference reflects the £77 million reduction in underlying operating profit and a £239 million decrease in underlying net finance expense, partly offset by an increase in the share of losses of joint ventures of £4 million. Underlying profit before tax reflects consistently applied presentational adjustments as outlined on pages 59 and 60.

Reported profit before tax decreased by £29 million to £283 million reflecting the £39 million increase in reported operating profit, offset by a £33 million increase in reported net finance expense, the prior year impact of the £31 million profit on disposal of our subsidiary United Utilities Renewable Energy Limited and an increase in the share of losses of joint ventures of £4 million.

- Net finance expense

  The underlying net finance expense of £180 million was £239 million lower than last year mainly due to significantly lower inflation resulting in a £268 million decrease in the non-cash indexation on our debt and derivative portfolio and lower net interest payable on debt, derivatives and cash of £18 million, partly offset by a reduction in capitalised interest of £47 million.

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

  Reported net finance expense of £193 million was £33 million higher than last year, reflecting a £272 million reduction in net fair value gains on debt and derivatives (excluding interest on debt and derivatives under fair value option) from £259 million net fair value gain last year to £13 million net fair value loss this year, partly offset by the £239 million decrease in underlying net finance expense.

- Joint ventures

  For the year to 31 March 2024, we recognised a £4.1 million net share of losses from joint ventures in relation to Water Plus in our income statement.

Profit after tax

	£m
Underlying profit after tax – year to 31 March 2023	**36.6**
Underlying profit before tax increase	311.4
Reduction in underlying tax credit	(36.4)
Underlying profit after tax – year to 31 March 2024	**311.6**
Adjusted items *	(100.4)
Reported – year to 31 March 2024	**211.2**

* Adjusted items are set out on pages 59 and 60.

The underlying profit after tax of £312 million is £275 million higher than the underlying profit after tax of £37 million last year, reflecting the £311 million increase in underlying profit before tax offset by a £36 million reduction in underlying tax credit.

Reported profit after tax is lower at £211 million with the adjusted items between underlying and reported profit after tax set out on pages 59 and 60.

- Tax

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

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

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

  The group recognised a current tax charge of £22 million, relating to tax on interest receivable from the group's ultimate parent, partly offset by a prior year adjustment in relation to optimising the available research and development tax allowances on our innovation- related expenditure, for multiple prior years.

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

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

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

Cash flow

Net cash generated from continuing operating activities for year to 31 March 2024 was £729 million, £43 million lower than £772 million last year, principally due to higher net interest paid resulting from the rise in interest rates.

The net cash generated from continuing operating activities supports the dividends paid of £320 million and partially funds some of the group's net capital expenditure of £731 million, with the balance being funded by net borrowings and cash and cash equivalents.

Pensions

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

Further detail on pensions is provided in note 17 ('Retirement benefit surplus') of these condensed consolidated financial statements.

Financing

Net debt	**£m**
At 31 March 2023	8,293.1
Cash generated from operations	(864.5)
Net capital expenditure	731.4
Dividends	320.0
Indexation	251.9
Interest	129.9
Fair value movements	35.1
Exchange rate movements on bonds and term borrowings	(35.2)
Other	6.3
At 31 March 2024	**8,868.0**

Net debt at 31 March 2024 was £8,868 million, compared with £8,293 million at 31 March 2023.

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

- Cost of debt

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

  A significantly lower RPI inflation charge compared with last year contributed to the group's average effective interest rate of 4.7 per cent being lower than the rate of 8.0 per cent last year.

  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 2.7 to 3.1 per cent for the remainder of the AMP7 regulatory period.

- Credit ratings

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

- Debt financing

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

  In the year to March 2024, we raised c.£1.6 billion of term funding. A 15.5 year £300 million sustainable public bond in April, a 9 year £100 million bilateral loan with a relationship bank in April, a 13 year £350 million sustainable public bond in June, a 22 year £250 million public bond in January, a £50m tap of 12.3 year sustainable public bond in February and a EUR650 million sustainable public bond in February. In addition, we renewed £100 million of relationship bank revolving credit facilities with an initial 5-year term. Further in March we repurchased and cancelled c.£110 million of bonds that had an original maturity date of February 2025.

- Interest rate management

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

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

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

- Liquidity

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

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

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 79. As such, they represent non-GAAP measures.

These APMs can assist in providing a representative view of business performance, and may not be directly comparable with similarly titled measures presented by other companies. The group determines adjusted items in the calculation of its underlying measures against a framework that considers significance by reference to profit before tax, in addition to other qualitative factors such as whether the item is deemed to be within the normal course of business, its assessed frequency of reoccurrence and its volatility, which is either outside the control of management and/or not representative of current year performance.

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

Adjusted item	**Rationale**
Adjustments not expected to recur	
Fleetwood outfall pipe fracture	In June 2023, the group suffered a large-scale outfall pipe fracture at a major wastewater treatment works at Fleetwood. The specific nature of this incident, and scale of the activity involved in remediating this failure was unlike anything that would be typically experienced. As such, the associated costs, which were incurred across both operating expenditure and infrastructure renewals expenditure, were not representative of normal business activity and, therefore, the costs are excluded in arriving at underlying operating profit.
Profit on disposal of subsidiary	This relates to the disposal of the group's subsidiary United Utilities Renewable Energy Limited during the prior year, which represents a significant, atypical event and as such is not considered to be part of the normal course of business.

Consistently applied presentational adjustments	
Fair value (gains)/losses on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	Fair value movements on debt and derivative instruments can be both very significant and volatile from one period to the next, and are, therefore, excluded in arriving at underlying net finance expense as they are determined by macro-economic factors, which are outside of the control of management and relate to instruments that are purely held for funding and hedging purposes (not for trading purposes). Included within fair value movement on debt and derivatives is interest on derivatives and debt under fair value option. In making this adjustment it is appropriate to add back interest on derivatives and debt under fair value option to provide a view of the group's cost of debt, which is better aligned to the return on capital it earns through revenue. Taking these factors into account, management believes it is useful to adjust for these fair value movements to provide a more representative view of performance.
Deferred tax adjustment	Management adjusts to exclude the impact of deferred tax in order to provide a more representative view of the group's profit after tax and tax charge for the year given that the regulatory model allows for cash tax to be recovered through revenues, with future revenues allowing for cash tax including the unwinding of any deferred tax balance as it becomes current. By making this adjustment, the group's underlying tax charge does not include tax that will be recovered through revenues in future periods, thus reducing the impact of timing differences.
Tax in respect of adjustments to underlying profit / (loss) before tax	Management adjusts for the tax impacts of the above adjusted items to provide a more representative view of current year performance.

Underlying profit	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Operating profit per published results	**479.8**	440.8
Fleetwood outfall pipe fracture	**37.6**	-
Underlying operating profit	**517.4**	440.8
Net finance expense		
Finance expense	(389.3)	(262.7)
Investment income	198.5	102.9
Allowance for expected credit losses – loans to joint ventures	(2.4)	-
Net finance expense per published results	**(193.2)**	(159.8)
Fair value losses/(gains) on debt and derivative instruments, excluding interest on derivatives and debt under fair value option	12.9	(259.4)
Underlying net finance expense	**(180.3)**	(419.2)
Share of losses of joint ventures	**(4.1)**	-
Profit on disposal of business per published reports	**-**	31.2
Profit on disposal of subsidiary	-	(31.2)
Underlying profit on disposal of subsidiary	**-**	-
Profit before tax per published results	**282.5**	312.2
Adjustments in respect of:		
Operating profit	37.6	-
Net finance expense	12.9	(259.4)
In respect of profit on disposal of subsidiary	-	(31.2)
Underlying profit before tax	**333.0**	21.6
Profit after tax per published results	**211.2**	250.2
Adjustments in respect of profit before tax	50.5	(290.6)
Deferred tax adjustment	48.9	76.6
Tax in respect of adjustments to underlying profit before tax	1.0	0.4
Underlying profit after tax	**311.6**	36.6

Strategic Report

Average effective interest rate	Year ended 31 March 2024 £m	Year ended 31 March 2023 £m
Underlying net finance expense	(180.3)	(419.2)
Adjustments:		
Net pension interest income	(28.6)	(28.7)
Adjustment for capitalised borrowing costs	(81.0)	(127.5)
Interest on loan receivable	(112.9)	(55.8)
Net finance expense for effective interest rate	**(402.8)**	(631.2)
Average notional net debt	**(8,525)**	(7,858)
Average effective interest rate	**4.7%**	8.0%

This strategic report was approved by the board on 28 June 2024 and signed on its behalf by:

Phil Aspin
Chief Financial Officer

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 2024.

Business model

A description of the company's business model can be found within the strategic report on pages 5 to 7.

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

Profit and dividends

The results for the year, set out in the consolidated income statement on page 79 show that the profit for the year after tax was £211.2 million (2023: £250.2 million).

The directors have not recommended a final ordinary dividend (2023: £nil). Interim ordinary dividends of £320.0 million (2023: £301.1 million).

Principal activity and review of business

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

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

The company's principal subsidiary undertakings, and joint ventures in which the group participates, are listed in note A7 to the consolidated financial statements.

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

Share capital

At 31 March 2024, the issued ordinary share capital of the company was £881.8 million (2023: £881.8 million) divided into 881,787,478 ordinary shares of £1.00 each and one deferred A share of £1.00.

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

Events after the reporting period

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

Going concern basis of accounting

The directors consider it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph on page 85.

Directors

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

PA Aspin
RJ Lee
BF Murphy
L Beardmore

Directors' report

Directors' indemnities and insurance

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

Colleagues

Our policies on employee consultation and on equal opportunities for all colleagues can be found on pages 21 and 42 of the UUG 2024 Annual report and financial statements. Applicants with disabilities are given equal consideration in our application process, and disabled colleagues have equipment and working practices modified for them as far as possible and where it is safe and practical to do so. Importance is placed on strengthening colleagues' engagement (see page 78 of UUG 2024 Annual report and financial statements). The effect of our regard towards colleagues in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 26 to 28.

Colleagues are encouraged to own shares in UUG through the operation of an all-employee share incentive plan (ShareBuy).

Information on our average number of employees during the year can be found in note 3.

Political donations

It is the company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities that form part of the necessary relationship between the group and our political stakeholders. This can include promoting United Utilities' activities at the main political parties' annual conferences, as well as occasional stakeholder engagement in Westminster. The group incurred expenditure of £8,091 (2022/23: £11,465; 2021/22 £15,834) as part of this process. At the 2023 UUG AGM, an authority was taken to cover such expenditure. A similar resolution will be put to shareholders at the 2024 AGM to authorise the company and its subsidiaries to make such expenditure.

Relationships with regional MPs is very important to United Utilities, and as the provider of an essential service to seven million people across the North West, customers do raise issues with their constituency MP. In 2023/24, we received 574 such MP contacts covering a wide range of topics, particularly as we face challenging times from an economic, environmental and social perspective. Our approach is to always have an open door policy with our MPs and members of their offices, to meet with us, visit our sites or land at any time. We are readily available to discuss topics, whether that is about service, climate change, environmental performance, flooding or quality, and regularly meet our MPs face to face.

We engage regularly with the two devolved administrations in the North West – the Greater Manchester Combined Authority (GMCA) and the Liverpool City Region (LCR) – as well as the region's local authorities, on a range of topics of shared interest, such as tackling flooding risk, better managing rainfall, enhancing the North West's natural capital and helping customers who struggle to pay their bills. Our sponsorship of the All Party Political Groups for 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.

Directors' report

Trade associations

We are members of a small number of trade associations. Some have a national focus, such as Water UK, the representative body of the UK water industry and others focus on specific professions such as the 100 Group representing the views of the finance directors of FTSE 100 and large UK private companies and the GC100, the voice of general counsel and company secretaries in FTSE 100 companies. The company is a member of regional bodies, such as the North West Business Leadership Team, which encourages engagement across the public and private sectors. Our total contribution to these associations in 2023/24 was £394,507 (2022/23: £418,561; 2021/22: £408,441).

Through Water UK, the company has supported efforts to interact with parliamentary bodies, such as Select Committees and Chairs of specific committees, to provide information on a range of topics. In the past year, we have worked closely with Water UK to share data our storm. overflow performance and what this means for river water quality in the North West.

Through our membership of 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.

Approach to technology development

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

Environmental, social and community matters

Details of our approach, as a responsible business, is set out in the strategic report, in particular where we describe our approach to our purpose and strategic themes on page 31 of the UUG 2024 Annual report and financial statements, and our core values on page 46 of the UUG 2024 Annual report and financial statements, and how we create value for stakeholders on pages 6 to 7 of the UUG 2024 Annual report and financial statements. Our approach to engagement with our environmental stakeholders and those in the communities we serve can be found on page 46 of the UUG 2024 Annual report and financial statements. Further information is available on our website at unitedutilities.com/corporate/responsibility

The effect of our regard towards the environment, social and community matters in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 26 to 28.

Customers and suppliers and key stakeholders

Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found on page 46 of the UUG 2024 Annual report and financial statements. The effect of our regard towards customers, suppliers, regulators and other key stakeholders in relation to the decisions taken during the financial year is included in our S172(1) Statement on pages 26 to 28.

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

Directors' report

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 2024, our average time taken to pay invoices was 11 days; in the previous six months it was 11 days.

Energy and Carbon

Our energy and carbon report can be found on page 75 of the UUG 2024 Annual report and is hereby incorporated by reference into this directors' report.

Financial instruments

Our risk management objectives and policies in relation to the use of financial instruments can be found in note A3.

Risk management and internal control

A description of the main features of our risk management and internal control systems in relation to the financial reporting process which forms part of this directors' report are set out on pages 118 to 119 of the UUG 2024 Annual report and financial statements.

Disclosure of information to the auditor

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

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

Reappointment of the auditor

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

Approved by the board on 28 June 2024 and signed on its behalf by:

Phil Aspin
Chief Financial Officer

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

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

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

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

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

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

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

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

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

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

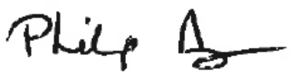
Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the strategic report and directors' reports include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the board on 28 June 2024 and signed on its behalf by:



Phil Aspin
Chief Financial Officer

Independent auditor's report

to the members of United Utilities PLC

1 Our opinion is unmodified

We have audited the financial statements of United Utilities PLC ("the Company") for the year ended 31 March 2024 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 85 to 90 and 141 to 150.

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 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to those charged with governance.

We were first appointed as auditor by the directors on 22 July 2011. The period of total uninterrupted engagement is for the 13 financial years ended 31 March 2024. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report

to the members of United Utilities PLC

<table>
<tr><td colspan="2">Provisions for household customer debt

Provision for customer debts: £80.7m (2023: £81.5m)

Refer to pages 87 to 88 (accounting policy) and pages 103 to 104 (financial disclosures).</td></tr>
<tr><td>The risk

At each balance sheet date assumptions involving a high degree of estimation uncertainty are required to assess the recoverability of trade receivables. Key assumptions (as outlined in the accounting policies on pages 87 to 88) include current and forecast cash collection rates.

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. There is a risk of management bias in the selection of assumptions upon which estimates are based.</td>
<td>Our response

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 to address the risk included:

— Methodology choice: challenging the Group on the appropriateness of the selection of updated provisioning rates in place for calculating the provision and assessing 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;

— Recalculation: performing a recalculation of the provision, and verifying cash collections in thegn billing system;

— Sensitivity analysis: considering the sensitivity of future performance compared to historic cash collection rates; and

— Assessing transparency: assessing the adequacy of the Group's disclosures of its customer debt provisioning policy, including the estimation uncertainty of the doubtful debts provision.

Our results

— Based on the risk identified and the procedures that we performed, we found the provisions for household customer debt and the related disclosures to be acceptable (FY23: acceptable).</td></tr>
</table>

Independent auditor's report

to the members of United Utilities PLC

<table>
<tr><td colspan="2">Capitalisation of costs relating to the capital programme

Property, plant & equipment additions: £892.5m (2023: £866.9m)

Refer to page 88 (accounting policy) and page 100 (financial disclosures).</td></tr>
<tr><td>The risk

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, particularly, for certain projects where projects contain both capital and operating expenditure elements and therefore has the opportunity for manipulation. Under IAS 16 expenditure is capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and where such expenditure enhances or increases the capacity of the network. We determined that the costs capitalised has a high degree of judgement, with the potential for any misstatement to be greater than our materiality for the financial statements as a whole.</td><td>Our response

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 to address the risk included:

— Accounting analysis: assessing the Group's capitalisation policy for compliance with relevant accounting standards;

— Tests of details: critically assessing the capital nature of a sample of projects against the capitalisation policy focusing on new projects approved, project overspends and forecast cost to complete;

— Assessing transparency: assessing the adequacy of the Group's disclosures of its capitalisation policy including the judgement involved in assessing expenditure as capital.

Our results

— Based on the risk identified and the procedures that we performed, we found the capitalisation of costs relating to the capital programme and the related disclosures to be acceptable (FY23: acceptable).</td></tr>
</table>

Independent auditor's report

to the members of United Utilities PLC

<table>
<tr><td colspan="2">Valuation of retirement benefit obligations

£2,284.4m (2023: £2,330.5m)

Refer to pages 86 to 87 (accounting policy) and pages 106 to 107 and pages 130 to 139 (financial disclosures).</td></tr>
<tr><td>The risk

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.</td>
<td>Our response

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 to address the risk included:

— Methodology assessment: using our internal actuarial specialists to consider and assess critically the methodologies applied;

— DBO assumption: benchmarking the key assumptions applied in determining the Group's defined benefit obligations, being the discount rate, inflation rate and mortality/life expectancy. This includes a comparison of these key assumptions against externally derived data;

— Assessing external actuary's credentials: evaluating the competence and independence of the external actuaries who are engaged by the Company to estimate the pension scheme obligations for the purpose of the financial statements;

— Assessing transparency: considering the adequacy of the Group's disclosure in respect of retirement benefits, in particular the gross defined benefit obligation and the assumptions used and sensitivities disclosed, which are set out in notes 17 and A4 to the financial statements.

Our results

— Based on the risk identified and procedures performed, we found the valuation of the retirement benefit obligations to be acceptable (FY23: acceptable).</td></tr>
</table>

Independent auditor's report

to the members of United Utilities PLC

<table>
<tr><td colspan="2">Recoverability of parent Company's investment in United Utilities North West Limited

Investment in United Utilities North West Limited: £3,907.1m (2023: £3,907.1m)

Refer to pages 141 to 150 (accounting policy) and page 102 (financial disclosures).</td></tr>
<tr><td>The risk

The carrying amount of the parent company's investment in United Utilities North West Limited represents 56% (FY23: 57%) 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.</td><td>Our response

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 to address the risk included:

— Tests of detail: compared the carrying amount of the investment with the expected value of the business based on the regulatory capital value (a recognised method of valuation within the industry).

Our results

— Based on the risk identified and procedures performed, we concluded that the recognition of no impairment was appropriate (FY23: no impairment).</td></tr>
</table>

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 £17.9m (FY23: £16.4m). Consistent with FY23, we determined materiality with reference to a range of metrics. United Utilities is facing rising finance costs, as a result of the current high-inflationary environment, which is causing profit before tax to decline.

Materiality represents 0.9% of revenue, 0.1% of total assets and 3.4% of operating profit (FY23: 0.9% of revenue, 0.1% of total assets and 3.7% of operating profit).

Materiality for the parent Company financial statements as a whole was set at £8.7m (2023: £8.0m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.1% (2023: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Independent auditor's report

to the members of United Utilities PLC

Performance materiality was set at 75% (2023: 75%) of materiality for the financial statements as a whole, which equates to £13.4m (2023:£12.3m) for the group and £6.5m (2023:£6m) 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 those charged with governance any corrected or uncorrected identified misstatements exceeding £0.9m (2023: £0.5m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 22 (2023: 22) reporting components, we subjected 3 (2023: 3) to full scope audits for group purposes and 0 (2023: 0) to specified risk-focused audit procedures.

The components within the scope of our work accounted for the 100% group revenue, 97% absolute group profit before tax and 99% group total assets (2023: 100% group revenue, 99% absolute group profit before tax and 100% group total assets)

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £8.7m to £17m (2023: £8.0m to £16.2m), 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.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's available financial resources over this period related to a one off total expenditure impact.

We considered whether the risk could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test). We also assessed the completeness of the going concern disclosure.

Accordingly, based on those procedures, we found the directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable.

Our conclusions

— We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

Independent auditor’s report

to the members of United Utilities PLC

- We have not identified, and concur with the directors’ assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group’s or Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure on page 85 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and 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:

- Inquiring of directors, the audit committee, internal audit and inspection of policy documentation relating to the ultimate parent, United Utilities Group PLC, as to the Group’s high level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Using analytical procedures to identify any unusual or unexpected relationships;
- reading Board and Audit Committee minutes relating to the ultimate parent, United Utilities Group PLC; and
- Considering remuneration incentive schemes and performance targets for directors 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, in particular: the risk that Group management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as provisions for household customer debt and capitalisation of costs relating to the capital programme.

On this audit we do not believe there is a fraud risk related to revenue recognition streams because the low value, high volume nature of transactions reduces the opportunities for fraudulent activity.

Further detail in respect of the provisions for household customer debt and capitalisation of costs relating to the capital programme are set out in 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, cash and borrowings posted to unexpected or unrelated accounts, and journals posted between operating costs and property, plant and equipment by users we would not expect; and
- Assessing significant accounting estimates and judgements for bias.

Independent auditor's report

to the members of United Utilities PLC

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: Compliance with regulations imposed by Ofwat, Environment Agency, Competition law, Drinking Water Inspectorate, GDPR compliance, 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 other management 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.

In relation to the Collective proceedings in the Competition Act Tribunal that were issued in December 2023, as discussed in the Material Litigation report and in note 23, we assessed disclosures against our understanding from legal correspondence and inquiries performed.

We discussed with those charged with governance other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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 fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our

Independent auditor's report

to the members of United Utilities PLC

audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information described above we report to you as follows:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 67 to 68, 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

Independent auditor's report

to the members of United Utilities PLC

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.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St. Peter's Square
Manchester
M2 3AE
28 June 2024

Consolidated income statement

for the years ended 31 March 2024

	Note	2024 £m	Re-Presented* 2023 £m
Revenue	2	1,949.5	1,804.2
Other income		18.4	25.0
Staff costs	3	(205.1)	(192.2)
Other operating costs	4	(602.4)	(556.4)
Allowance for expected credit losses – trade and other receivables		(22.0)	(22.7)
Depreciation of property, plant and equipment		(406.1)	(385.5)
Amortisation of intangible assets		(32.7)	(38.1)
Infrastructure renewals expenditure		(219.8)	(193.5)
Total operating expenses		(1,469.7)	(1,363.4)
Operating profit		479.8	440.8
Investment income	5	198.5	102.9
Finance expense	6	(389.3)	(262.7)
Allowance for expected credit losses – loans to joint ventures	A5	(2.4)	-
Investment income and finance expense		(193.2)	(159.8)
Share of losses of joint ventures	11	(4.1)	-
Profit on disposal of subsidiary		-	31.2
Profit before tax		282.5	312.2
Current tax (charge)/credit	7	(22.4)	14.6
Deferred tax charge	7	(48.9)	(76.6)
Tax	7	(71.3)	(62.0)
Profit after tax		211.2	250.2

*The consolidated income statement for the year ended 31 March 2023 has been re-presented to reflect £20.2 million of income not derived from the output of the group's ordinary activities in Other income rather than in Revenue. These amounts were previously reported as £4.8 million and £1,824.4 million respectively. See note 2 for further details.

All of the results shown above relate to continuing operations.

The accompanying notes on pages 85 to 152 form part of these financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March 2024

	Note	2024 £m	2023 £m
Profit after tax		211.2	250.2
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedge effectiveness - effective portion of fair value movements		(63.0)	(50.6)
Tax on items that may be reclassified to profit or loss	7	15.8	12.7
Reclassification of items taken directly to equity		1.8	(36.6)
Tax reclassified to income statement		(0.5)	7.0
Other comprehensive income that may be reclassified to profit or loss		(45.9)	(67.5)
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit pension schemes	17	(368.5)	(445.3)
Change in credit assumptions for debt reported at fair value through profit or loss		0.6	4.9
Cost of hedging – cross-currency basis spread adjustment		4.8	6.3
Tax on items taken directly to equity	7	151.1	151.5
Other comprehensive income that will not be reclassified to profit or loss		(212.0)	(282.6)
Total comprehensive income		(46.7)	(99.9)

The accompanying notes on pages 85 to 152 form part of these financial statements

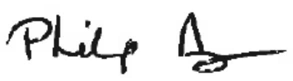
Consolidated and company statement of financial position

At 31 March 2024

		Group	Group	Company	Company
			*Re-presented		*Re-presented
		2024	2023	2024	2023
	Note	£m	£m	£m	£m
ASSETS					
Non-current assets					
Property, plant and equipment	9	13,044.3	12,570.7	1.8	2.1
Intangible assets	10	124.5	142.3	-	-
Interests in joint ventures	11	12.4	16.5	12.4	16.5
Other investments	12	-	-	3,943.6	3,943.6
Inventories		-	1.2	-	-
Trade and other receivables	13	72.7	73.8	72.8	73.6
Loans receivable	14	1,983.3	1,866.8	1,983.2	1,866.8
Retirement benefit surplus	17	268.0	600.8	72.7	158.7
Derivative financial instruments	A3	361.5	428.6	-	-
		15,866.7	15,700.7	6,086.5	6,061.3
Current assets					
Inventories – properties held for resale		3.0	4.2	-	-
Inventories – other		18.5	8.9	-	-
Trade and other receivables	13	227.8	192.5	759.8	911.2
Current tax asset		100.1	98.9	-	-
Cash and short-term deposits	15	1,399.3	340.4	142.5	102.4
Derivative financial instruments	A3	21.3	48.5	-	-
		1,770.0	693.4	902.3	1,013.6
Total assets		17,636.7	16,394.1	6,988.8	7,074.9
LIABILITIES					
Non-current liabilities					
Trade and other payables	19	(957.9)	(892.4)	-	-
Borrowings	16	(9,420.8)	(8,334.0)	(392.2)	(399.1)
Deferred tax liabilities	7	(1,930.6)	(2,048.1)	(18.1)	(55.9)
Derivative financial instruments	A3	(255.2)	(243.1)	-	-
		(12,564.5)	(11,517.6)	(410.3)	(455.0)
Current liabilities					
Trade and other payables	19	(439.8)	(385.5)	(123.5)	(100.8)
Borrowings	16	(686.2)	(194.3)	(34.3)	(18.1)
Provisions	18	(13.5)	(13.1)	-	-
Derivative financial instruments	A3	(25.4)	(9.6)	-	-
		(1,164.9)	(602.5)	(157.8)	(118.9)
Total liabilities		(13,729.4)	(12,120.1)	(568.1)	(573.9)
Total net assets		3,907.3	4,274.0	6,420.7	6,501.0
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	22	881.8	881.8	881.8	881.8
Share premium account		1,430.0	1,430.0	1,430.0	1,430.0
Other reserves	21	(18.6)	23.7	-	-
Retained earnings		1,614.1	1,938.5	4,108.9	4,189.2
Shareholders' equity		3,907.3	4,274.0	6,420.7	6,501.0

*The consolidated and company statement of financial position for the year ended 31 March 2023 has been re-presented to separately reflect Loans receivable from the parent undertaking, previously presented within Trade and other receivables. See note 14 for details.

These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors and authorised for issue on 28 June 2024, and signed on its behalf by:



Phil Aspin
Chief Financial Officer

Consolidated statement of changes in equity

for the years ended 31 March 2024

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
Group					
At 1 April 2023	881.8	1,430.0	23.7	1,938.5	4,274.0
Profit after tax	-	-	-	211.2	211.2
Other comprehensive income					
Remeasurement loss on defined benefit pension schemes (see note 17)	-	-	-	(368.5)	(368.5)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	0.6	0.6
Cash flow hedge effectiveness - effective portion of fair value movements	-	-	(63.0)	-	(63.0)
Cost of hedging - cross currency basis spread Adjustment	-	-	4.8	-	4.8
Tax on items taken directly to equity (see note 7)	-	-	14.6	152.3	166.9
Reclassification of items taken directly to equity	-	-	1.8	-	1.8
Tax reclassified to income statement (see note 7)	-	-	(0.5)	-	(0.5)
Total comprehensive expense	-	-	(42.3)	(4.4)	(46.7)
Dividends (see note 8)	-	-	-	(320.0)	(320.0)
At 31 March 2024	881.8	1,430.0	(18.6)	1,614.1	3,907.3

	Share capital £m	Share premium account £m	Other reserves* £m	Retained earnings £m	Total £m
Group					
At 1 April 2022	881.8	1,430.0	86.5	2,276.7	4,675.0
Profit after tax	-	-	-	250.2	250.2
Other comprehensive income					
Remeasurement loss on defined benefit pension schemes (see note 17)	-	-	-	(445.3)	(445.3)
Change in credit assumption for debt reported at fair value through profit or loss	-	-	-	4.9	4.9
Cash flow hedge effectiveness - effective portion of fair value movements	-	-	(50.6)	-	(50.6)
Cost of hedging - cross currency basis spread Adjustment	-	-	6.3	-	6.3
Tax on items taken directly to equity (see note 7)	-	-	11.1	153.1	164.2
Reclassification of items taken directly to equity	-	-	(36.6)	-	(36.6)
Tax reclassified to income statement (see note 7)	-	-	7.0	-	7.0
Total comprehensive income	-	-	(62.8)	(37.1)	(99.9)
Dividends (see note 8)	-	-	-	(301.1)	(301.1)
At 31 March 2023	881.8	1,430.0	23.7	1,938.5	4,274.0

*Other reserves comprise the group's cost of hedging reserve and cash flow hedging reserve. A reconciliation of movements in these reserves is included in note 20.

The accompanying notes on pages 85 to 152 form part of these financial statements.

Company statement of changes in equity

for the years ended 31 March 2024

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2023	881.8	1,430.0	4,189.2	6,501.0
Profit after tax	-	-	293.6	293.6
Other comprehensive income				
Remeasurement loss on defined benefit pension schemes (see note 17)	-	-	(93.6)	(93.6)
Tax on items taken directly to equity (see note 7)	-	-	39.7	39.7
Total comprehensive income	-	-	239.7	239.7
Dividends (see note 8)	-	-	(320.0)	(320.0)
At 31 March 2024	881.8	1,430.0	4,108.9	6,420.7

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The results of the company for the financial year was a profit after tax of £293.6 million (2023: £540.5 million).

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2022	881.8	1,430.0	4,011.2	6,323.0
Profit after tax	-	-	540.5	540.5
Other comprehensive income				
Remeasurement loss on defined benefit pension schemes (see note 17)	-	-	(93.4)	(93.4)
Tax on items taken directly to equity (see note 7)	-	-	32.0	32.0
Total comprehensive income	**-**	**-**	479.1	479.1
Dividends (see note 8)	-	-	(301.1)	(301.1)
At 31 March 2023	881.8	1,430.0	4,189.2	6,501.0

The accompanying notes on pages 85 to 152 form part of these financial statements.

Consolidated and company statement of cash flows

for the years ended 31 March 2024

		Group	Restated* Group	Company	Company
	Note	2024 £m	2023 £m	2024 £m	2023 £m
Operating activities					
Cash generated from operations	A1	864.5	860.1	378.7	285.8
Interest paid		(180.6)	(118.2)	(24.4)	(23.9)
Interest received and similar income		50.7	22.9	12.2	8.1
Tax paid		(10.6)	(10.8)	(12.1)	(19.9)
Tax received		4.6	17.6	5.6	-
Net cash generated from operating activities		728.6	771.6	360.0	250.1
Investing activities					
Purchase of property, plant and equipment		(749.5)	(675.9)	-	0.4
Purchase of intangible assets		(14.6)	(18.1)	-	-
Grants and contributions received	19	27.9	5.4	-	-
Proceeds on disposal of property, plant and equipment		4.8	-	-	-
Repayment of loans to joint ventures	A5	-	5.0	-	5.0
Proceeds from disposal of subsidiary		-	90.5	-	90.5
Net cash (used in)/generated from investing activities		(731.4)	(593.1)	-	95.9
Financing activities					
Proceeds from borrowings net of issuance costs		1,622.7	509.2	-	-
Repayment of borrowings		(248.5)	(278.1)	-	-
Dividends paid to equity holders of the company	8	(320.0)	(301.1)	(320.0)	(301.1)
Net cash generated from/(used in) financing activities		1,054.2	(70.0)	(320.0)	(301.1)
Effects of exchange rate changes		-	(0.7)	-	-
Net increase in cash and cash equivalents		1,051.4	107.8	40.0	44.9
Cash and cash equivalents at beginning of the year		327.9	220.1	102.4	57.5
Cash and cash equivalents at end of the year	15	1,379.3	327.9	142.4	102.4

*The group cash flow statement has been restated to remove interest of £55.8 million on the intercompany loan with United Utilities Group PLC which was previously reflected within interest received and similar income and cash generated from operations. Interest accrued on the intercompany loan is capitalised to the principal of the loan balance rather than settled as cash. Interest received of £78.7 million as previously reported has now been restated to £22.9 million while cash generated from operations, which was previously £804.3 million, has been restated to £860.1 million. There has been no overall change to net cash generated from operating activities as a result of the restatement.

The accompanying notes on pages 85 to 152 form part of these financial statements.

Notes to the financial statements

The principal accounting policies adopted in the preparation of these financial statements are set out below. Further detail can be found in note A6.

Basis of preparation

The Group financial and the Parent Company financial statements have been prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006. 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 are presented in sterling and all values are rounded to the nearest million pounds (£m) except when otherwise indicated.

The financial statements have been prepared on the going concern basis as the directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting, the directors have reviewed the resources available to the group in the form of cash and committed facilities as well as consideration of the group's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe, but plausible, downside scenarios in order to assess the group's ability to operate within the amounts and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact of £400 million arising in the assessment period; elevated levels of bad debt of £15 million per annum; outcome delivery incentive penalties equivalent to 1.0 per cent of RoRE per annum; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but 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 2024, 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.

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' establishes new principles for the recognition, measurement, presentation, and disclosure of insurance and reinsurance contracts and is mandatory for annual reporting periods beginning on or after 1 January 2023. Management have assessed that adoption of the standard does not materially impact the financial statements of the Group.

Notes to the financial statements

Existing financial guarantees, being those issued by United Utilities PLC on certain external borrowings of its subsidiaries and those issued in support of Water Plus in respect of certain amounts owed to wholesalers, are outside of the scope of the standard on the basis that these have not previously been accounted for as insurance contracts and as such will continue to be measured in accordance with IFRS 9 'Financial Instruments'.

Future accounting developments

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2024 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies set out in note A6, 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 critical accounting judgements and key sources of estimation uncertainty in the financial statements. In determining which of these are significant, the group has considered the extent to which the estimation gives rise to a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Considered in this context, the group considers the accounting estimates for retirement benefits and the useful economic lives of property, plant and equipment and intangible assets to be significant areas of estimation uncertainty in preparing the financial statements.

Retirement benefits

Accounting estimate* – The group operates two defined benefit pension schemes which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Profit before tax and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality, and increases to pensions in payment and deferred pensions. It should be noted that actual rates may differ from the assumptions used due to changing market and economic conditions and longer or shorter lives of participants and, as such, this represents a key source of estimation uncertainty. Sensitivities in respect of the assumptions used during the year are disclosed in note A4.

Accounting estimate* - Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £1,772.0 million (2023: £216.3 million) that are categorised as 'level 3' within the IFRS 13

Notes to the financial statements

'Fair value measurement' hierarchy, meaning that their value is not observable at 31 March 2024. This includes assets with an estimated fair value of £1,564.8 million relating to bulk annuity policies purchased in the year as part of a partial buy-out transaction, further detail of which is included in note A4, and £202.7 million of investments in private debt funds. The fair value of the bulk annuity assets is directly pegged to the present value of the defined benefit obligations that they insure, and therefore estimation of their fair value is inherently linked to the assumptions used in valuing the schemes' liabilities as set out above. Estimates of the fair value of the remaining 'level 3' assets, which now form a higher proportion of total scheme assets following the partial buy-in transaction, are based on valuations performed by the investment managers' valuation specialists using the latest available statements of each of the funds that make up the total asset balances, updated for any subsequent cash movements between the statement date and the year end reporting date.

Revenue recognition and allowance for doubtful receivables

Accounting judgement** – The group recognises revenue generally at the time of delivery and when collection of the resulting receivable has been deemed probable. In estimating the amount of revenue to recognise, where the group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is deemed probable. There are two criteria whereby management does not recognise revenue for amounts which have been billed to those customers on the basis that collectability is not probable. These are as follows:

• The customer has not paid their bills for a period of at least two years; or

• The customer has paid their bills in the preceding two years but has previously had bills de-recognised and has more than their current year debt outstanding.

This two-criteria approach resulted in a £31.0 million (2023: £29.5 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 £19.4 million (£18.6 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 ('ECL') based on experience. Estimates associated with these allowances are based on, among other things, a consideration of how actual collection history might inform expected future recovery. 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 2024, an allowance for expected credit losses relating to household customer debt of £80.7 million (2023: £81.5 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 £0.3 million (2023: £2.2 million) or reduced by £0.2 million (2023: £0.2 million) respectively.

In determining the allowance for expected credit losses in respect of household customers we have applied provisioning rates that are derived from historic experience of the recoverability of receivables, to the aged debt bandings to calculate the bad debt charge and the resultant expected credit loss allowance. The adequacy of the ECL allowance is then evaluated using analysis against the average collection over the last three years, which is considered to give a reasonable forecast of cash collection for use in the forward-looking ECL assessment.

We have also considered the high level of uncertainty as to how economic conditions may impact the recoverability of household receivables for a significant proportion of the group's customer base. A range of scenarios have been used to inform a probability-based assessment of the allowance for expected credit losses. These take account of cash collection rates in the current year as well as recent years, incorporating the current economic uncertainty to provide a range of views as to how recoverability of household receivables may be impacted. This assessment resulted in the release of a significant portion of the management overlay which had previously been recognised in light of the economic uncertainty arising initially from the onset of the Covid-19 pandemic, and which is described more fully within the Annual Report for the year ended 31st March 2020. This overlay was subsequently maintained to address the collection risk arising from recent cost of living pressures and the adverse impact on customer affordability. A review of cash collection performance in the current year has led to an increase in the modelled provisioning rates used in the year as this data is incorporated within the model, and we expect to use these revised rates going forward. The impact of cost of living pressures on the recoverability of household receivables, and the adequacy of our ECL allowance, will continue to be kept under review.

The revised provisioning rates, coupled with the release of a significant portion of the management overlay, supports a charge equivalent to around 1.6 per cent of household revenue recorded during the period, which is slightly lower than the position at 31 March 2023.

Had future cash collection been assessed based on the average cash collection rates for the current year only, the allowance for expected credit losses charged to the income statement would have remained at 1.6 per cent of household revenue with similar results based on using average cash collection from the last two years or the last four years. At 31 March 2024 a charge of 1.6 per cent is considered to be appropriate given prevailing levels of uncertainty and recognising the level of estimation uncertainty associated with the assumptions made in forecasting the year end debt position upon which the allowance for expected credit losses is based.

Accounting estimate** – United Utilities Water Limited raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For household water and wastewater customers with water meters, the receivable billed is dependent on the volume supplied, including the sales value of an estimate of the units supplied between the dates of the last water meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined.

Revenue recognised for unbilled amounts for these customers at 31 March 2024 was £156.4 million (2023: £141.0 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 £5.2million (2023: £4.7 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 and/or resilience 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 48 per cent of total spend in relation to infrastructure assets during the year. A change of +/- 1 per cent would have resulted in £4.2 million (2023: £2.5 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 £438.8 million (2023: £423.6 million). A 10 per cent increase in average asset lives would have resulted in a £39.9 million (2023: £41.4 million) reduction in this figure and a 10 per cent decrease in average asset lives would have resulted in a £43.9 million (£39.0 million) increase in this figure.

Derivative financial instruments

Accounting estimate** – The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors that are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate. Sensitivities relating to derivative financial instruments are included in note A3.

*Judgements/estimates that could reasonably give rise to a material adjustment to the carrying value of assets or liabilities in the next financial year.

**Other judgements/estimates considered less likely to give rise to a material adjustment to the carrying value of assets or liabilities in the next financial year.

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, including adaptation to improve the group's resilience to the effects of climate change, minimisation and mitigation of the group's contribution to climate change, and the transition to Net Zero, has been considered in the preparation of these financial statements and the measurement bases of the assets and liabilities across a number of areas, predominantly in respect of the valuation of the property, plant and equipment held by the group.

Asset life reviews are undertaken regularly for facilities impacted by climate change, environmental legislation or the group's decarbonisation measures. This can result in the acceleration of depreciation or be an indication of potential impairment of assets that are deemed to be commercially obsolete or for which no further use is planned, in part as a result of the group's decarbonisation strategy. In recent years this has resulted in material accelerations in respect of bioresources facilities impacted by changes in environmental legislative requirements. No further material accelerations were required in the current financial year however this is subject to continuous assessment, particularly as environmental legislation continues to evolve.

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

Notes to the financial statements

identify trends that may inform the group's view of useful lives into the future. This information is used alongside other decommissioning data and data from strategic asset planning systems to inform useful asset lives.

The group mitigates the exposure that the carrying value of its book asset base has to climate-related risks through strategic planning activities that incorporate defined climate scenarios,
climate change mitigation pledges, and long-term climate projections. The group installs permanent flood defences and other resilience measures at the most vulnerable facilities to protect its assets. The group further mitigates the financial exposure arising from climate-related risks through the use of insurance policies which insure against costs incurred as a result of major environmental incidents.

Notes to the financial statements

1. Segmental reporting

The board of directors of United Utilities 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 a range of financial and operational key performance indicators ('KPIs'), with operational KPIs aligned to the group's purpose and financial KPIs focused on profitability and financial sustainability. The board reviews revenue, operating profit and gearing, along with operational drivers at a consolidated level. 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.

	2024 £m	Re-presented* 2023 £m
Wholesale water charges	819.9	758.1
Wholesale wastewater charges	990.8	914.7
Household retail charges	93.1	83.0
Other	45.7	48.4
	1,949.5	1,804.2

*Revenue for the year ended 31 March 2023 has been re-presented so as to include £20.2 million of income not derived from the output of the group's ordinary activities in other income rather than in revenue. This income, which had previously been included in the 'other' category in the above table, related to amounts receivable under government renewable energy schemes and the sale of energy generated to the grid, which is a by-product, rather than an output, of the group's ordinary activities. As such it does not meet the criteria to be recognised as revenue from contracts with customers in accordance with IFRS 15 and so has instead been reflected as other income in the consolidated statement of comprehensive income.

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.

Other revenues comprise a number of smaller non-core income streams, including property sales and income from activities, typically performed opposite property developers, which impact the group's capital network assets. This includes diversion 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

	2024 £m	2023 £m
Salaries	1.5	2.0
Benefits	0.2	0.4
Bonus	0.5	0.8
Share-based payment charge	0.8	1.9
	3.0	5.1

Notes to the financial statements

3. Directors and employees (continued)

Included within the above are aggregate emoluments of £1.3 million (2023: £2.5 million) in respect of the highest paid director.

No directors accrued benefits under defined benefit schemes during the current year (2023: no directors). One director opted for a cash allowance in lieu of their company pension scheme entitlement (2023: three directors).

Four directors (2023: six directors) received shares in United Utilities Group PLC in respect of qualifying services. Four directors (2023: six directors) had long-term incentive plans which vested during the year. Aggregate amounts receivable relating to long-term incentive plans of £0.8 million (2023: £2.5 million) were recognised during the year. Details of the employee Sharebuy scheme and the executive share scheme operated by United Utilities Group PLC are given in the UUG 2024 Annual report and financial statements.

Remuneration of key management personnel

	2024 £m	2023 £m
Salaries and short-term employee benefits	6.6	6.3
Share-based payment charge	1.9	3.4
	8.5	9.7

Key management personnel comprises all directors and certain senior managers who are members of the executive team.

Staff costs (including directors)

Group	2024 £m	2023 £m
Wages and salaries[1]	341.8	317.4
Employee related taxes and levies	32.5	30.7
Severance	1.4	(0.2)
Post-employment benefits:		
Defined benefit pension expense (see note 17)	2.2	8.5
Defined contribution pension expense (see note 17)	32.4	29.2
	410.3	385.6
Charged to other areas including regulatory capital schemes	(205.2)	(193.4)
Staff costs	205.1	192.2

Notes:

(1) Wages and salaries excluding non-permanent staff was £302.5 million (2023: £274.7 million).

Included within employee benefits expense there were net credits of £3.2 million (2023: £0.2 million) in respect of restructuring costs. This relates to the release of restructuring costs for which a provision was recognised in previous years that is no longer required.

Conditional share awards in relation to shares of the ultimate parent undertaking, United Utilities Group PLC, have been granted to employees of the group under various schemes. Details of the terms and conditions of each scheme are given in the UUG 2024 Annual Report and financial statements. Included within wages and salaries is an expense of £2.1 million (2023: £4.6 million) relating to a recharge of share-based payment costs from the ultimate parent undertaking.

3. Directors and employees (continued)

Average number of employees during the year (full-time equivalent including directors)

	2024	2023
Group		
Average number of employees during the year	6,035	5,975

Company

The average number of employees during the year was 149 (2023: 156). These employees were engaged in the provision of services to United Utilities Water Limited, and as such employee costs of £12.7 million (2023: £16.6 million) in relation to these employees have been incurred directly by that company during the year.

4. Operating profit

	2024 £m	2023 £m
Other operating costs		
Power	164.3	132.7
Hired and contracted services	128.7	130.8
Materials	127.1	103.7
Property rates	82.0	87.1
Regulatory fees	39.3	36.7
Insurance	13.3	19.7
Loss on disposal of property, plant and equipment	6.7	4.2
Accrued innovation costs	6.0	6.1
Cost of properties disposed	-	1.4
Other expenses	35.0	34.0
	602.4	556.4

In June 2023, the group experienced a significant outfall pipe fracture at a major wastewater treatment works at Fleetwood, for which the remediation and associated activity resulted in costs of £37.6 million being incurred during the year. These costs have been presented as an adjusting item in arriving at the group's underlying operating profit position as included in its alternative performance measures.

The £37.6 million of costs is split into £23.6 million of operating costs included in the above total, and £14.0 million of infrastructure renewal expenditure. The majority of the £23.6 million of operating costs are reflected within hired and contracted services, including the cost of tankering to reduce the volume of sewage spills along the Fylde Coast while remediation activity was undertaken.

In addition to the costs relating to the incident at Fleetwood, other operating costs have increased compared with the same period in the prior year, predominantly due changes in energy prices, which have resulted in an increase in the group's power costs on a hedged basis.

Research and development expenditure for the year ended 31 March 2024, was £0.7 million (2023: £1.2 million). In addition, £6.0 million (2023: £6.1 million) of costs have been accrued by United Utilities Water Limited in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset amounts recognised in revenue during each year intended to fund innovation projects across England and Wales as part of an industry-wide scheme to promote innovation in the sector. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

Notes to the financial statements

4. Operating profit (continued)

During the year, the group obtained the following services from its auditor:

	2024 £000	2023 £000
Audit services:		
Statutory audit - group and company	151	125
Statutory audit - subsidiaries	565	467
	716	592
Non-audit services:		
Regulatory audit services provided by the statutory auditor	80	75
Other non-audit services	102	159
	898	826

5. Investment income

	2024 £m	2023 £m
Interest receivable on short-term bank deposits held at amortised cost	49.1	11.5
Interest receivable on loan to joint ventures held at amortised cost (see note A5)	5.6	4.7
Net pension interest income (see note 17)	28.6	28.7
Other interest receivable	2.3	2.1
Interest receivable from ultimate parent undertaking (see note A5)	112.9	55.9
	198.5	102.9

6. Finance expense

	2024 £m	2023 £m
Interest payable		
Interest payable on borrowings held at amortised cost(1)	379.8	497.7
	379.8	497.7
Fair value (gains)/ losses on debt and derivative instruments		
Fair value hedge relationships:		
Borrowings(2)	(5.1)	(213.1)
Designated swaps(2) (3)	3.4	224.7
	(1.7)	11.6
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss(4)	(21.3)	(4.2)
Associated swaps(5) (6)	22.1	0.4
	0.8	(3.8)
Fixed interest rate swaps(5)	27.3	(146.0)
Net receipts on swaps and debt under fair value option	(21.3)	(32.8)
Inflation swaps(5)	5.3	(62.2)
Other	(0.9)	(1.8)
	10.4	(242.8)
Net fair value losses/(gains) on debt and derivative instruments(6)	9.5	(235.0)
	389.3	262.7

Notes to the financial statements

6. Finance expense (continued)

Notes:

(1) Includes a £225.9 million (2023: £463.4 million) non-cash inflation uplift expense repayable on maturity in relation to the group's index-linked debt and £1.4 million (2023: £1.5 million) interest expense on lease liabilities, representing the unwinding of the discounting applied to future lease payments.
(2) Includes foreign exchange losses of £35.1 million (2023: £20.6 million losses). These gains/losses are largely offset by fair value losses/gains on derivatives.
(3) Under the provisions of IFRS 9 'Financial Instruments', a £4.8 million gain (2023: £6.3 million gain) resulting from changes to the foreign currency basis spread are recognised in other comprehensive income rather than profit or loss as they relate to items designated in an accounting hedge relationship.
(4) Under the provisions of IFRS 9 'Financial Instruments', a £0.6 million gain (2023: £4.9 million gain) due to changes in the group's own credit risk is recognised in other comprehensive income rather than within profit or loss.
(5) These swap contracts are not designated within an IFRS 9 hedge relationship and are 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 £29.3 million income (2023: £31.8 million) due to net interest on derivatives and debt under fair value option and £25.9 million expense (2023: £56.2 million expense) due to non-cash inflation uplift on index-linked derivatives.

Interest payable is stated net of £81.0 million (2023: £127.5 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 6.1 per cent (2023: 7.9 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

7. Tax

	2024 £m	2023 £m
Current tax		
UK corporation tax	28.2	10.6
Adjustments in respect of prior years	(5.8)	(25.2)
Total current tax charge/(credit) for the year	22.4	(14.6)
Deferred tax		
Current year	44.3	44.1
Adjustments in respect of prior years	4.6	32.5
Total deferred tax charge for the year	48.9	76.6
Total tax charge for the year	71.3	62.0

The current tax 'adjustments in respect of prior years' of £5.8 million mainly relates to claims for research and development UK tax allowances on our innovation-related expenditure, in respect of multiple prior years. It reflects an additional claim submitted during the year, along with adjustments relating to ongoing enquiries from the tax authorities in relation to these claims.

The current tax 'adjustments in respect of prior years' of £25.2 million in the previous year is mainly due to the utilisation of losses that were previously being carried forward.

The table below reconciles the notional tax charge at the UK corporation tax rate to the total tax charge and total effective tax rate for the year:

Notes to the financial statements

7. Tax (continued)

	2024	2024	2023	2023
	£m	%	£m	%
Profit before tax	282.5		312.2	
Tax at the UK corporation tax rate	70.6	25.0	59.3	19.0
Adjustments in respect of prior years	(1.2)	(0.4)	7.3	2.3
Net income not taxable	1.9	0.7	(4.6)	(1.5)
Total tax charge and effective tax rate for the year	71.3	25.3	62.0	19.8

The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year:

	2024	2023
	£m	£m
Profit before tax	282.5	312.2
Profit before tax multiplied by the standard rate of UK corporation tax of 25% (2023: 19%)	70.6	59.3
Relief for capital allowances in place of depreciation	(202.0)	(107.5)
Disallowance of depreciation charged in the accounts	94.6	69.8
Financial transactions timing differences	4.2	(48.9)
Pension timing differences	(9.2)	(6.0)
Relief for capitalised interest	(20.2)	(24.2)
Other timing differences	1.0	2.6
Adjustments to tax charge in respect of prior years	(5.8)	(25.2)
Joint venture net losses	1.0	-
Profit on disposal of subsidiary	-	(5.9)
Income not taxable	(2.8)	(12.0)
Depreciation charged on non-qualifying assets	3.7	2.6
Current year tax losses carry forward	87.3	80.8
Current tax charge/(credit) for the year	22.4	(14.6)

The group's current tax charge is typically lower than the UK headline rate of 25 per cent, primarily due to a range of adjustments that 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.

Notes to the financial statements

7. Tax (continued)

The current year net timing differences in relation to capital spend, i.e. capital allowances less depreciation, was higher in the current and prior year mainly due to the temporary super-deductions introduced in 2021 and 'first-year allowances' introduced in March 2023.

The group undertakes and invests in Research & Development ('R&D') upon which accelerated capital allowances are expected to be available. The extent to which R&D allowances are available on any given asset is dependent on the specific fact pattern of the asset and project. Reaching agreement with tax authorities as to the amount of R&D allowances can take a number of years, and judgment is required in estimating the amount of R&D allowances likely to be received following the conclusion of these processes. The adjustments to the tax charge in respect of prior years of £5.8 million mainly relate to the ongoing enquiries from the tax authorities in relation to our claims for R&D allowances between 2019 and 2021 on our innovation-related expenditure.

The group believes that it has made appropriate provision for periods that are currently still under enquiry and yet to be agreed with tax authorities, and that the carrying amount of the relevant tax assets reflect management's estimate of the most likely amount that will be received. The £25.2 million in the prior year mainly relates to the utilisation of tax losses that were previously being carried forward.

The year-on-year movement in financial transactions timing differences is sensitive to fair value movements on treasury derivatives and can, therefore, fluctuate significantly from year to year.

The relief for capitalised interest relates to amounts that 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 income not taxable in the current year is mainly due to the additional 30 per cent element of the temporary capital allowances super-deductions included in the prior year, which is not applicable in the current year.

Depreciation charged on non-qualifying assets relates to accounting depreciation where there is no corresponding tax deduction.

Current year tax losses have arisen mainly as a result of the availability of tax relief available on capital spend. These losses will be carried forward to be utilised against future taxable profits.

Pillar Two

In line with the recent enactment of the Pillar Two income taxes legislation in the UK, which came into effect on 1 January 2024, the group has assessed its potential exposure. This legislation mandates a top-up tax for entities with an effective tax rate below the 15 per cent threshold. The first accounting period for the group to which the Pillar Two legislation will apply is the year to 31 March 2025.

As of 31 March 2024, the only jurisdiction in which the group has a potential Pillar Two exposure is the UK. The entire UK profits of the group will be within the scope of Pillar Two. However, from preliminary calculations, we expect that the effective rate of all our group entities will exceed the 15% tax rate benchmark and management are not currently aware of any circumstances in which this may change. Therefore, the group does not expect a potential exposure to Pillar Two top-up taxes.

7. Tax (continued)

It is unclear if the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. In response to this uncertainty, on 23 May 2023 and 27 June 2023, respectively, the IASB and AASB issued amendments to IAS 12 'Income taxes' introducing a mandatory temporary exception to the requirements of IAS 12, under which a company does not recognise or disclose information about deferred tax assets and liabilities related to the proposed OECD/G20 BEPS Pillar Two model rules. The group applied the temporary exception at 31 March 2024.

Depreciation charged on non-qualifying assets relates to accounting depreciation where there is no corresponding tax deduction.

Tax on items taken directly to equity

Group	2024 £m	2023 £m
Deferred tax		
On remeasurement losses on defined benefit pension schemes	152.2	152.8
On net fair value losses on credit assumptions for debt reported at fair value through profit and loss and cost of hedging	13.9	19.1
Share-based payments	0.3	(0.7)
Total tax credit on items taken directly to equity	166.4	171.2

Company	2024 £m	2023 £m
Deferred tax		
On remeasurement losses on defined benefit pension schemes	39.7	32.0
Total tax credit on items taken directly to equity	39.7	32.0

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 25 per cent reduced from 35 per cent in the prior year).

Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the group and company, and the movements thereon, during the current and prior year:

Group	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2022	1,790.6	355.8	1.7	2,148.1
Charges to the income statement	78.7	7.3	(9.4)	76.6
Charged to equity	-	(152.8)	(18.4)	(171.2)
Disposal of deferred tax liability	(5.4)	-	-	(5.4)
At 31 March 2023	1,863.9	210.3	(26.1)	2,048.1
Charges to the income statement	144.9	8.9	(104.9)	48.9
Charged to equity	-	(152.2)	(14.2)	(166.4)
At 31 March 2024	2,008.8	67.0	(145.2)	1,930.6

Notes to the financial statements

7. Tax (continued)

Company	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2022	(0.1)	86.4	-	86.3
Charged to the income statement	-	1.6	-	1.6
Charged to equity	-	(32.0)	-	(32.0)
At 31 March 2023	(0.1)	56.0	-	55.9
Charged to the income statement	-	1.9	-	1.9
Charged to equity	-	(39.7)	-	(39.7)
At 31 March 2024	(0.1)	18.2	-	18.1

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The accelerated tax depreciation represents the difference between capital allowances and accounting depreciation on the group's property, plant and equipment. Capital allowances are tax reliefs provided in law and spread the tax relief due over a pre-determined standard number of years. This contrasts with the accounting treatment, where the expenditure is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially.

Due to the group's continued significant annual capital expenditure, the deductions for capital allowances are expected to exceed depreciation for the medium term and continue to impact future corporation tax payments.

Given the fully funded nature of the group's defined benefit pension schemes, the retirement benefit obligations primarily relates to deferred taxation on the pensions schemes surplus position. This amount is significantly impacted by financial market conditions and long-term inflation expectations, and therefore it is difficult to forecast future movements. However, these movements have no impact on medium-term future corporation tax payments as they only impact year-on-year deferred tax movement.

Deferred tax on retirement benefit obligations can 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, is not expected to be significant for the medium term.

Included in the credit to other comprehensive income of £166.4 million is a credit of £60.1 million reflecting a change in the rate at which tax would be payable on an authorised surplus payment in respect of the group's retirement benefit surplus, from 35 per cent to 25 per cent in the year.

The other short-term temporary differences of £145.1 million includes £211.2 million relating to tax losses that have been carried forward, where permitted under HMRC rules, to be utilised in future periods. This includes £87.2 million (2023: £108.9 million) of current year tax losses carried forward. 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.

Notes to the financial statements

8. Dividends

Amounts recognised as distributions to equity holders of the company in the year comprise:

	2024 £m	2023 £m
Ordinary shares		
Final dividend for the year ended 31 March 2023 at 30.34 pence per share (2022: 29.00 pence)	206.9	197.7
Interim dividend for the year ended 31 March 2024 at 16.59 pence per share (2023: 15.17 pence)	113.1	103.4
	320.0	301.1

9. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2024 £m	2023 £m
Property, plant and equipment – owned	12,986.7	12,513.8
Right-of-use assets – leased	57.6	56.9
Net book value	13,044.3	12,570.7

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 2022	372.3	6,031.3	8,361.7	513.7	1,639.9	16,918.9
Additions	1.1	88.7	243.5	2.9	530.7	866.9
Transfers	1.3	129.1	99.0	7.1	(222.6)	13.9
Disposals	(7.2)	(10.7)	(199.7)	(19.1)	-	(236.7)
At 31 March 2023	367.5	6,238.4	8,504.5	504.6	1,948.0	17,563.0
Additions	2.1	79.6	224.2	6.1	580.5	892.5
Transfers	16.8	469.8	423.7	21.9	(938.3)	(6.1)
Disposals	(7.1)	(0.1)	(59.0)	(87.3)	-	(153.5)
At 31 March 2024	379.3	6,787.7	9,093.4	445.3	1,590.2	18,295.9
Accumulated depreciation						
At 1 April 2022	137.1	522.3	3,758.1	413.7	-	4,831.2
Charge for the year	8.5	47.9	305.5	21.6	-	383.5
Transfers	-	0.4	2.9	-	-	3.3
Disposals	(6.8)	(10.6)	(132.8)	(18.6)	-	(168.8)
At 31 March 2023	138.8	560.0	3,933.7	416.7	-	5,049.2
Charge for the year	8.4	49.2	325.4	21.3	-	404.3
Transfers	(0.5)	(0.1)	(0.8)	-	-	(1.4)
Disposals	(2.7)	-	(53.4)	(86.8)	-	(142.9)
At 31 March 2024	144.0	609.1	4,204.9	351.2	-	5,309.2

Notes to the financial statements

9. Property, plant and equipment (continued)

Net book value						
At 31 March 2023	228.7	5,678.4	4,570.8	87.9	1,948.0	12,513.8
At 31 March 2024	235.3	6,178.6	4,888.5	94.1	1,590.2	12,986.7

At 31 March 2024, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £327.0 million (2023: £322.6 million). In addition to these commitments, the group has long-term expenditure plans, which include investments to achieve improvements in performance required by regulators and to provide for future growth.

Following a review of inventories carried out during the year ended 31 March 2023, the group opted to reclassify spare parts previously recognised within inventories to property, plant and equipment in order to better reflect the expected consumption pattern of these items. This resulted in £14.6 million being transferred to property, plant and equipment (cost) and £3.3 million being transferred to accumulated depreciation at 31 March 2023, with any spare part additions being recognised directly in property, plant and equipment during the year ended 31 March 2024.

Following a review of the presentation of government grants related to assets during the year, the group has elected to deduct the value of grants received in arriving at the carrying value of related assets on the basis that this provides a better representation of the substance of these transactions. This has resulted in £6.1 million of grants related to assets received in previous years being deducted from the assets' carrying values, net of £1.4 million of amortisation of these grants that has already been recognised in profit and loss. These amounts are reflected in the transfers lines in the previous table. During the year ended 31 March 2024, government grants of £1.9 million related to assets were received. These have been reflected in the additions line in the previous table as a deduction in arriving at the carrying value of the related assets.

Company

The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2024 or 31 March 2023.

10. Intangible assets

	Total
Group	£m
Cost	
At 1 April 2022	432.9
Additions	19.0
Transfers	0.6
At 31 March 2023	452.5
Additions	15.9
Disposals	(79.3)
At 31 March 2024	389.1
Accumulated amortisation	
At 1 April 2022	272.1
Charge for the year	38.1
At 31 March 2023	310.2
Charge for the year	32.7
Disposals	(78.3)
At 31 March 2024	264.6

Notes to the financial statements

10. Intangible assets (continued)

Net book value at 31 March 2023	142.3
Net book value at 31 March 2024	124.5

The group's intangible assets relate mainly to computer software.

At 31 March 2024, the group had entered into contractual commitments for the acquisition of intangible assets amounting to £1.1 million (2023: £2.8 million).

Company

The company had no intangible assets or contractual commitments for the acquisition of intangible assets at 31 March 2023 or 31 March 2022.

11. Interests in joint ventures

Group and Company	Total £m
At 1 April 2022	16.5
Share of profit/(losses) of joint ventures	-
At 31 March 2023	16.5
Share of losses of joint ventures	(4.1)
At 31 March 2024	12.4

The group's interests in joint ventures mainly comprises its 50 per cent interest in Water Plus Group Limited ('Water Plus'), which is jointly owned and controlled by the group and Severn Trent PLC under a joint venture agreement.

The group's total share of Water Plus losses for the year was £4.1 million (2023: nil share of profits or losses), all of which is recognised in the income statement.

Details of transactions between the group and its joint ventures are disclosed in note A5.

12. Other investments

Company	Shares in subsidiary undertakings £m
Net book value at 1 April 2022, 1 April 2023 and 31 March 2024	3,943.6

13. Trade and other receivables

	Group		Company	
	2024	2023*	2024	2023*
	£m	£m	£m	£m
Trade receivables	61.0	47.8	6.7	3.6
Amounts owed by subsidiary undertakings	-	-	752.3	905.6
Amounts owed by other related parties (see note A5)	100.8	102.2	73.6	75.6
Other debtors and prepayments	62.1	43.1	-	-
Accrued income	76.6	73.1	-	-
	300.5	266.2	832.6	984.8

*Amounts owed by ultimate parent undertaking that were previously presented within trade and other receivables have been re-presented in note 14.

At 31 March 2024, the group had £72.7 million (2023: £73.8 million) of trade and other receivables classified as non-current, all of which was owed by related parties.

Amounts owed by subsidiary undertakings, all of which are expected to be settled within 12 months, represents the sum of all subsidiary balances where the total of intercompany tax, debt, interest and trade balances is in a net receivable position. The recoverability of these balances has been assessed at the year end, and, except for the allowance for doubtful receivables detailed below, the balances are deemed fully recoverable.

The carrying amount of trade and other receivables approximates to their fair value at 31 March 2024 and 31 March 2023.

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables, an analysis of which is as follows:

Group	2024 £m	2023 £m
At the start of the year	85.7	84.6
Amounts charged to operating expenses	22.0	22.7
Trade receivables written off	(22.8)	(21.0)
Amounts charged to deferred income	(0.5)	(0.6)
At the end of the year	84.4	85.7

Amounts charged to deferred income relate to amounts invoiced for which revenue has not yet been recognised in the income statement.

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for expected credit losses which are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considers past events, current conditions and forecasts of future conditions.

At 31 March 2024 and 31 March 2023, the group had no trade receivables that were past due and not individually impaired.

In the company, gross amounts owed by subsidiary undertakings relating to non-trading subsidiary undertakings are stated net of allowances for doubtful receivables, an analysis of which is as follows:

Notes to the financial statements

13. Trade and other receivables (continued)

Company	2024 £m	2023 £m
At the start of the year	5.1	4.8
Amounts charged to operating expenses	0.6	0.3
At the end of the year	5.7	5.1

At each reporting date, the company evaluates the recoverability of amounts owed by subsidiary undertakings and records allowances for doubtful receivables based on an assessment of the company's ability to pay.

The following table provides information regarding the ageing of trade receivables that were past due and individually impaired:

Group **At 31 March 2024**	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	66.7	27.2	51.4	145.3
Allowance for expected credit losses	(20.7)	(12.7)	(51.0)	(84.4)
Net trade receivables	46.0	14.5	0.4	60.9

At 31 March 2023	Aged less than one year	Aged between one year and two years	Aged greater than two years	Carrying value
Gross trade receivables	51.6	31.7	50.2	133.5
Allowance for expected credit losses	(20.2)	(16.7)	(48.8)	(85.7)
Net trade receivables	31.4	15.0	1.4	47.8

At 31 March 2024, the group had £0.1 million (2023: £0.3 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 2024 and 31 March 2023, 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 2024 and 31 March 2023, the company had no trade receivables that were past due.

14. Loans receivable

	Group 2024	Group 2023	Company 2024	Company 2023
Amounts owed by ultimate parent (see note A5)	1,983.3	1,866.8	1,983.2	1,866.8
	1,983.3	1,866.8	1,983.2	1,866.8

Loans receivable owed by the ultimate parent undertaking, United Utilities Group PLC, are classified as non-current and bear a floating interest rate of the Bank of England base rate plus a credit adjusted spread and a credit margin. The loan is repayable with twelve months' notice.

The carrying amount of loans receivable approximate to their fair value at 31 March 2024 and 31 March 2023.

Notes to the financial statements

15. Cash and cash equivalents

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash at bank and in hand	3.7	2.6	0.2	0.1
Short-term bank deposits	1,395.6	337.8	142.3	102.2
Cash and short-term deposits	1,399.3	340.4	142.5	102.3
Book overdrafts (included in borrowings, see note 16)	(20.0)	(12.5)	(0.1)	(0.1)
Cash and cash equivalents in the statement of cash flows	1,379.3	327.9	142.4	102.2

Cash and short-term deposits include cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less. The carrying amounts of cash and cash equivalents approximate their fair value.

Book overdrafts, which result from cash management practices, represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

16. Borrowings

	2024 £m	2023 £m
Group		
Non-current liabilities		
Bonds	7,598.2	6,378.8
Bank and other term borrowings	1,691.4	1,825.0
Lease liabilities (see note 20)	56.2	55.2
Amounts owed to ultimate parent undertaking	75.0	75.0
	9,420.8	8,334.0
Current liabilities		
Bonds	328.4	-
Bank and other term borrowings	304.2	160.8
Book overdrafts (see note 15)	20.0	12.5
Lease liabilities (see note 20)	3.0	3.1
Amounts owed to ultimate parent undertaking	30.6	17.9
	686.2	194.3
	10,107.0	8,528.3

	2024 £m	2023 £m
Company		
Non-current liabilities		
Bonds	315.3	322.0
Amounts owed to ultimate parent undertaking	75.0	75.0
Lease liabilities (see note 19)	1.9	2.1
	392.2	399.1
Current liabilities		
Book overdrafts (see note 14)	0.1	0.1
Lease liabilities (see note 19)	0.3	0.1
Amounts owed to ultimate parent undertaking	30.6	17.9
Amounts owed to subsidiary undertakings	3.3	-
	34.3	18.1
	426.5	417.2

Notes to the financial statements

16. Borrowings (continued)

Borrowings are unsecured and are measured at amortised cost. The carrying amounts of borrowings approximate their fair value.

After the reporting period, the group raised £350 million fixed rate notes in May 2024, due May 2051.

17. 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 A4 is presented on an aggregated basis unless otherwise stated.

The net pension income before tax recognised in the income statement in respect of the defined benefit pension schemes is summarised as follows:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Current service cost	2.8	6.0	0.2	0.4
Curtailments/settlements	(4.6)	-	(0.4)	-
Administrative expenses	4.0	2.5	1.6	1.0
Pension expense charged to operating profit	2.2	8.5	1.4	1.4
Net pension interest income credited to investment income (see note 5)	(28.6)	(28.7)	(8.1)	(6.9)
Net pension income credited to the income statement before tax	(26.4)	(20.2)	(6.7)	(5.5)

Defined benefit pension costs excluding curtailments/settlements included within employee benefit expense were £6.8 million (2023: £8.5 million) for the group and £1.8 million (2023: £1.4 million) for the company comprising current service costs and administrative expenses. These costs are partially offset by a past service credit of £4.6 million (2023: £nil) for the group and £0.4 million for the company (2023: £nil) relating to the release of historic accrued defined benefit pension augmentations that are no longer required.

Total post-employment benefits expense excluding curtailments/settlements charged to operating profit of £34.6 million (2023: £37.7 million) for the group and £0.9 million (2023: £1.4 million) for the company comprise the defined benefit costs described above of £2.2 million (2023: £8.5 million) and defined contribution costs of £32.4 million (2023: £29.2 million) and £nil (2023: £nil) for the company (see note 3).

17. Retirement benefits (continued)

The reconciliation of the opening and closing net pension surplus included in the statement of financial position is as follows:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
At the start of the year	600.8	1,016.8	158.7	245.6
Income recognised in the income statement	26.4	20.2	6.7	5.5
Contributions	9.3	9.1	0.9	1.0
Remeasurement losses gross of tax	(368.5)	(445.3)	(93.6)	(93.4)
At the end of the year	268.0	600.8	72.7	158.7

Included in the contributions paid of £9.3million (2023: £9.1 million) and company contributions paid of £0.9 million (2023: £1.0 million), which are included as cash outflows in arriving at net cash generated from operations in the consolidated statement of cash flows, are payments in relation to historic unfunded, unregistered retirement benefit schemes of £0.7 million (2023: £0.6 million) for the group and £nil (2023: £nil) for the company, and administration expenses of £4.0 million (2023: £2.5 million) for the group and for the company of £1.6 million (2023: £1.0 million).

Contributions in relation to current service cost fell to £2.8 million (2023: £6.0 million) for the group and £0.2 million (2023: £0.4 million) for the company.

Remeasurement gains and losses are recognised directly in the statement of comprehensive income.

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
The return on plan assets, excluding amounts included in interest	(402.7)	(1,087.8)	(68.4)	(235.5)
Actuarial gains arising from changes in financial assumptions	52.7	950.0	13.0	249.2
Actuarial gains/(losses) arising from changes in demographic assumptions	49.2	(60.7)	13.9	(10.4)
Actuarial losses arising from experience	(67.7)	(246.8)	(52.1)	(96.5)
Remeasurement losses on defined benefit pension schemes	(368.5)	(445.3)	(93.6)	(93.2)

Deferred tax on the movement in the defined benefit surplus during the year has been recognised at a rate of 25 per cent, being the rate applicable to refunds from a trust, reflecting the most likely method by which the defined benefit surplus would be realised (see note 7).

For more information in relation to the group's defined benefit pension schemes, including changes in financial and demographic assumptions, see note A4.

Defined contribution schemes

During the year, the group made £32.4 million (2023: £29.2 million) of contributions and the company made £nil (2023: £nil) of contributions to defined contribution schemes which are included in employee benefits expense in the consolidated income statement (see note 3), and as cash outflows in arriving at net cash generated from operating activities in the consolidated statement of cash flows.

Notes to the financial statements

18. Provisions

Group	Severance £m	Other £m	Total £m
At 1 April 2022	1.2	12.3	13.5
(Credited)/charged to the income statement	(0.3)	0.8	0.5
Utilised in the year	(0.5)	(0.4)	(0.9)
At 31 March 2023	0.4	12.7	13.1
Charged to the income statement	1.5	2.8	4.3
Utilised in the year	(1.4)	(2.5)	(3.9)
At 31 March 2024	0.5	13.0	13.5

The group had no provisions classed as non-current at 31 March 2024 or 31 March 2023.

The severance provision as at 31 March 2024 and 31 March 2023 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 2024 or 31 March 2023.

19. Trade and other payables

		Group		Company
	2024 £m	2023 £m	2024 £m	2023 £m
Non-current				
Deferred grants and contributions	937.7	873.3	-	-
Other creditors	20.2	19.1	-	-
	957.9	892.4	-	-

		Group		Company
	2024 £m	2023 £m	2024 £m	2023 £m
Current				
Trade payables	23.4	26.4	0.1	0.1
Amounts owed to ultimate parent undertaking	30.5	12.4	28.2	10.6
Amounts owed to subsidiary undertakings	-	-	90.0	84.8
Other tax and social security	7.5	6.9	-	-
Deferred grants and contributions	17.8	16.6	-	-
Accruals and other creditors	311.6	269.2	5.2	5.3
Deferred income	49.0	54.0	-	-
	439.8	385.5	123.5	100.8

The average credit period taken for trade purchases for the group is 11 days (2023: 11 days) and for the company is nil days (2023: nil days).

The carrying amounts of trade and other payables approximate their fair value at 31 March 2024 and 31 March 2023.

Notes to the financial statements

19. Trade and other payables (continued)

The majority of deferred income balances represent contract liabilities arising from timing differences between customer payments, the billing cycle, and the usage of water by customers. They therefore typically reverse in subsequent months, with all amounts held in relation to these contract liabilities at the beginning of the reporting period having subsequently reversed into the income statement during the year.

Deferred grants and contributions

	2024 £m	2023 £m
Group		
At the start of the year	889.9	834.2
Amounts capitalised during the year	25.9	5.4
Transfers of assets from customers	61.3	66.2
Transfer of government grants related to assets	(4.7)	-
Credited to income statement – revenue	(17.4)	(16.2)
Credited to the income statement – other operating costs	-	(0.3)
Debited to allowance for bad and doubtful receivables	0.5	0.6
At the end of the year	955.5	889.9

20. Leases

Group

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, vehicles, and equipment. Due to the nature of the group's operations, many of the group's leases have extremely long terms, with leases ranging from one year to 999 years. The group does not typically enter into lease contracts with a duration of less than 12 months, and no material costs were incurred during the year for short-term leases.

During the year, the group has entered into leases of computer equipment for which the underlying assets are of low value, and therefore qualify for the recognition exemption available under IFRS 16 'Leases', which the group has elected to apply. The expense related to these low-value assets incurred in the year totals £0.6 million (2023: £nil).

As at 31 March 2024, the group's statement of financial position included right-of-use assets with a net book value of £57.6 million (2023: £56.9 million) and lease liabilities with a total value of £59.2 million (2023: £58.3 million). These balances are analysed further below.

Right-of-use assets

The carrying amount of right-of-use assets at the year ended 31 March 2024 is presented in the following asset classes.

	2024 £m	2023 £m
Land and buildings	52.0	51.2
Operational assets	5.4	5.5
Fixtures, fittings, tools, and equipment	0.2	0.2
Total carrying amount of right-of-use assets	57.6	56.9

Additions to right-of-use assets were £2.6 million (2023: £1.0 million). Disposals were £1.0 million (2023: £2.5 million).

Notes to the financial statements

20. Leases (continued)

The depreciation charge recognised in relation to right-of-use assets, which is included within the group's operating profit, was as follows:

	2024 £m	2023 £m
Land and buildings	1.2	1.4
Operational assets	0.6	0.6
Fixtures, fittings, tools, and equipment	-	-
Total depreciation of right-of-use assets	1.8	2.0

Lease liabilities

As set out in note 15, lease liabilities at the year ended 31 March 2024 of £59.2 million (2023: £58.3 million) is split between £56.2 million (2023: £55.2 million) presented as non-current liabilities and £3.0 million (2023: £3.1 million) presented as current liabilities.

The maturity profile of lease liabilities recognised at the balance sheet date is:

	2024 £m	2023 £m
Less than 1 year	3.0	3.2
1 to 5 years	8.6	9.0
5 to 10 years	7.9	7.8
10 to 25 years	26.0	25.0
25 to 50 years	43.2	41.3
50 to 100 years	85.0	81.5
100 to 500 years	108.6	105.3
Longer than 500 years	3.5	3.2
Total undiscounted cash payments	285.8	276.3
Effect of discounting	(226.6)	(218.0)
Present value of cash payments	59.2	58.3

Interest recognised in relation to lease liabilities for the year ended 31 March 2024, and included within the group's finance expense, was £1.4 million (2023: £1.5 million).

The total cash outflow for leases for the year ended 31 March 2024 was £2.9 million (2023: £3.3 million); of this, £1.4 million was payment of interest (2023: £1.5 million) and £1.5 million payment of principal (2023: £1.8 million). Payment of interest forms part of cash flows from operating activities and payment of principal is included within repayment of borrowings, which forms part of cash flows from financing activities in the group's statement of cash flows.

Company

As at 31 March 2024, the company's statement of financial position included right of use assets with a net book value of £1.8 million (2023: £2.1 million) and lease liabilities with a total value of £2.1 million (2023: £2.2 million). These balances are analysed further below.

Right-of-use assets

The carrying amount of right-of-use assets at the year ended 31 March 2024 is presented in the following asset classes.

	2024 £m	2023 £m
Land and buildings	1.8	2.1
Total carrying amount of right-of-use assets	1.8	2.1

Notes to the financial statements

20. Leases (Continued)

Additions to right of use assets were £nil (2023: £nil). Disposals were £nil (2023: £nil).

The depreciation charge recognised in relation to right-of-use assets, which is included within the group's operating profit, was as follows:

	2024 £m	2023 £m
Land and buildings	0.3	0.2
Total depreciation of right-of-use assets	0.3	0.2

Lease liabilities

As set out in note 16, lease liabilities at the year-ended 31 March 2024 of £2.1 million (2023: £2.2 million) is split between £0.3 million (2023: £0.1 million) presented as non-current liabilities and £1.8 million (2023: £2.1 million) presented as current liabilities.

The maturity profile of lease liabilities recognised at the balance sheet date is:

	2024 £m	2023 £m
Less than 1 year	0.3	0.3
1 to 5 years	1.1	1.1
5 to 10 years	0.9	1.1
10 to 25 years	-	0.1
Total undiscounted cash payments	2.3	2.6
Effect of discounting	(0.2)	(0.4)
Present value of cash payments	2.1	2.2

Interest recognised in relation to lease liabilities for the year-ended 31 March 2024 and included withing the company's finance expense was £0.1 million (2023: £0.1 million).

The total cash outflow for leases for the year ended 31 March 2024 was £0.2 million (2023: £0.3 million); of this, £0.2 million was payment of principal (2023: £0.3 million), with the payment of interest being negligible and therefore rounded down to £nil in the financial statements for both the years 31 March 2024 and 31 March 2023. 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 company's statement of cash flows.

21. Other reserves

	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2023	5.1	18.6	23.7
Other comprehensive income			
Change in fair value recognised in other comprehensive income	4.8	(63.0)	(58.2)
Amounts reclassified from other comprehensive income to profit or loss	-	1.8	1.8
Tax on hedge effectiveness taken directly to equity	(1.2)	15.8	14.6
Tax on reclassification to consolidated income Statement	-	(0.5)	(0.5)
At 31 March 2024	8.7	(27.3)	(18.6)

Notes to the financial statements

21. Other reserves (continued)

	Cost of hedging reserve £m	Cash flow hegding reserve £m	Total £m
At 1 April 2022	0.4	86.1	86.5
Other comprehensive income			
Change in fair value recognised in other comprehensive income	6.3	(50.6)	(44.3)
Amounts reclassified from other comprehensive income to profit or loss	-	(36.6)	(36.6)
Tax on hedge effectiveness taken directly to equity	(1.6)	12.7	11.1
Tax on reclassification to consolidated income Statement	-	7.0	7.0
At 31 March 2023	5.1	18.6	23.7

The group recognises the cost of hedging reserve as a component of equity. This reserve reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments.

The group designates a number of swaps hedging non-financial risks in cash flow hedge relationships in order to give a more representative view of operating costs. Fair value movements relating to the effective part of these swaps are recognised in other comprehensive income and accumulated in the cash flow hedging reserve.

Company

The company had no other reserves at 31 March 2024 or 31 March 2023.

22. Share capital

	2024 number	2024 £	2023 number	2023 £
Group and Company				
Issued, called up and fully paid				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

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

23. Contingent liabilities

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 UUW, for an unspecified amount of compensation. The litigation is being dealt with on a phased basis, with questions on whether the requested information falls within EIR being decided first (Phase 1).

Notes to the financial statements

23. Contingent liabilities (continued)

The trial of Phase 1 was concluded in December 2023, and UUW is awaiting the judgement, which is likely to be due at the end of spring 2024. Regardless of the outcome of the initial phase, no damages would be assessed or awarded until later phases in the litigation. 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.

Collective proceedings in the Competition Appeal Tribunal ('CAT') were issued on 8 December 2023 against UUW and United Utilities Group PLC on behalf of approximately 5.6 million domestic customers following an application by the Proposed Class Representative, Professor Carolyn Roberts. It is alleged that customers have collectively paid an overcharge for sewerage services during the claim period (which runs from 1 April 2020 and may continue into the early years of the 2025-30 regulatory price control period) as a result of UUW allegedly abusing a dominant position by allegedly providing misleading information to regulatory bodies. A hearing is currently scheduled for late September 2024 to deal with certification of the claim and any possible preliminary issue or strike out arguments in respect of the claim. UUW believes the claim is without merit and will defend it robustly. Similar claims have also been issued and served against five other water and wastewater companies.

24. Financial and other commitments

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 financial liabilities to be disclosed in this regard (2023: none).

At 31 March 2024, there were commitments for future capital expenditure and infrastructure renewals expenditure contracted, but not provided for, of £342.7 million (2023: £339.0 million). See further detail below.

	2024 £m	2023 £m
Property, plant and equipment	327.0	322.6
Intangible assets	1.1	2.8
Infrastructure renewals expenditure	14.6	13.6
Total commitments contracted but not provided for	342.7	339.0

25. Events after the reporting period

With the exception of the new borrowings described in note 16, there were no significant events after the reporting period requiring disclosure or any adjustments to the financial position, financial performance, or cash flows reported as at 31 March 2024.

26. Ultimate parent undertaking

The company's immediate and ultimate parent undertaking and controlling party is United Utilities Group PLC, a company incorporated and registered in England and Wales.

The smallest group in which the results of the company are consolidated is that headed by United Utilities PLC.

The largest group in which the results of the company are consolidated is that headed by United Utilities Group PLC. The consolidated accounts of this group are available to the public and may be obtained from: The Company Secretary, United Utilities Group PLC, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.

Notes to the financial statements

A1. Cash generated from operations

	Group		Company	
		*Restated		
	2024 £m	2023 £m	2024 £m	2023 £m
Profit before tax	282.5	312.2	330.6	555.3
Adjustments for :				
Investment income and finance expense (see notes 5, 6 and A5)	193.2	159.8	(152.9)	(74.6)
Share of losses of joint ventures (see note 11)	4.1	-	4.1	-
Profit on disposal of subsidiary	-	(31.2)	-	(35.3)
Impairment of intercompany receivables	-	-	0.6	0.3
Impairment of investment in subsidiaries	-	-	-	0.4
Operating profit	479.8	440.8	182.4	446.1
Adjustments for:				
Depreciation of property, plant and equipment (see notes 9 and 20)	406.1	385.5	0.2	0.2
Amortisation of intangible assets (see note 10)	32.7	38.1	-	-
Loss on disposal of property, plant and equipment (see note 4)	6.7	4.2	-	-
Amortisation of deferred grants and contributions (see note 18)	(17.4)	(16.5)	-	-
Pension contributions paid less pension expense charged to operating profit	(7.1)	0.4	0.4	0.5
Changes in working capital:				
(Increase)/Decrease in inventories	(7.2)	3.9	-	-
(Increase)/Decrease in trade and other receivables	(26.8)	3.6	14.5	(346.0)
(Decrease)/Increase in trade and other payables	(2.7)	0.5	181.2	185.0
Increase/(Decrease) in provisions (see note 18)	0.4	(0.4)	-	-
Cash generated from operations	864.5	860.1	378.7	285.8

*The group cash flow statement has been restated to remove interest of £55.9 million on the intercompany loan with United Utilities Group PLC which was previously reflected within interest received and similar income and cash generated from operations. Interest accrued on the intercompany loan is capitalised to the principal of the loan balance rather than settled as cash. Interest received of £78.7 million as previously reported has now been restated to £22.9 million while increases in trade and other receivables, which was previously £52.2 million, has been restated to a decrease in trade and other receivables of £3.6 million. There has been no overall change to net cash generated from operating activities as a result of the restatement.

The group has received property, plant and equipment of £61.3 million (2023: £66.2 million) in exchange for the provision of future goods and services (see notes 19 and A6).

Reconciliation of fixed asset purchases to fixed asset additions

Owned property, plant and equipment[(1)]

	2024 £m	2023 £m
Purchase of property, plant and equipment in statement of cash flows	749.5	675.9
Non-cash additions:		
Transfers of assets from customers (see note 19)	61.3	66.2
IAS 23 capitalised borrowing costs (see note 6)	79.7	126.0
Receipt of government grants related to assets	(1.9)	-
Transfers of spare parts from inventories	-	(11.3)
Net book value transfers to intangible assets	-	0.6
Timing differences on cash paid[(2)]	3.9	9.5
Property, plant and equipment additions	892.5	866.9

A1. Cash generated from operations (continued)

(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 19).

Reconciliation of intangible asset purchases to intangible asset additions

	2024 £m	2023 £m
Purchase of intangibles assets in statement of cash flows	14.6	18.1
IAS 23 capitalised borrowing costs (see note 6)	1.3	1.5
Net book value transfers from property, plant and equipment	-	(0.6)
Intangible asset additions	15.9	19.0

The company had no property, plant and equipment or intangible asset additions during the years ended 31 March 2024 and 31 March 2023.

A2. Net Debt

Net debt comprises borrowings, net of cash and short-term deposits and derivatives. As such, movements in net debt during the year are impacted by changes in liabilities from financing activities as detailed in the tables below. The tables below should be read in conjunction with the consolidated statement of cash flows.

In the below tables, where derivatives are in an economic hedge of borrowings, derivative cash flows are shown netted with the net payment or receipt being reported against the underlying borrowing cash flow to provide a more faithful representation of the substance of the transaction.

The fair value of the derivatives reported in financing liabilities that are not hedging specific debt instruments are removed in calculating the group's net debt position. These derivatives correspond to the group's fixed interest rate swaps and inflation swaps, neither of which are designated within an IFRS 9 hedging relationship and both of which are classified as 'held for trading' under the accounting standard. The fair value movements on those derivatives that are not excluded from the revised definition of net debt (being derivatives in a fair value hedge relationship) are expected to be materially equal and opposite in value to the fair value movement included in borrowings, resulting in materially all fair value movements being excluded.

Fair value movements include the indexation expense relating to the group's inflation swap portfolio of £111.3 million (2023: £85.3 million). The remaining fair value and foreign exchange movements in the year on the group's bond and bank borrowings are materially hedged by the fair value swap portfolio.

Notes to the financial statements

A2. Net Debt (continued)

	Borrowings				Derivatives					
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss	**Total liabilities from financing activities**	Cash and cash equivalents	Adjustments in calculating net debt	**Net debt**
	£m	£m	£m	£m	£m	£m	**£m**	£m	£m	**£m**
At 1 April 2023	**(6,378.7)**	**(1,985.8)**	**(58.3)**	**(92.9)**	**(151.0)**	**349.8**	**(8,316.9)**	**327.9**	**(304.2)**	**(8,293.2)**
Non-cash movements										
Inflation uplift on index-linked debt	(178.2)	(47.7)	-	-	-	-	**(225.9)**	-	-	**(225.9)**
Fair value movements	(11.2)	3.3	-	-	1.5	(54.7)	**(61.1)**	-	6.7	**(54.4)**
Foreign exchange	26.6	8.6	-	-	-	-	**35.2**	-	-	**35.2**
Other	(4.5)	-	(3.8)	-	-	-	**(8.3)**	-	-	**(8.3)**
Cash flows used in financing activities:										
Receipts in respect of borrowings and derivatives	(1,492.0)	(103.8)	-	(12.7)	(14.2)	-	**(1,622.7)**	1,622.7	-	**-**
Payments in respect of borrowings and derivatives	111.4	129.9	1.5	-	5.7	-	**248.5**	(248.5)	-	**-**
Dividends paid	-	-	-	-	-	-	**-**	(320.0)	-	**(320.0)**
Changes arising from financing activities	**(1,547.9)**	**(9.7)**	**(2.3)**	**(12.7)**	**(7.0)**	**(54.7)**	**(1,634.3)**	**1,054.2**	**6.7**	**(573.4)**
Cash flows used in investing activities	-	-	-	-	-	-	-	(731.4)	-	(731.4)
Cash flows generated from operating activities	-	-	1.4	-	-	-	1.4	728.6	-	730.0
At 31 March 2024	**(7,926.6)**	**(1,995.5)**	**(59.2)**	**(105.6)**	**(158.0)**	**295.1**	**(9,949.8)**	**1,379.3**	**(297.5)**	**(8,868.0)**

Notes to the financial statements

A2. Net Debt (continued)

	Borrowings				Derivatives					
	Bonds	Bank and other term borrowings	Lease liabilities	Amounts owed to ultimate parent undertaking	In a fair value hedge	At fair value through profit or loss	**Total liabilities from financing activities**	Cash and cash equivalents	Adjustments in calculating net debt	**Net debt**
	£m	£m	£m	£m	£m	£m	**£m**	£m	£m	**£m**
At 1 April 2022	**(6,168.4)**	**(1,729.9)**	**(60.8)**	**(84.4)**	**68.9**	**140.3**	**(7,834.3)**	**220.1**	**(40.0)**	**(7,654.2)**
Non-cash movements										
Inflation uplift on index-linked debt	(325.4)	(138.0)	-	-	-	-	**(463.4)**	-	-	**(463.4)**
Fair value movements	239.2	3.3	-	-	(220.0)	209.5	**232.0**	-	(264.2)	**(32.2)**
Foreign exchange	(22.3)	1.7	-	-	-	-	**(20.6)**	-	-	**(20.6)**
Other	1.1	0.3	(2.3)	-	-	-	**(0.9)**	-	-	**(0.9)**
Cash flows used in financing activities:										
Receipts in respect of borrowings and derivatives	(103.0)	(397.9)	-	(8.3)	-	-	**(509.2)**	509.2	-	**-**
Payments in respect of borrowings and derivatives	-	274.7	3.3	-	0.1	-	**278.1**	(278.1)	-	**-**
Dividends paid	-	-	-	-	-	-	**-**	(301.1)		**(301.1)**
Changes arising from financing activities	**(210.3)**	**(255.9)**	**1.0**	**(8.3)**	**(219.9)**	**209.5**	**(484.0)**	**(70.0)**	**(264.2)**	**(818.2)**
Cash flows used in investing activities	-	-	-	-	-	-	-	(593.1)	-	(593.1)
Cash flows generated from operating activities	-	-	1.5	-	-	-	1.5	771.6	-	773.1
Effects of exchange rate changes	-	-	-	-	-	-	-	(0.7)	-	(0.7)
At 31 March 2023	**(6,378.7)**	**(1,985.8)**	**(58.3)**	**(92.7)**	**(151.0)**	**349.8**	**(8,316.9)**	**327.9**	**(304.2)**	**(8,293.2)**

A3. Financial risk management

Risk management

The UUG board is responsible for treasury strategy and governance, which is reviewed on an annual basis.

The treasury committee, a subcommittee of the UUG board, has responsibility for setting and monitoring the group's adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. As well as managing our exposure to these risks, these policies help the group maintain compliance with relevant financial covenants, which are in place primarily in relation to borrowings from the European Investment Bank ('EIB') and include interest cover and gearing metrics. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group's compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group's treasury function does not act as a profit centre and does not undertake any speculative trading activity.

Liquidity risk

The group looks to manage its liquidity risk by maintaining liquidity within a UUG board approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2024, the group had £2,199.3 million (2023: £1,190.4 million) of available liquidity, which comprised £1,399.3 million (2023: £340.4million) of cash and short-term deposits and £800.0 million (2023: £850.0 million) of undrawn committed borrowing facilities.

The group and company had available committed borrowing facilities as follows:

		Group		Company
	2024	2023	2024	2023
	£m	£m	£m	£m
Expiring within one year	50.0	150.0	10.0	35.0
Expiring after one year but in less than two years	200.0	50.0	40.0	10.0
Expiring after more than two years	550.0	650.0	195.0	210.0
Total borrowing facilities	800.0	850.0	245.0	255.0
Facilities drawn	-	-	-	-
Undrawn borrowing facilities	800.0	850.0	245.0	255.0

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.

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to group and company's financial liabilities on an undiscounted basis.

Notes to the financial statements

A3. Financial risk management (continued)

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 20.

Group	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
At 31 March 2024								
Bonds	15,285.6	-	571.3	383.6	233.6	665.4	651.3	12,780.4
Bank and other term borrowings	1,779.6	-	363.2	299.7	143.0	146.1	146.1	681.5
Amounts owed to ultimate parent undertaking	105.6	-	105.6	-	-	-	-	-
Adjustment to carrying value[2]	(7,123.1)	(7,123.1)	-	-	-	-	-	-
Borrowings	10,047.7	(7,123.1)	1,040.1	683.3	376.6	811.5	797.4	13,461.9
Derivatives:								
Payable	3,521.4	-	189.7	272.1	153.1	260.6	346.2	2,299.7
Receivable	(3,093.9)	-	(192.4)	(290.3)	(178.1)	(305.6)	(455.0)	(1,672.5)
Adjustment to carrying value[2]	(529.7)	(529.7)	-	-	-	-	-	-
Derivatives – net assets	**(102.2)**	**(529.7)**	**(2.7)**	**(18.2)**	**(25.0)**	**(45.0)**	**(108.8)**	**627.2**

More

Group	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	than 5 years £m
At 31 March 2023								
Bonds	12,650.3	-	166.7	617.9	306.7	155.8	591.3	10,811.9
Bank and other term borrowings	1,877.3	-	162.2	298.1	297.7	144.8	144.3	830.2
Amounts owed to ultimate parent undertaking	92.9	-	92.9	-	-	-	-	-
Adjustment to carrying value[2]	(6,150.5)	(6,150.5)	-	-	-	-	-	-
Borrowings	8,470.0	(6,150.5)	421.8	916.0	604.4	300.6	735.6	11,642.1
Derivatives:								
Payable	2,404.4	-	111.2	112.9	205.0	92.1	198.3	1,684.9
Receivable	(2,120.5)	-	(182.4)	(170.0)	(249.2)	(126.3)	(249.5)	(1,143.1)
Adjustment to carrying value[2]	(508.2)	(508.2)	-	-	-	-	-	-
Derivatives – net assets	(224.3)	(508.2)	(71.2)	(57.1)	(44.2)	(34.2)	(51.2)	541.8

Notes:

[1] Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year-end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be three per cent and CPI will be two per cent over the life of each instrument.

[2] The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £59.2million (2023: £58.3 million) of lease liabilities.

A3. Financial risk management (continued)

Company	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
At 31 March 2024								
Bonds	410.3	-	21.7	21.7	21.6	21.6	323.7	-
Bank and other term borrowings	-	-	-	-	-	-	-	-
Amounts owed to ultimate parent undertaking	105.6	-	105.6	-	-	-	-	-
Amounts owed to subsidiary undertakings	3.3	-	3.3	-	-	-	-	-
Adjustment to carrying value[(2)]	(95.0)	(95.0)	-	-	-	-	-	-
Borrowings	424.2	(95.0)	130.6	21.7	21.6	21.6	323.7	-
Derivatives:								
Payable	-	-	-	-	-	-	-	-
Receivable	-	-	-	-	-	-	-	-
Adjustment to carrying value[(2)]	-	-	-	-	-	-	-	-
Derivatives – net liabilities	-	-	-	-	-	-	-	-

Company	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
At 31 March 2023								
Bonds	450.3	-	22.2	22.3	22.4	22.5	22.5	338.4
Bank and other term borrowings	-	-	-	-	-	-	-	-
Amounts owed to ultimate parent undertaking	92.9	-	92.9	-	-	-	-	-
Amounts owed to subsidiary undertakings	-	-	-	-	-	-	-	-
Adjustment to carrying value[(2)]	(128.3)	(128.3)	-	-	-	-	-	-
Borrowings	414.9	(128.3)	115.1	22.3	22.4	22.5	22.5	338.4
Derivatives:								
Payable	-	-	-	-	-	-	-	-
Receivable	-	-	-	-	-	-	-	-
Adjustment to carrying value[(2)]	-	-	-	-	-	-	-	-
Derivatives – net liabilities	-	-	-	-	-	-	-	-

Notes:

(1) Forecast future cash flows are calculated, where applicable, using forward interest rates based on the interest environment at year-end and are therefore susceptible to changes in market conditions.

(2) The carrying value of debt is calculated following various methods in accordance with IFRS 9 'Financial Instruments' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position, excluding £2.1 million (2023: £2.2 million) of lease liabilities.

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative instruments). While the opening of the non-household retail market to competition from 1 April 2017 has impacted on the profile of the group's concentration of credit risk, as discussed further below, the group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability.

Notes to the financial statements

A3. Financial risk management (continued)

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.

As at 31 March 2024, Water Plus was the group's single largest debtor, with amounts outstanding in relation to wholesale services of £27.1 million (2023: £26.7 million). During the year, sales to Water Plus in relation to wholesale services were £334.4 million (2023: £335.1 million). Details of transactions with Water Plus can be found in note A5.

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 13).

The group manages its credit risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement of cash flows. In addition, potential derivative exposure limits are established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit.

Credit limits are refreshed annually and reviewed in the event of any credit rating action. Additionally, a control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2024 and 31 March 2023, 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	
	2024 £m	2023 £m	2024 £m	2023 £m
Cash and short-term deposits (see note 15)	1,399.3	340.4	142.5	102.4
Trade and other receivables (see note 13)	300.5	266.2	832.5	985.3
Loans receivable (see note 14)	1,983.3	1,866.8	1,983.3	1,866.3
Derivative financial instruments	382.8	477.1	-	-
	4,065.9	2,950.5	2,958.3	2,954.0

Included within trade and other receivables for the group and company was £73.7 million (2023: £75.5 million) of amounts owed by joint ventures in respect of borrowings, further details of which can be found in note A5.

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2024 the group held £37.8 million (2023: £45.8 million) and the company held £nil (2023: £nil) as collateral in relation to derivative financial instruments (included within short-term bank borrowings).

Notes to the financial statements

A3. Financial risk management (continued)

Market risk

The group’s exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value (‘RCV’).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV.

For the 2020–2025 regulatory period, from 1 April 2020 the group's RCV is 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

The group's inflation hedging policy aims to have around half of the group's net debt in index-linked form (where it is economic to do so), by issuing index-linked debt and/or swapping a portion of nominal debt. This is currently weighted towards RPI-linked form, with circa 75 per cent of the hedge linked to RPI and circa 25 per cent linked to CPI and/or CPIH. 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.

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 £4,564.4 million at 31 March 2024 (2023: £4,407.1million).

Sensitivity analysis

The following table details the sensitivity of profit before tax to changes in the RPI and CPI on the group’s index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended. In addition, it excludes the hedging aspect of the group’s regulatory assets and post-retirement obligations.

	2024	2023
Group	£m	£m
Increase/(decrease) in profit before tax and equity		
1 per cent increase in RPI/CPI	(42.0)	(40.1)
1 per cent decrease in RPI/CPI	42.0	40.1

The sensitivity analysis assumes a 1 per cent change in RPI and CPI having a corresponding one per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI and CPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is calculated on either a three or eight-month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI or CPI change either three or eight months earlier.

Company

The company had no material exposure to inflation risk at 31 March 2024 or 31 March 2023.

Notes to the financial statements

A3. Financial risk management (continued)

Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group currently earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV.

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.

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	
	2024	2023	2024	2023
	£m	£m	£m	£m
Increase/(decrease) in profit before tax and equity				
1 per cent increase in interest rate	86.3	90.1	0.6	0.2
1 per cent decrease in interest rate	(149.7)	(119.2)	(6.8)	(3.5)

The sensitivity analysis assumes that both fair value hedges and borrowings designated at fair value through profit or loss are effectively hedged and it excludes the impact on post-retirement obligations. The exposure largely relates to the fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates. Those swaps are not included in hedge relationships.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage interest rate risk are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional principal amount £m	339.9	-	400.0	1,675.0
Average contracted fixed interest rate %	1.0	-	3.7	2.5

Notes to the financial statements

A3. Financial risk management (continued)

This table represents the derivatives that are held in fair value hedging relationships, with only the weighted average for the fixed interest elements of the swaps disclosed. 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.

Risk exposure	Interest rate risk on borrowings
	£m
Nominal amount of hedging instruments	1,764.9
Carrying amount of hedging instruments	(137.2)
Accumulated fair value (gains)/losses on hedged items	(134.9)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2024[1]:	
Hedged items	28.3
Hedged instrument	(33.8)
Hedge ineffectiveness recognised in the income statement	(5.5)

Note:

[1] The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies. To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross-currency swaps and these are often designated within a fair value accounting hedge. The group seeks to manage its risk by maintaining currency exposure within board-approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report. The group and company have no material net exposure to movements in currency rates.

Hedge accounting

Details regarding the interest rate swaps designated as hedging instruments to manage currency risk 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	116.3	1,020.7
Average contracted fixed interest rate %	-	1.9	0.9	1.7

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	Foreign currency and interest rate risk on borrowings
	£m
Nominal amount of hedging instruments	1,149.1
Carrying amount of hedging instruments	(37.9)
Accumulated fair value (gains)/losses on hedged items	(14.7)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2024[1]:	
Hedged items	(30.4)
Hedged instruments	27.6
Hedge ineffectiveness recognised in the income statement	(2.8)

Notes to the financial statements

A3. Financial risk management (continued)

Note:

(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude interest accruals and changes in credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Our largest concentration of floating interest rate risk is with index-linked instruments. This has been classified as repricing in one year or less due to the refixing of the interest charge with changes in RPI and CPI.

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2024							
Borrowings in fair value hedge relationships							
Fixed rate instruments	3,414.6	328.4	105.2	-	426.5	154.5	2,400.0
Effect of swaps	-	3,086.2	(105.2)	-	(426.5)	(154.5)	(2,400.0)
	3,414.6	3,414.6	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	338.9	-	-	-	-	338.9	-
Effect of swaps	-	338.9	-	-	-	(338.9)	-
	338.9	338.9	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	1,261.4	38.9	2.0	1.5	1.3	1.5	1,216.2
Floating rate instruments	907.0	907.0	-	-	-	-	-
Index-linked instruments	4,079.5	4,079.5	-	-	-	-	-
	6,247.9	5,025.4	2.0	1.5	1.3	1.5	1,216.2
Effect of fixed interest rate swaps	-	(2,328.9)	200.0	389.8	250.6	653.5	835.0
Total external borrowings	10,001.4	6,450.0	202.0	391.3	251.9	655.0	2,051.2
Amounts owed to subsidiary undertakings	3.3	3.3	-	-	-	-	-
Amounts owed to ultimate parent undertaking	105.6	105.6	-	-	-	-	-
Total borrowings	**10,110.3**	**6,558.9**	**202.0**	**391.3**	**251.9**	**655.0**	**2,051.2**
Cash and short-term deposits	(1,399.3)	(1,399.3)	-	-	-	-	-
Net borrowings	8,711.0	5,159.6	202.0	391.3	251.9	655.0	2,051.2

A3. Financial risk management (continued)

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2023							
Fixed rate instruments	2,332.3	-	427.8	108.0	-	431.9	1,364.6
Effect of swaps	-	2,332.3	(427.8)	(108.0)	-	(431.9)	(1,364.6)
	2,332.3	2,332.3	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	361.0	-	-	-	-	-	361.0
Effect of swaps	-	361.0	-	-	-	-	(361.0)
	361.0	361.0	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	970.4	46.8	1.2	1.5	2.7	1.7	916.5
Floating rate instruments	842.0	842.0	-	-	-	-	-
Index-linked instruments	3.929.7	3,929.7	-	-	-	-	-
	5.742.1	4,818.5	1.2	1.5	2.7	1.7	916.5
Effect of fixed interest rate swaps	-	(2,027.8)	200.0	200.0	389.8	99.5	1,138.5
Total external borrowings	8,435.4	5,484.0	201.2	201.5	392.5	101.2	2,055.0
Amounts owed to ultimate parent undertaking	92.9	92.9	-	-	-	-	-
Total borrowings	**8.528.3**	**5,576.9**	**201.2**	**201.5**	**392.5**	**101.2**	**2,055.0**
Cash and short-term deposits	(340.4)	(340.4)	-	-	-	-	-
Net borrowings	**8,187.9**	**5,236.5**	**201.2**	**201.5**	**392.5**	**101.2**	**2,055.0**

Company	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2024							
Borrowings measured at amortised cost							
Fixed rate instruments	315.3	-	-	-	-	315.3	-
Total external borrowings	315.3	-	-	-	-	315.3	-
Amounts owed to subsidiary Undertakings	3.3	3.3	-	-	-	-	-
Amounts owed to ultimate parent undertaking	105.6	105.6	-	-	-	-	-
Total borrowings	424.2	108.9	-	-	-	315.3	-
Cash and short-term deposits	(142.5)	(142.5)	-	-	-	-	-
Net borrowings	281.7	(33.6)	-	-	-	315.3	-

A3. Financial risk management (continued)

Company	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2023							
Borrowings measured at amortised cost							
Fixed rate instruments	324.2	-	-	-	-	-	324.2
Total external borrowings	324.2	-	-	-	-	-	324.2
Amounts owed to ultimate parent undertaking	92.9	92.9	-	-	-	-	-
Total borrowings	417.1	92.9	-	-	-	-	324.2
Cash and short-term deposits	(102.4)	(102.4)	-	-	-	-	-
Net borrowings	314.7	(9.5)	-	-	-	-	324.2

Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity commodity prices in a cost-effective manner. The group has fixed the price on a proportion of its anticipated net electricity usage out on a rolling four-year basis, partially through entering into electricity swap contracts. The company has no exposure to electricity price risk.

Hedge accounting

Electricity swaps have been designated in cash flow hedge relationships. This means that only the impact of any hedging ineffectiveness is recognised through fair value in the income statement, with movements in the effective portion of the hedge being recognised in other comprehensive income.

Details of electricity swaps that have been designated in cash flow hedging relationships are summarised below:

	1 year or less	1 to 2 years	2 to 5 years	Over 5 years
Notional amount MWh	394,080	350,400	262,920	-
Average contracted fixed interest rate %	80.80	138.24	115.87	-

Risk exposure	Electricity price risk
Nominal amount of hedging instruments	102.2
Carrying amount of hedging instruments	(34.8)
Fair value (gains)/losses used for calculating hedge ineffectiveness for the year ended 31 March 2024[(1)]:	63.1
Hedge ineffectiveness recognised in the income statement	-
Cash flow hedge reserve excluding effects of tax	(60.0)
Amount reclassified from the cash flow hedge reserve to the income statement	1.8

Note:
(1) The change in fair value of the hedging instruments used to measure hedge ineffectiveness exclude credit spread adjustments. The full impact of fair value movements on the income statement is disclosed in note 6.

A3. Financial risk management (continued)

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 2024, RCV gearing was within the range at 59 per cent (2023: 58 per cent).

Assuming no significant changes to existing rating agencies' methodologies or sector risk assessments, the group aims to maintain long term issuer credit ratings for UUW of at least A3 with Moody's Investors Service (Moody's) and BBB+ with S&P Global (S&P) and a senior unsecured debt rating for UUW of at least A- with Fitch Ratings (Fitch). Debt issued by UUW's financing subsidiary, United Utilities Water Finance PLC, is guaranteed by UUW and is therefore rated in line with UUW. The group's gearing and credit rating targets are subject to periodic review.

To maintain its targeted credit ratings, the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's, S&P and Fitch. The ratings methodology is normally based on a number of key ratios (such as RCV gearing, adjusted interest cover, post maintenance interest cover (PMICR), Funds from Operations (FFO) to debt, and debt to EBITDA) and threshold levels as updated and published from time to time by Moody's, S&P and Fitch. The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit ratings agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group	Level 1	Level 2	Level 3	Total
2024	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	74.7	-	74.7
Derivative financial assets – held for trading[(1)]	-	298.9	-	298.9
Derivative financial assets – cash flow hedge	-	9.2	-	9.2
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	-	(232.2)	-	(232.2)
Derivative financial liabilities – held for trading[(1)]	-	(4.5)	-	(4.5)
Derivative financial assets – cash flow hedge	-	(43.9)	-	(43.9)
Financial liabilities designated as fair value through profit or loss	-	(338.9)	-	(338.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(3,158.5)	(300.5)	-	(3,459.0)
Other financial liabilities at amortised cost	(2,573.4)	(3,212.1)	-	(5,785.5)
	(5,731.9)	**(3,749.3)**	**-**	**(9,481.2)**

A3. Financial risk management (continued)

Group **2023**	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	-	65.4	-	65.4
Derivative financial assets – held for trading(1)	-	352.0	-	352.0
Derivative financial assets – cash flow hedge	-	59.7	-	59.7
Investments	-	0.1	-	0.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – fair value hedge	-	(215.3)	-	(215.3)
Derivative financial liabilities – held for trading(1)	-	(3.4)	-	(3.4)
Derivative financial assets – cash flow hedge	-	(34.1)	-	(34.1)
Financial liabilities designated as fair value through profit or loss	-	(361.0)	-	(361.0)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(1,936.1)	(374.0)	-	(2,310.1)
Other financial liabilities at amortised cost	(2,541.3)	(2,951.6)	-	(5,492.9)
	(4,477.4)	**(3,462.2)**	**-**	**(7,939.6)**

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 £110.9 million (2023: £133.9 million).

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

The group has calculated fair values using quoted prices where an active market exists, which has resulted in £5,731.9 million (2023: £4,477.4 million) of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data in line with prior years. The £1,254.5 million increase (2023: £113.0 million decrease) in level 1 fair value measurements primarily reflects the debt issuances in the year.

During the year, changes in the fair value of financial liabilities designated at fair value through profit or loss resulted in a £22.0 million loss (2023: £20.6 million loss). Included within this was a £0.6 million gain (2023: £4.7 million gain) attributable to changes in own credit risk, recognised in other comprehensive income. The cumulative amount due to changes in credit spread was £35.8 million profit (2023: £35.2 million profit). The carrying amount is £112.8 million (2023: £134.9 million) higher than the amount contracted to settle on maturity.

Company **2024**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – held for trading(1)	-	-	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading(1)	-	-	-	-
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	-	-	-	-
Other financial liabilities at amortised cost	-	(426.4)	-	(426.4)
	-	**(426.4)**	**-**	**(426.4)**

A3. Financial risk management (continued)

Company	Level 1	Level 2	Level 3	Total
2023	£m	£m	£m	£m
Financial assets at fair value through profit or loss				
Derivative financial assets – held for trading[1]	-	-	-	-
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading[1]	-	-	-	-
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	-	-	-	-
Other financial liabilities at amortised cost	-	(456.1)	-	(456.1)
	-	**(456.1)**	**-**	**(456.1)**

Note:
(1) These derivatives form economic hedges and, as such, management intends to hold these through to maturity.

A4. 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') – members 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 members.

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.

On 5 July 2023, the group supported the trustees of the two pension schemes in completing a circa £1.8 billion bulk annuity purchase, representing an insurance policy partial 'buy-in'. Under a partial 'buy-in', an insurance company covers a portion of a scheme's liabilities with an insurance policy held by the scheme. This insurance asset is held by the pension scheme and matches a portion of the scheme's liabilities with an insurer and hedges risks associated with those liabilities. A 'partial' buy-in covers a portion of a scheme's liabilities and works as a near-perfect economic hedge, removing interest rate, inflation and longevity risks for the portion of members' liabilities that are secured with the insurer. For ESPS, the buy-in was estimated to cover circa 93 per cent of pensioner liabilities, and for UUPS circa 80 per cent of deferred and pensioner members, as at the date of the transaction on a technical provisions basis – the split on an IAS 19 basis is expected to be broadly consistent. A buy-in is not a settlement and the liability is not derecognised as the group retains ultimate responsibility for funding the schemes. As the purchase of bulk annuity policies reflects an investment decision by the schemes' trustees, the impact of this transaction was to reduce the schemes' assets and record a re-measurement loss of circa £220 million, which is included in the overall £368.5 million remeasurement losses for the group recognised in other comprehensive income in accordance with IAS 19; there was no impact on profit before tax.

Notes to the financial statements

A4. Retirement benefits (continued)

As at 31 March, the total fair value of the schemes' assets, and the present value of the defined benefit obligations, and therefore the value of the net retirement benefit surplus included in the consolidated statement of financial position, was as follows:

		Group		Company
	2024	2023	2024	2023
	£m	£m	£m	£m
Total fair value of schemes' assets	2,552.4	2,931.3	728.9	795.1
Present value of defined benefit obligations	(2,284.4)	(2,330.5)	(656.2)	(636.4)
Net retirement benefit surplus	268.0	600.8	72.7	158.7

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		Company
	2024	2023	2024	2023
	£m	£m	£m	£m
Total value of current employees benefits	272.1	362.7	23.1	30.8
Deferred members benefits	441.4	436.4	195.5	193.3
Pensioner members benefits	1,570.9	1,531.4	437.6	412.3
Total defined benefit obligation	2,284.4	2,330.5	656.2	636.4

Movements in the present value of the defined benefit obligations are as follows:

	Group		Company	
	2024	2023	2024	2023
	£m	£m	£m	£m
At the start of the year	(2,330.5)	(3,018.9)	(636.4)	(786.3)
Interest cost on schemes' obligations	(107.1)	(82.7)	(30.9)	(21.5)
Actuarial gains arising from changes in financial assumptions	52.7	950.0	13.0	249.2
Actuarial gains/(losses) arising from changes in demographic assumptions	49.2	(60.7)	13.9	(10.4)
Actuarial losses arising from experience	(67.7)	(246.8)	(52.1)	(96.5)
Curtailments/settlements arising on reorganisation	4.6	-	0.4	-
Member contributions	(2.4)	(2.3)	(0.1)	(0.1)
Benefits paid	119.6	136.9	36.2	29.6
Current service cost	(2.8)	(6.0)	(0.2)	(0.4)
At the end of the year	(2,284.4)	(2,330.5)	(656.2)	(636.4)

The duration of the combined schemes is around 14 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

Notes to the financial statements

A4. Retirement benefits (continued)

Estimated 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 £9.6 million in the year ending 31 March 2025, £8.5 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 (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 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.

While longevity risk has reduced as a result of the partial buy-in transaction during the year, the group and trustees remain actively engaged in exploring further de-risking options that may be implemented in the future.

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 2024 and 31 March 2023 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.

Notes to the financial statements

A4. Retirement benefits (continued)

In July 2023, the trustees of the schemes entered into partial buy-in insurance contracts with L&G covering the liabilities for a significant proportion of the membership. The buy-in policies have been designed to match the benefits the schemes are required to pay in respect of the members covered under the contracts, and as a result have significantly reduced the schemes' exposure to changes in interest rates, inflation and demographic risks, although these risks remain given the buy-ins did not cover all the schemes' membership. As well as through the purchase of bulk annuity policies, 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 for the uninsured portion of the schemes' liabilities remains volatile due to changes in credit spread and changes in mortality, neither of which have been hedged at the current time. Changes in credit spreads have not been hedged primarily due to difficulties in doing so over long durations. In contrast, the schemes' specific funding bases are unlikely to suffer from significant volatility due to credit spread, because a prudent, fixed credit spread assumption is applied. Changes in mortality have not been hedged due to this exposure being subject to lower volatility in the short term, though the group and scheme trustees are committed to exploring options to de-risk changes in mortality, or pension longevity, in future periods for the uninsured liabilities, 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 2024, the discount rate increased by 0.1 per cent (2023: 1.9 per cent increase), which includes a 0.55 per cent increase in gilt yields over the year, offset by a 0.45 per cent reduction in credit spreads. The IAS 19 remeasurement loss of £368.5 million (2023: £445.3 million loss) reported in note 14 has largely resulted from the purchase of buy-in policies: a premium of circa £220 million was paid in excess of the present value of liabilities covered, which is reflective of the reduction in the schemes' risk profile. Further, as the schemes are more than 100 per cent hedged on an IAS 19 basis, this has resulted in a greater reduction of the schemes' assets than the defined benefit obligations as a result of yield rises.

The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions, and are therefore more than 100 per cent hedged on an IAS 19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS 19 liabilities.

The narrowing in credit spreads during the year is accompanied by an RPI inflation assumption reduction of 0.15 per cent (2023: 0.35 per cent reduction). 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.

In the shorter term, recent high inflation has resulted in greater than expected pension increases, but longer-term expectations for inflation have fallen over the last 18 months.

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 obligation reported on an IAS 19 basis at 31 March 2024. 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.

A4. Retirement benefits (continued)

Under IAS 19, the fair value of the buy-in assets at the date of the transaction was considered to be equal to the IAS 19 value of the insured liabilities, and subsequently the fair value of the insurance assets is pegged to the present value of the liabilities being insured. The defined benefit obligation reflects cashflows calculated on a funding basis as at the buy-in transaction date split by insured and uninsured members for UUPS; for ESPS, existing cashflows based on the most recent funding valuation have been used, making broad allowance for the purchase of the buy-in policies at 5 July 2023 based on high-level information provided by the scheme actuary.

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 ESPS. For UUPS, as part of the approach for valuing insured liabilities, membership data has been updated as at 31 August 2022 for deferred and pensioner members (i.e. the same effective date as the membership data underlying the buy-in contract) and 31 August 2023 for active members (not included in the buy-in). As part of each actuarial valuation and, more frequently, as required by the trustees, member data is reassessed for completeness and accuracy and to ensure it reflects any relevant changes to benefits entitled by each member.

Financial assumptions
The main financial and demographic assumptions used by the actuary to calculate the defined benefit surplus of UUPS and ESPS are outlined below:

	2024	2023
Group and Company	% p.a.	% p.a.
Discount rate	4.80	4.70
Pension increases	3.25	3.40
Pensionable salary growth (pre-2018 service):		
ESPS	3.25	3.40
UUPS	3.25	3.40
Pensionable salary growth (post-2018 service):		
ESPS	3.25	3.40
UUPS	2.80	2.85
Price inflation - RPI	3.25	3.40
Price inflation - CPI(1)	2.80	2.85

(1) The CPI price inflation assumption represents a single weighted average rate derived from an assumption of 2.35 per cent pre-2030 and 3.05 per cent post-2030 (31 March 2023: 2.50 per cent pre-2030 and 3.30 per cent post-2030).

The discount rate is consistent with a high-quality corporate bond rate, with 4.30 per cent being equivalent to gilts plus 50 basis points (31 March 2023: 4.70 per cent being equivalent to gilts plus 95 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 accordance with plans put forward by the UK Statistics Authority ('UKSA') and backed by the Chancellor of the Exchequer, the Retail Prices Index ('RPI') and the Consumer Prices Index including owner occupier's housing costs ('CPIH') are expected to align from 2030. This compares with the current situation in which, absent these reforms, CPIH increases are broadly expected to average around 1 per cent below RPI in the long term (about the same as CPI). The alignment of RPI and CPIH could therefore have a significant impact on many pension schemes.

Notes to the financial statements

A4. Retirement benefits (continued)

Demographic assumptions

In line with previous reporting periods, mortality assumptions continue to be based on the latest available Continuous Mortality Investigation's ('CMI') mortality tables. As at 31 March 2024, these assumptions are based on the CMI2022 base tables with a 1.25% per annum rate of improvement (2023: 1.25 per cent), and factoring in a w2022 weighting of 40 per cent (2023: w2021 weighting of 10 per cent) to take account of the continued increased mortality rates following the impact of the Covid-19 pandemic in the medium term, including pressures on the NHS and the high flu rate in 2022. A scaling factor of 109 per cent (2023: 109 per cent) and 115 per cent (2023: 115 per cent) for male pensioners and non-pensioners respectively and 110 per cent (2023: 110 per cent) and 111 per cent (2023: 111 per cent) for female pensioners and non-pensioners respectively, reflecting the profile of the membership. Compared against the base tables used for previous year-end mortality assumptions (CMI S3PA), the Core CMI2022 model sees a reduction in life expectancies resulting in a reduction in the defined benefit obligation of around 1-1.5 per cent. It should be noted, however, that post buy-in any changes in the life expectancy assumptions for insured members will be offset by a corresponding change in the value of the buy-in bulk annuity policies on an IAS 19 basis. As such, relative to prior years the statement of financial position is expected to be less sensitive to mortality assumptions going forward.

The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

	2024	2023
Group and Company	years	years
Retired member - male	25.5	25.9
Non-retired member - male	26.2	26.6
Retired member - female	27.6	28.0
Non-retired member - female	28.6	29.1

Sensitivity of the key scheme assumptions

The assumptions used in measuring the group's defined benefit surplus reflect management's best estimates as at the reporting date. These estimates inherently involve judgement, and the measurement of the defined benefit surplus is sensitive to changes in these key assumptions.

Given the offsetting nature of the buy-in assets, the IAS19 surplus will be predominantly driven by the uninsured liabilities and residual invested assets going forward. As a result, sensitivities relative to the uninsured defined benefit obligation are provided alongside those applicable to the full defined benefit obligation in accordance with IAS 19. 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. The schemes' hedging strategies are designed primarily to reduce the volatility on a technical provisions basis.

- Asset volatility – If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. Under IAS19 the value of the buy-in assets is equal to the IAS19 value of the insured liabilities. The bulk annuity policies represent a significant proportion of total scheme assets, with the valuation of these assets pegged to the valuation of insured liabilities. As such, movements in asset values are offset by corresponding movements in the value of insured liabilities.

- Discount rate – At 31 March 2024, an increase/decrease in the discount rate of 0.25 per cent would have resulted in a £27.5/£29.0 million decrease/increase in the schemes' uninsured liabilities, and a £72.3/£76.2 million (2023: £78.2/£82.7 million) decrease/ increase to the schemes' total liabilities. As long as credit spreads remain stable, however, 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.

Notes to the financial statements

A4. Retirement benefits (continued)

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 – At 31 March 2024, an increase/decrease in the inflation assumption of 0.25 per cent would have resulted in a £26.1/24.9 million increase/decrease in the schemes' uninsured liabilities, and a £67.1/£63.9 million (2023: £73.3/£69.5 million) increase/decrease to the schemes' total liabilities. 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 2024, 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 has been volatile in the near term, 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 (2023: 0.2 per cent) has been deducted from the breakeven inflation rate for the year ended 31 March 2024. The impact of this is a decrease in the defined benefit obligation of around £22.0 million and therefore an increase in the net defined benefit surplus compared with no inflation risk premium being deducted. There is no allowance for any further change in the inflation risk premium post-2030 as a result of RPI reform. A reduction in expected RPI will result in a reduction to the value of pension scheme liabilities; however, as our pension schemes are hedged for RPI inflation movements, this will result in a comparable reduction to the value of pension scheme assets.

- The assumption for CPI is set by deducting a 'wedge' from the RPI inflation assumption to reflect structural differences. For pre-2030 inflation this wedge has been estimated at 0.9 per cent per annum, reducing to 0.2 per cent per annum post-2030 given that RPI and CPI are expected to converge (2023: 0.1 per cent per annum). The impact of this reduction in the post-2030 wedge as a result of RPI reform is a circa £4.0 million increase to the defined benefit obligation and therefore a decrease in the net defined benefit surplus compared with the wedge remaining at 0.9 per cent per annum after 2030. 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 0.2 per cent per annum post-2030 given that RPI and CPI are expected to converge.

- At 31 March 2024, an increase in the mortality long-term improvement rate from 1.25 per cent to 1.50 per cent would have resulted in a £6.1 million increase in the schemes' uninsured liabilities, and a £15.7 million (2023: £16.5 million) increase to the schemes' total liabilities.

- Life expectancy – At 31 March 2024, an increase in the life expectancy assumption of one year would have resulted in a £23.7 million increase in the schemes' uninsured liabilities, and a £85.8 million (2023: £83.9 million) increase to the schemes' total liabilities. 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

A4. Retirement benefits (continued)

Further reporting analysis

At 31 March, the fair values of the schemes' assets recognised in the statement of financial position were as follows:

	Group				Company			
	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %	Underlying assets £m	Fair value of derivatives £m	Combined £m	Schemes' assets %
At 31 March 2024								
Gilts	623.4	(200.9)	422.5	16.6	147.9	(38.2)	109.7	15.1
Bonds	285.8	0.5	286.3	11.2	79.9	0.1	80.0	11.0
Bulk annuity policies	1,564.8	-	1,564.8	61.3	485.0	-	485.0	66.5
Other	314.0	(35.2)	278.8	10.9	60.9	(6.7)	54.2	7.4
Total fair value of schemes' assets	**2,788.0**	**(235.6)**	**2,552.4**	**100.0**	**773.7**	**(44.8)**	**728.9**	**100.0**
At 31 March 2023								
Non-equity growth assets	278.2	-	278.2	9.5	80.5	-	80.5	10.1
Gilts	1,822.3	(886.9)	935.4	31.9	399.0	(156.0)	243.0	30.6
Bonds	1,211.2	(2.5)	1,208.7	41.2	363.1	(12.8)	350.3	44.0
Other	422.8	86.2	509.0	17.4	87.3	34.0	121.3	15.3
Total fair value of schemes' assets	**3,734.5**	**(803.2)**	**2,931.3**	**100.0**	**929.9**	**(134.8)**	**795.1**	**100.0**

Included within the group's defined benefit pension scheme assets are assets with a fair value estimated to be £1,772.0 million that are categorised as 'Level 3' assets within the IFRS 13 'Fair value measurement' hierarchy, meaning that the value of the assets is not observable at 31 March 2024. Of these, £1,564.8 million relates to bulk annuity policies purchased as part of the buy-in transaction and £207.2 million relates to unquoted senior private debt assets. 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 held. The collateral portfolio, comprising cash and eligible securities readily convertible to cash, provides sufficient liquidity to manage exposure relating to the derivative transactions and is expected to achieve a return in excess of SONIA (Sterling Overnight Index Average). During the year ended 31 March 2024, no liquidity support or facilities were required by the company as a result of collateral calls.

Notes to the financial statements

A4. Retirement benefits (continued)

The derivative values in the table above represent the net market value of derivatives held within each of these asset categories as follows:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
Gilts				
Repurchase agreements	(200.9)	(886.9)	(38.2)	(156.0)
	(200.9)	(886.9)	(38.2)	(156.0)
Bond – hedging non-sterling exposure back to sterling				
Currency forwards	0.5	13.8	0.1	2.4
Interest rate swaps	-	(16.3)	-	(15.2)
	0.5	(2.5)	0.1	(12.8)
Other – managing liability risks targeting a high level of interest rate and inflation hedging				
Asset swaps	-	-	-	(3.0)
Interest rate swaps	(35.6)	(17.2)	(6.8)	(0.7)
RPI inflation swaps	0.4	(13.2)	0.1	37.7
Total return swaps	-	116.6	-	-
	(35.2)	86.2	(6.7)	34.0
Total fair value of derivatives	(235.6)	(803.2)	(44.8)	(134.8)

The derivatives shown in the tables only cover those expressly held for the purpose of reducing certain undesirable asset and liability risks as part of the liability driven investment strategies. 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 £147.0 million (2023: £371.2 million).

The intention is that the schemes' assets provide a full economic hedge of interest rates and RPI inflation of the schemes' liabilities on a scheme funding basis. As the scheme funding basis is more prudent than the IAS 19 measurement basis for the defined benefit obligation, the schemes are more than 100 per cent hedged on an accounting basis.

Movements in the fair value of the schemes' assets were as follows:

	Group		Company	
	2024 £m	2023 £m	2024 £m	2023 £m
At the start of the year	2,931.3	4,035.7	795.1	1,031.9
Interest income on schemes' assets	135.7	111.4	39.0	28.4
The loss on plan assets, excluding amounts included in interest	(402.7)	(1,087.8)	(68.4)	(235.7)
Member contributions	2.4	2.3	0.1	0.1
Benefits paid	(119.6)	(136.9)	(36.2)	(29.6)
Administrative expenses	(4.0)	(2.5)	(1.6)	(1.0)
Company contributions	9.3	9.1	0.9	1.0
At the end of the year	2,552.4	2,931.3	728.9	795.1

Notes to the financial statements

A4. Retirement benefits (continued)

The group's actual return on the schemes' assets was a loss of £267.0 million (2023: £976.4 million loss). In line with IAS19, the fair values of the buy-in assets have been set equal to the IAS19 present values of the insured liabilities. This is significantly less than the buy-in premium paid, which has led to a material loss on the schemes' assets. As at the risk transfer date (5 July 2023), we estimate that this reduced the IAS19 surplus by around £220 million. In addition, changes in financial conditions over the period have seen a fall in value of the Schemes' assets. The schemes' investment strategies have been designed such that the assets are fully hedged against the schemes' technical provisions funding positions, and are therefore more than 100 per cent hedged on an IAS19 basis. As a result, increases in net yields are expected to reduce the schemes' assets by a greater amount than the IAS19 liabilities.

The trustees of both the ESPS and UUPS schemes publish a statement of investment principles, available via the United Utilities corporate website. The statements set out the ESG principles, in particular climate risk, behind the choice of investments. UUPS also published its first TCFD report in October 2023 and ESPS has published a climate change report for 2023, both of which are available on the corporate website.

A5. 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:

	2024 £m	2023 £m
Sales of services	334.4	335.1
Charitable contributions advanced to related parties	0.2	0.2
Purchase of goods and services	-	1.3
Interest income and fees recognised on loans to joint ventures	5.6	4.7
Amounts owed by related parties	100.8	102.2
Amounts owed to related parties	-	-

These amounts exclude transactions and balances with the group's ultimate parent undertaking, further details of which are provided below.

Sales of services to related parties during the year mainly represent non-household wholesale charges to Water Plus that were billed during the period. These transactions were on market credit terms in respect of non-household wholesale charges, which are governed by the wholesale charging rules issued by Ofwat.

Charitable contributions advanced to related parties during the year relate to amounts paid to Rivington Heritage Trust, a charitable company limited by guarantee for which United Utilities Water Limited is one of three guarantors.

At 31 March 2024, amounts owed by joint ventures, as recorded within trade and other receivables in the statement of financial position, were £100.8 million (2023: £102.2 million), comprising £27.1 million (2023: £26.7 million) of trade balances, which are unsecured and will be settled in accordance with normal credit terms, and £73.7 million (2023: £75.5 million) relating to loans.

Notes to the financial statements

A5. Related party transactions (continued)

Included within these loans receivable were the following amounts owed by Water Plus:

- £72.3 million (2023: £74.4 million) outstanding on a £95.0 million revolving credit facility provided by United Utilities PLC, with a maturity date of December 2026, bearing a floating rate interest rate of the Bank of England base rate plus a credit margin. This balance comprises £75.5 million outstanding, net of a £3.2 million allowance for expected credit losses (2023: £75.5 million net of a £1.1 million allowance for expected credit losses); and
- £1.4 million (2023: £1.4 million) receivable being the £11.3 million (2023: £11.0 million) fair value of amounts owed in relation to a £12.5 million unsecured loan note held by United Utilities PLC, with a maturity date of 28 March 2027, net of a £0.4 million (2023: £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 2024 and 31 March 2023 of £12.5 million, comprising a £11.3 million (2023: £11.0 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 £1.2 million (2022: £1.5 million) recorded as an equity contribution to Water Plus recognised within interests in joint ventures.

A further £0.1 million (2023: £0.1 million) of non-current receivables was owed by other related parties at 31 March 2024.

During the year, United Utilities PLC provided guarantees in support of Water Plus in respect of certain amounts owed to wholesalers. The aggregate limit of these guarantees was £48.9 million, of which £26.0 million related to guarantees to United Utilities Water Limited.

The following transactions were carried out with the group's ultimate parent undertaking, United Utilities Group PLC:

	Interest receivable	
	2024	2023
	£m	£m
Ultimate parent undertaking	112.9	55.9

	Intercompany group tax relief payable	
	2024	2023
	£m	£m
Ultimate parent undertaking	28.2	10.6

	Amounts owed by related parties		**Amounts owed to related parties**	
	2024	2023	2024	2023
	£m	£m	£m	£m
Ultimate parent undertaking	1,983.3	1,866.8	105.6	92.9

Details of transactions with key management are disclosed in note 3.

Notes to the financial statements

A5. Related party transactions (continued)

Company

The company receives dividend income and pays and receives interest and recharges costs to and from subsidiary undertakings and its ultimate parent company in the normal course of business.

Total dividend income received during the year from subsidiary undertakings amounted to £189.0 million (2023: £454.2 million), comprising dividends totalling £189.0 million (2023: £454.2 million) received from United Utilities North West.

Total net interest receivable during the year from subsidiary undertakings was £41.7 million (2023: £25.7 million), and total fair value losses during the year relating to balances with subsidiary undertakings were £6.9 million (2023: £19.2 million gains). In addition, total net interest receivable during the year from the ultimate parent company was £112.9 million (2022: £55.9 million). Amounts outstanding at 31 March 2024 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 13, 14, 19 and A2.

An allowance for doubtful receivables of £5.7 million (2023: £5.1 million) has been made for amounts owed by subsidiary undertakings (see note 13). In the year ended 31 March 2024, a charge of £0.6 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2023: £0.3 million).

As at 31 March 2024, total guarantees given by the company to its related parties were £1,047.4 million (2023: £1,135.1 million). Included within these guarantees were the following amounts:

- £966.3 million (2023: £1,054.1 million) relating to United Utilities Water Limited's loans from the European Investment Bank;
- Guarantees with an aggregate limit of £48.9 million (2023: £48.9 million) relating to Water Plus in respect of certain amounts owed to wholesalers, of which £26.0 million (2023: £26.0 million) related to guarantees to United Utilities Water Limited; and
- Performance guarantees with an aggregate limit of £7.9 million (2023: £8.1 million) given to subsidiaries.

A6. 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 86 to 90.

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.

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.

Notes to the financial statements

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 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 of the joint venture.

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. 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 provision of core water and wastewater services, which are deemed to be distinct performance obligations of the contract 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 have 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 revenue in respect of connection activities which is itself a distinct performance obligation. The revenue recognised 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 and before the share of profits or losses of joint ventures.

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 in accordance with IAS 23 'Borrowing Costs'.

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

Notes to the financial statements

current tax provision is only recognised when the group has a present obligation resulting from a past event and it is probable that the group will be required to settle that obligation to a taxing authority.

The amount of current tax provisions or assets are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Current tax

Current tax is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date, and also includes any adjustment to tax payable in respect of previous years.

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the tax is charged or credited within 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.

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 charged or credited within equity.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. These deferred tax assets will be recovered against the deferred tax liabilities in relation to fixed assets which will reverse in the same periods.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment comprises water and wastewater infrastructure assets and overground assets.

The useful economic lives of these assets are primarily as follows:

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- 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 an addition. 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, on a straight line basis 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, on a straight line basis 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 liability of the same amount credited 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 operational. 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.

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.

Government grants

Government grants (including those receivable from government agencies and local authorities) are recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. Where government grants relate to the acquisition or construction of assets, the group has elected to account for the grant by deducting the value of the grant from the asset's carrying amount. Other grants are typically recognised in other income in the period in which the conditions attached to them are fulfilled.

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.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria set out in IAS 38 'Intangible Assets'.

Intangible assets, which relate primarily to computer software, are generally amortised over a period of three to 10 years.

The group expenses costs incurred in the implementation and ongoing operation of computing systems built and delivered on a 'software as a service' (SaaS) basis and hosted in an external cloud environment. These do not generally give rise to an identifiable intangible asset that the group controls. In limited circumstances, costs incurred in association with the implementation and customisation of a SaaS system may enhance the group's existing digital infrastructure and would be expected to generate broader future economic benefit. Where this results in an identifiable intangible asset that the group controls, the costs are capitalised in accordance with IAS 38 and are subsequently amortised over a period of generally three to 10 years.

Impairment of assets

Where appropriate, assets are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss. 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.

The recoverable amount of investments in subsidiary companies is assessed using level 2 fair value hierarchy techniques, with reference to the regulatory capital value (RCV) of the regulated water and wastewater business where appropriate. This is used as a proxy in estimating the subsidiary's market value, with the RCV being a regulatory measure determined by Ofwat, based on the company's historic market value plus the value of accumulated capital investment assumed at each price review. The RCV used in this assessment is adjusted for actual spend.

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 assets are recognised in the income statement within operating costs.

Notes to the financial statements

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 and covering a five-year period. 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 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.

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 on initial recognition. Trade receivables are held within a business model to collect contractual cash flows which comprise solely payments of principal and interest on the principal amount outstanding. After initial recognition, trade receivables are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. At each reporting date, the Group evaluates the estimated recoverability of trade receivables and record allowances for expected credit losses. An allowance is recognised where there is objective evidence the Group will be unable to collect all of the amount due. The receivable is recognised at the recoverable amount and the difference between the amortised cost and the recoverable amount is recorded as an expense within the profit and loss account.

The Group estimates the expected credit loss on trade receivables applying the simplified approach as permitted under IFRS 9. For trade receivables that are assessed as not impaired individually, the expected credit loss is estimated based on the Group's historical experience of cash collection and the incorporation of forward-looking information.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

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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.

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received, and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

Under the provisions of IFRS 9 'Financial Instruments', changes in the group's own credit risk are recognised in other comprehensive income.

Derivative financial instruments

The group's default treatment is that derivative financial instruments are measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A3)

Notes to the financial statements

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 A4.

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.

The Principal Employer for both the UUPS and ESPS is United Utilities PLC (UU PLC), with United Utilities Water Limited (UUW) being a Participating Employer. The defined benefit obligations in the two schemes are split, in accordance with IAS19, by employer, between UU PLC and UUW. For accounting purposes, the schemes' assets and liabilities are split by employer based on information taken from the results of the funding valuations for the schemes as at 31 March 2021. For each member, an estimate is made of the proportion of pensionable service spent working for non-regulated (allocated to UU PLC) and regulated businesses (allocated to UUW) respectively, based on the member's employee records. This split is then used to divide the DBO between employers: for UUPS, 81% is allocated to UUW and 19% to UU PLC; for ESPS, 7% to UUW and 93% to UU PLC. It is assumed that the relative liabilities for each employer would be similar on an IAS19 basis as on a funding basis. Historic analysis, based on previous triennial valuations and rolled forward for changes in members' status, has shown that the split remains reasonably stable. The splits detailed above are consistently applied and reviewed annually on a roll-forward basis to check the reasonableness of continuing to apply these allocations. A full review of the schemes' employer split for assets and liabilities is carried out every ten years, with the next such review expected to be completed by 31 March 2034.

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 pro-rated basis over the vesting period, based on estimates of the number of options that are expected to vest and according to relevant measures of performance determining the number of shares awarded. The initial fair value of each award scheme is updated for each reporting period to account for lapsed shares and updated estimates of the performance measures. 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

Notes to the financial statements

recognised directly in equity. To hedge its exposure to certain foreign exchange risks, the group enters into contracts for derivative instruments (see note A3).

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.

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.

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

Where government grants are received as a contribution against qualifying fixed assets, and where transactions with customers – typically property developers – result in the expansion of the group's water and wastewater network and therefore its fixed asset base, the relevant 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.

Cash flows from derivatives

The cash flows from 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.

Notes to the financial statements

A7. Subsidiaries and other group undertakings

Details of the group's subsidiary undertakings and joint ventures 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 the group's interest in joint ventures, see note 11.

	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	90.0	Property management
North West Water Limited*	Ordinary	100.0	Dormant
United Utilities (Overseas Holdings) Limited*	Ordinary	100.0	Dormant
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	Non-trading
United Utilities North West Limited	Ordinary	100.0	Holding company
United Utilities Pensions Trustees Limited	Ordinary	100.0	Corporate trustee
United Utilities Property Services Limited	Ordinary	100.0	Property management
United Utilities Total Solutions Limited	Ordinary	100.0	Non-trading
United Utilities Utility Solutions (Industrial) Limited	Ordinary	100.0	Holding company
United Utilities Water Finance PLC*	Ordinary	100.0	Financing company
United Utilities Water Limited*	Ordinary	100.0	Water and wastewater services
UU (ESPS) Pensions Trustee Limited	Ordinary	100.0	Corporate trustee
UU Group Limited	Ordinary	100.0	Dormant
UU Secretariat Limited	Ordinary	100.0	Dormant
YCL Transport Limited	Ordinary	100.0	Non-trading
United Utilities Bioresources Limited	Ordinary	100.0	Wastewater services

Joint ventures

All joint ventures are accounted for using the equity method and are strategic to the group's activities to varying degrees.

Lingley Mere Business Park Development Company Limited*	Ordinary	50.0	Development company
Selectusonline Limited	Ordinary	16.7	Dormant
Water Plus Group Limited(1)	Ordinary	50.0	Holding company
Water Plus Limited(1)	Ordinary	50.0	Water and wastewater retail services
Water Plus Select Limited(1)	Ordinary	50.0	Water and wastewater retail services

*Shares are held by subsidiary undertakings rather than directly by United Utilities PLC.

Notes:

(1) Water Plus Limited and Water Plus Select Limited are wholly owned subsidiaries of Water Plus Group Limited. Registered address: Two Smithfield, Leonard Coates Way, Stoke-on-Trent, United Kingdom, ST1 4FD

Notes to the financial statements

A7. Subsidiaries and other group undertakings (continued)

The subsidiary undertakings listed below are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this company has guaranteed the subsidiary company under Section 479C of the Act:

Name of undertaking	Registered company number
United Utilities Utility Solutions (Industrial) Limited	4204293
United Utilities Bioresources Limited	10419293
United Utilities Energy Limited	08641719
United Utilities Total Solutions Limited	2380133